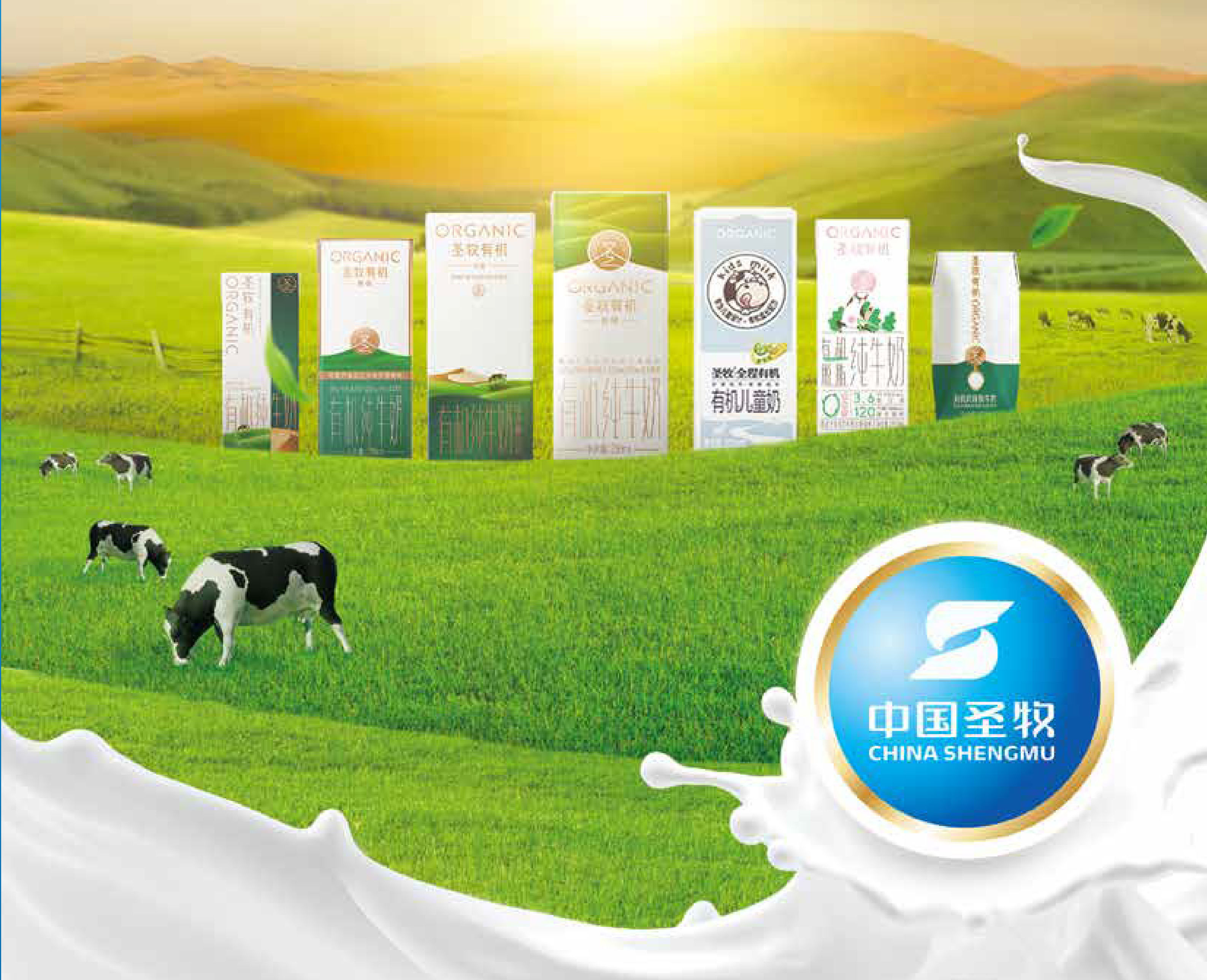
CHINA SHENGMU ORGANIC MILK LIMITED
中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1432

ANNUAL REPORT 2021



Provide the highest quality desert organic milk in the world

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ORGANIC
有机纯牛奶
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kids milk
圣牧全程有机
有机儿童奶
ORGANIC
圣牧有机
纯牛奶

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. ZHANG Jiawang *(Chief Executive Officer)*

Non-executive Directors

Mr. LU Minfang *(Chairman)*
Mr. ZHANG Ping
Mr. ZHAO Jiejun
Mr. SUN Qian
Ms. SHAO Lijun

Independent Non-executive Directors

Mr. WANG Liyan
Mr. WU Liang
Mr. SUN Yansheng

COMPANY SECRETARY

Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. ZHANG Jiawang
Mr. AU Wai Keung

AUDIT COMMITTEE

Mr. WANG Liyan *(Chairman)*
Mr. ZHANG Ping
Mr. WU Liang

REMUNERATION COMMITTEE

Mr. SUN Yansheng *(Chairman)*
Mr. ZHANG Ping
Mr. WU Liang

NOMINATION COMMITTEE

Mr. LU Minfang *(Chairman)*
Mr. WANG Liyan
Mr. WU Liang

STRATEGIC AND SUSTAINABILITY COMMITTEE

Mr. LU Minfang *(Chairman)*
Mr. ZHANG Jiawang
Mr. ZHAO Jiejun
Mr. SUN Qian

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1303, 13/F
Hua Fu Commercial Building
111 Queen's Road West
Hong Kong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Food Industry Park, Deng Kou County
Bayannur City
Inner Mongolia Autonomous Region
PRC

STOCK CODE

The Main Board of The Stock Exchange of Hong Kong Limited
1432

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1112
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China Limited
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited
Industrial Bank Co., Ltd.
Bank of Communications Co., Ltd.
Export-Import Bank of China
DBS Bank Ltd.
Rabobank Ltd.
HSBC Bank (China) Company Limited

AUDITOR

Ernst & Young

LEGAL ADVISOR

As to Hong Kong Law

Linklaters

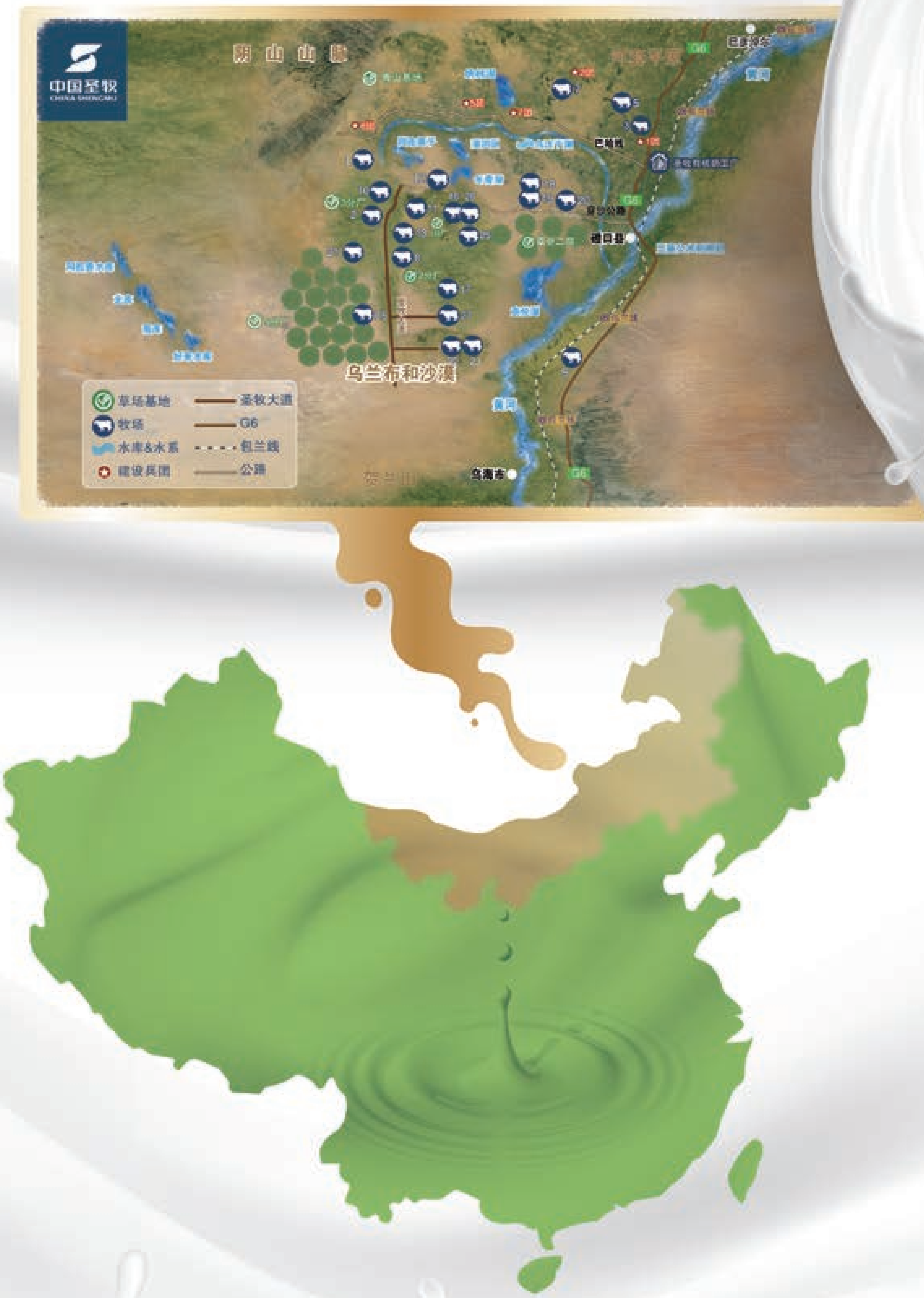
As to Cayman Islands Law

Maples and Calder

WEBSITE

http://www.youjimilk.com

LOCATION MAP OF ORGANIC PRODUCTION BASE



LU Minfang
Chairman

Providing globally the most premium desert organic **milk**

Shaping the world's first organic milk brand

Dear Shareholders,

On behalf of the Board of Directors of the Company, I am pleased to present to shareholders the annual report of the Company and its subsidiaries for the year ended 31 December 2021.

In 2021, the consumer goods industry as a whole, especially those related to food and nutrition, made a more positive contribution to GDP. Moreover, rising consumer health awareness and strong demand for nutritional products have been very favourable to dairy products, especially high-end dairy products. Against this backdrop, China Shengmu witnessed high quality development and achieved its best results after business transformation, recording revenue of RMB2,984.6 million and net profit of RMB509.6 million for the year, representing a year-on-year increase of 12.2% and 10.5% respectively.

Under the leadership of the management, all staff of China Shengmu worked together to improve farm operations significantly through internal management upgrades and lean operations. The culling rate of milkable cows continued to decline, the cows expansion rate increased at a faster pace, and nine farms were awarded the industry's highest S-class farm certification. All raw milk indicators continued to be of high quality and "Desert Organic" has become the gold brand for safe and secure, high-end healthy milk in the dairy industry. The Company's financing environment has improved significantly and the cost of capital has dropped significantly. In the current situation of high feed costs, the Company has actively adjusted its product structure to meet market demand, increased the production of high-end organic raw milk, and reduced costs and increased efficiency through strengthening internal management. The Company has partnered with SAP to create a smart farm, linking the internal and external data chains, which has significantly improved corporate efficiency, cost refinement management and risk control. The project also became the SAP Best Practice of the Year with its refined daily cost management of cows and the model combining the fair method and cost method, and was included in a case study in Harvard Business Review.

China Shengmu's green miracle in the Ulan Buh Desert is widely known, and the Company's governance case has been selected by the United Nations Global Compact to be included in the Corporate Carbon Neutral Pathway Map for its exemplary and benchmarking role in consolidating and enhancing the carbon sink capacity of the ecosystem. The Company was also awarded full membership by the International Federation of Organic Agriculture, making it the first member with voting rights in the Chinese dairy farming industry. As a result, the Company has the power to participate in the formulation of international organic product standards and exercise election rights, which will play a demonstration, driving and promoting role in promoting the improvement of international organic product standards and enhancing China's status in the international organic agriculture arena.

The 14th Five-Year Plan for the revitalisation of the dairy industry has set out clear growth targets for the industry, with large-scale farming and combination of planting and breeding seen as key development directions for the industry. Looking ahead to 2022, the food and nutrition industry will continue to grow well. With the momentum of economic recovery and consumer upgrading, and the momentum of Mengniu Group's rebuilding of the new Mengniu, China Shengmu's development will usher in new "incremental" development opportunities. In the face of unprecedented opportunities and challenges, China Shengmu will continue to adhere to its development positioning of "growing a cup of organic milk", match government strategies, serve the needs of people's livelihoods, expand its industry and enhance its corporate value in accordance with the development requirements of a modern industrial system. The Company will firmly follow the road of high-quality development oriented by ecological priority and green development, and contribute inexhaustible strength to the comprehensive revitalization of China's dairy industry.

Around the date of publication of this annual report, China Shengmu's unique organic eco-sand management system was selected by the United Nations Global Compact as the best integrated practice in the category of "sustainable production and consumption" in 2021. The Company will continue to contribute to the implementation and development of the United Nations Sustainable Development Goals, guarding the clear waters and green hills with the power of business for good, and building a better home for the planet. Clear waters and green hills are golden hills(綠水青山就是金山銀山), and sustainable development is good development. China Shengmu will solidly practice its corporate social responsibility and create sustainable value for all stakeholders.

On behalf of the Board of Directors, I would like to express my heartfelt gratitude to all our customers, employees, partners and shareholders for your continued trust and support, which has enabled us to achieve our current achievements. In the wave of construction of the National 14th Five-Year Plan, China Shengmu will continue to uphold the corporate mission of "providing globally the most premium desert organic milk (提供全球最高品質的沙漠有機奶)", never forgetting the original intention, forging ahead and contributing to the great rejuvenation of the Chinese nation.

INDUSTRY OVERVIEW

In 2021, despite the difficult internal and external situation, China's economy still achieved an annual GDP of RMB114,367 billion, representing an increase of 8.1% compared with that of the previous year and a two-year average growth of 5.1%. The annual per capita disposable income of the national residents amounted to RMB35,128, representing a nominal growth of 9.1% compared with that of the previous year and a two-year average nominal growth of 6.9%; excluding the price factor, the real growth was 8.1% and a two-year average growth was 5.1%, basically in line with the economic growth. Consumer prices rose moderately, with the annual Consumer Price Index (CPI) rising by 0.9% compared with that of the previous year. The market for major agricultural products was also well supplied, with producer prices for agricultural products declining steadily and agricultural production generally maintaining a steady and progressive development trend. The overall level of producer prices for agricultural products nationwide declined by 2.2% compared with that of the previous year, with a 7.8% increase in the first quarter, a 0.1% increase in the second quarter, an 8.0% decline in the third quarter and a 5.6% decline in the fourth quarter.

In the dairy industry, on the demand side, according to the 2021 Classified Development Report released by the National Bureau of Statistics, the per capita consumption of milk in households in 2021 was 14.4 kg, representing a year-on-year increase of 10.6%. The increase in milk consumption has accelerated significantly in the recent two years. Since the COVID-19 pandemic, people are paying more attention to a healthy diet and the increase in milk consumption has accelerated significantly, with a growth rate of over 10% in 2021. On the supply side, in 2021, national liquid milk production are 28,429,800 tonnes, representing a year-on-year increase of 9.68%; national dry dairy products production was 1,886,800 tonnes, representing a year-on-year increase of 5.95%; and national milk powder production was 979,400 tonnes, representing a year-on-year increase of 1.76%. In terms of imports, in 2021, on top of a 7.1% year-on-year increase in domestic milk production, China's total imports of dairy products and total imports of large packets of powder were both at record highs, reflecting the strong demand for dairy products in the domestic market. In 2021, China imported a total of 3,947,300 tonnes of various dairy products, representing a year-on-year increase of 18.5%, equivalent to 22.51 million tonnes of raw fresh milk, representing a year-on-year increase of approximately 17.6%. Among them, the two largest import categories are large packets of powder and whey products. In the international market, skimmed milk powder prices and whole milk powder prices both increased significantly, with the 298th auction held by GDT on 21 December 2021 at US$3,745 per tonne for skimmed milk powder, representing an increase of 27.8% compared with the corresponding period of the previous year; and US$3,867 per tonne for whole milk powder, representing an increase of 20.5% compared with the corresponding period of the previous year.

In the upstream dairy farming industry, the annual raw fresh milk production in 2021 was 36,830,000 tonnes, representing an increase of 2,430,000 tonnes or 7.1% compared with that of the previous year. In 2021, the average price of raw fresh milk in the primary dairy-producing provinces (regions) monitored by the Ministry of Agriculture and Rural Affairs continued to rise, with the average price nationwide reaching RMB4.29/kg, representing a year-on-year increase of 13.2%; in terms of feed, according to data monitored by the Ministry of Agriculture and Rural Affairs, the average price of corn nationwide was RMB2.93/kg, representing a year-on-year increase of 26.5%; the average price of soybean meal nationwide was RMB3.79/kg, representing a year-on-year increase of 14.0%. According to customs statistics, China imported a total of 1,992,400 tonnes of hay in 2021, representing a year-on-year increase of 17.6%. The average CIF price was US$377.76/tonne, representing a year-on-year increase of 5.4%. Among them, the total import of oat hay was 212,200 tonnes, representing a year-on-year decrease of 36.5%. The average CIF price was US$342.62/tonne, representing a year-on-year decrease of 1.0%. All oat hay imports came from Australia; China imported 1,780,300 tonnes of alfalfa hay, representing a year-on-year increase of 31.0%. The average CIF price was US$381.95/tonne, representing a year-on-year increase of 5.7%. In terms of import source countries, it mainly came from the United States, accounting for approximately 81.8% of the total, representing a year-on-year increase of 20.7%.

In 2021, although the domestic industries continue to be affected by the pandemic to varying degrees, the pace of domestic farms construction remains relatively fast. According to Holstein Magazine's monitoring data on 166 specific construction projects across the country, new and expanded farms projects in the operational process were designed to stock a total of 980,000 cows in 2021, with a total planned investment of nearly RMB39 billion, basically concentrated in the northern region, with Ningxia, Inner Mongolia, and Heilongjiang ranking the top three in terms of total investment. In 2021, the investment for design size of new farms stocked with more than 5,000 cows accounted for 83%, and the investment for more than 10,000 cows accounted for 62%. If all new farms reach production as planned, it is expected that milk production will increase by approximately 5 million tonnes in 2022 compared with 2021, with about 15,000 tonnes of milk increasing per day.

SUMMARY OF PERFORMANCE

The largest producer of organic raw milk

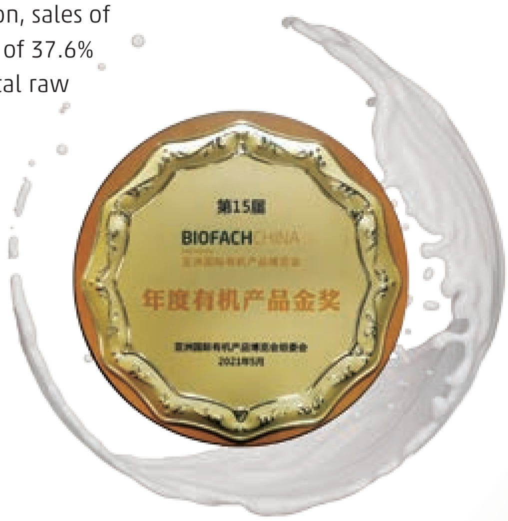
The Group's principal businesses are cows farming, production and sales of high-end desert organic raw milk and premium non-organic raw milk. The Group focuses on the production and sales of desert organic milk, while meeting the diversified demand of customers for premium raw milk, and continues to develop a variety of functional raw milk to enrich the Company's product structure and enhance its profitability. As of 2021, the Group has 33 farms with a stocking capacity of 122,518 cows and a daily production capacity of 1,647 tonnes of fresh milk, of which 19 farms have organic certification and a daily production capacity of 1,171 tonnes of organic fresh milk, making it the largest organic raw milk producer in China. In addition, the Group operates 3 DHA milk farms with a daily production of 159 tonnes of high quality fresh milk.

Revenue and profit continue to rise

The Group achieved sales revenue of RMB2,984.6 million in 2021, representing an increase of 12.2% compared with the same period of the previous year. The increase was due to the increase in raw fresh milk prices and the optimization of the Company's product structure. Gross profit for the year was RMB1,064.4 million, representing an increase of 3.8% compared with the same period of the previous year, while gross profit margin was 35.7%, representing a decrease of 2.8% compared with the same period of the previous year. The decrease in gross profit margin was mainly due to the substantial increase in feeds required by the Group for cows farming, including concentrate feeds and roughage feeds. The Company actively adjusted its product profit structure and implemented multiple measures to reduce costs and increase efficiency, which effectively curbed the significant decline in gross profit margin. For the full year of 2021, the Group achieved a profit for the year of RMB509.6 million, representing an increase of 10.5% compared with the same period of the previous year. The increase in profit for the year was not only due to the increase in the scale of revenue of the Company, but also due to the control of various expenses of the Company.

Transforming to organic farms to improve the profitability structure

The Group's total raw milk sales for 2021 were 584,787 tonnes, representing a slight decrease of 0.8% compared with the same period of the previous year. This was mainly due to a decrease in the average output per cow when the Group's regular farms were converted to DHA milk and organic farms, as well as a higher proportion of first-born cows in the cows structure. Of which, 394,730 tonnes of organic raw milk were sold, representing an increase of 38.5 % compared with the same period of the previous year and accounting for 67.5% of total raw milk sales, representing an increase of 19.2% compared with the same period of the previous year. The increase in organic raw milk production was mainly due to the conversion to organic farms and the increase in the average output per organic cow. In addition, sales of high quality non-organic raw milk were 190,057 tonnes, representing a decrease of 37.6% compared with the same period of the previous year, accounting for 32.5% of total raw milk sales.



Rising milk and feed prices

Benefiting from the growth in market demand, the market price of raw milk rose in 2021 compared with the same period in the previous year. The average sales price of raw milk for the Group as a whole was RMB5,104/tonne, representing an increase of 13.1% compared with the same period in the previous year. Among them, desert organic milk, with its unique brand and nutritional value, saw a faster growth in demand, with the average sales price of organic raw milk being RMB5,324/tonne, representing an increase of approximately 4.0% compared with the previous year. The average sales price of high quality non-organic raw milk was RMB4,646/tonne, representing an increase of 17.8% compared with the previous year. In 2021, the price of agricultural products increased compared with the same period in the previous year, and the Group's feed cost for a kilogram of milk was RMB2.6, representing an increase of 23.2% compared with the same period in the previous year. In the face of the severe situation of rising feed costs, the Group imported feed products through the supply chain centre established in Tianjin to reduce the procurement costs of intermediaries, and achieved cost reduction and efficiency gains by ceding payment cycles to suppliers, improving feed quality and reducing feed costs. Despite the general impact on the gross profit margin of the industry, the Group's gross profit increased by RMB39.3 million compared with the same period in the previous year through the optimized product structure, which effectively ensured the profitability of the Company.

Size of Herd

As of 31 December 2021, the Group operated 19 organic farms and 14 non-organic farms, including one fattening cows farm. The Group had 122,518 cows in stock, including 79,652 organic cows and 42,866 non-organic cows.

The Group continued to optimise the structure of cows, with organic cows stock increasing by 35.3% year on year, a self-reproduction rate of 5.6% for productive biological assets. The reserve of cows is sufficient and the size of cows continues to grow with high quality.

Unit: Head

	As at 31 December									
	2021					2020				
	Number of Farms	Milkable Cows	Calves and Heifers	Fattening cows (1)	Subtotal	Number of Farms	Milkable Cows	Calves and Heifers	Fattening cows (1)	Subtotal
Herd size	33	60,154	54,007	8,357	122,518	33	57,658	50,616	2,461	110,735

(1) For the data in this table for the current and previous years, the number of fattening cows refers to the number of cows raised on a fattening cows farm.

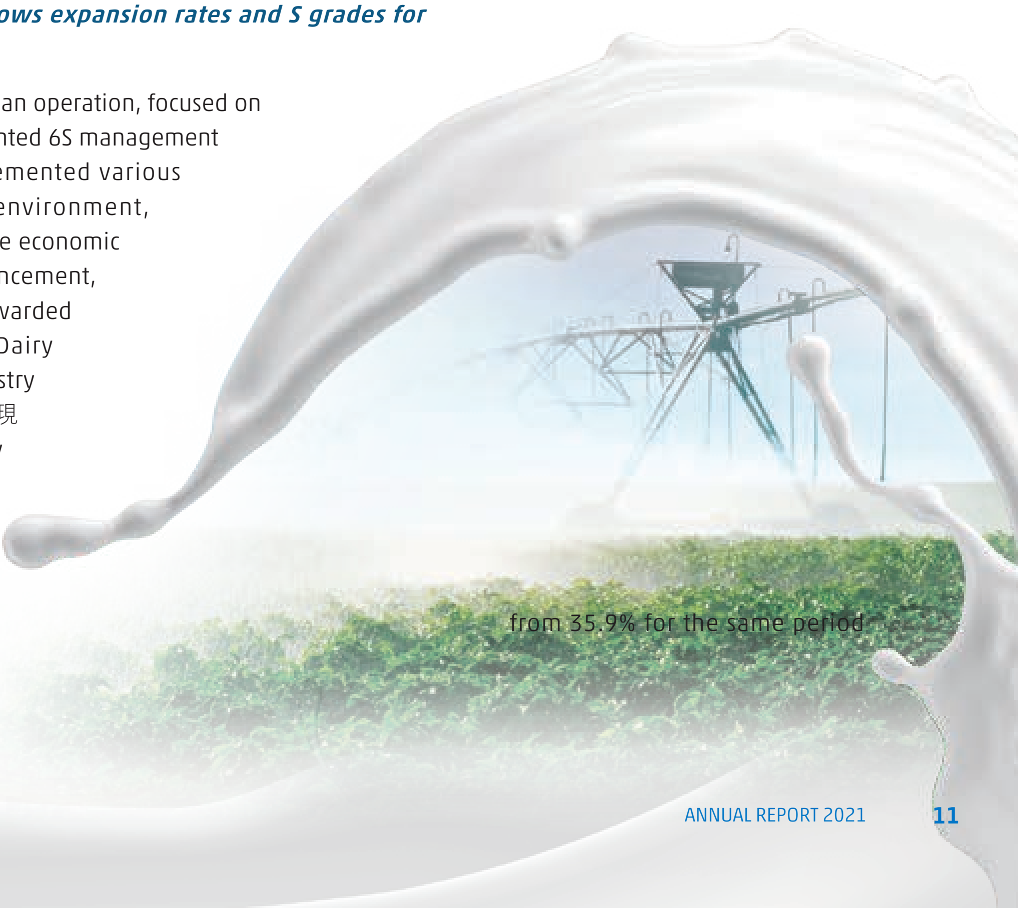
OPERATION REVIEW

Organic raw milk capacity reaches new high on strong demand

With the increasing awareness of health and the upgrading of consumption, organic dairy products, which are pollution-free, additive-free and meet strict organic standards, are trusted and favoured by consumers, and the market demand for organic dairy products has continued to grow. In 2021, Shengmu Organic and Mengniu Deluxe Organic, the two major high-end organic milk brands mainly supplied by the Group, both achieved rapid growth in their product sales. To ensure the fast growing demand for high-end organic milk and to strengthen the Group's leading position in the organic raw milk market, 5 of the Group's farms were converted to organic farms in March 2021, which correspondingly increased the daily production of organic fresh milk by 234 tonnes. In view of a growing demand for natively functional DHA raw milk and with an aim to optimize the Group's product and profit structure, the Group converted 3 ordinary raw milk farms into premium DHA milk characteristic farms.

Lean operation, positive growth in cows expansion rates and S grades for several farms

During the year, the Group carried out lean operation, focused on improving farm management, implemented 6S management on farms and comprehensively implemented various indicators to improve the working environment, enhance the quality of staff and improve economic efficiency. As of the date of this announcement, nine of the Group's farms have been awarded the highest grade of S by the China Dairy Association in the " Modern Dairy Industry Grading and Evaluation Dairy Farms (現代奶業定級評價奶牛場)", which fully demonstrates the Group's industry-leading level in scale farming operations. Through lean farm operations, in 2021, the Group's milkable cow culling rate decreased from 35.9% for the same period



last year to 32.9% for the year, and Group's full cows increased by 11,783 cows compared with the same period last year, representing a full cows expansion rate of 10.6%. At the same time, the genomic accuracy and completeness of the Group's cows genome was enhanced through effective breeding and selection measures, and the construction of core breeding farms and Dairy Herd Improvement ("DHI") were achieved. In June 2021, the Group signed a strategic cooperation agreement with the Shanxi Animal Husbandry Genetics and Breeding Center (山西省畜牧遺傳育種中心) for joint breeding of Holstein cows. In the future, the two parties will take advantage of their respective strengths and conduct in-depth cooperation in areas such as production performance determination, core cows selection and breeding of Holstein cows and independent breeding of reserve bulls, etc. This strategic cooperation in joint breeding is of great significance to accelerate the Group's efforts to promote the construction of seed cows herds, enhance the independent innovation capability of Holstein cows germplasm and strengthen the comprehensive competitiveness of the cows seed industry.

Breakthrough in branding of raw milk, milk and meat linkage to boost income

As an end product created and exclusively supplied by the Group, Shengmu Organic Milk is well known by consumers for its excellent quality and brand recognition, and was once again awarded the Gold Award for Organic Product of the Year at BIOFACH CHINA in May this year. In order to enhance the Company's raw milk brand strength and strengthen our voice in the industry, the branding of raw milk is also one of the Group's priorities in 2021. Our high quality raw milk and unique desert organic industry chain have enabled us to successfully obtain certifications including Protected Ecological Origin Product, Desert Sustainable Ecological Product and CNAS certification. Silage is one of the most important tasks in the cows farming industry every year. The Group's farming synergy model played an advantageous role in the industry-wide rush for silage. The Group achieved a good harvest of Silage in 2021. Not only was the quality of silage dry matter at its best ever level, but the cost of silage purchased was also significantly lower than the market price. The meat and milk linkage is a major tool to enhance the Group's overall efficiency, and the beef cows sales business also gained good momentum during the year. As at 31 December 2021, the Group's stock of beef cows increased from 2,461 in 2020 to 8,357 in 2021, laying the foundation for future enhancement of the value of the Group's entire cows.

ERP project successfully launched, intelligent construction industry leader

In January 2021, the Group's SAP-ERP system was successfully launched, which was a landmark event in the Group's management upgrade. Through the standardisation and digitisation of various internal and external data and processes, the project has greatly facilitated the Group's ability to improve its risk management, efficiency, production and sales synergy, as well as refinement of cost management. The Group's standardised daily cost management with automatic milk cost calculation and automatic cows cost allocation, as well as the accounting model combining the fair method and cost method, is an industry first. The success of this project has created an integrated, consolidated and intelligent decision-making digital platform for the Group, laying a solid foundation for further digital management and smart farming. The Group's SAP-ERP project was selected as an excellent case by SAP and included in a case study by Harvard Business Review for its outstanding project operation level and innovative digital intelligence system construction.

Younger, more professional staff shows results

In terms of human resources, the Group made great efforts to promote the rejuvenation and professionalism of its staff during the year, recruiting high-calibre professionals for core positions and vigorously promoting the establishment and construction of key departments. At the same time, the Group vigorously promoted the construction of personnel ladders, organising different types of graded training and learning for different levels of personnel, including staff skills training, management skills training for middle-level personnel and leadership training for senior management. In addition, the Group has set up a think-tank group of the Shengmu Research Institute, inviting a number of renowned industry experts and scholars to join the group in order to assist the development of the Group's business in all dimensions through synergy between industry, academia and research. Close university-enterprise cooperation with schools such as China Agricultural University, Inner Mongolia Agricultural University and Beijing Academy of Agricultural Sciences has been carried out to achieve resource contribution and complementary advantages, providing the Group with superior resources for long-term development in scientific research and talent training. "The business of Shengmu is everyone's business", the Group upholds the values of integrity, excellence, pragmatism and passion, and focuses on the sustainable development of its employees, and has made greater efforts to promote corporate culture, promote employee care and create a happy enterprise. During the year, various types of employee activities were launched and more than 10 new employee benefits were introduced, resulting in a significant increase in the sense of belonging and happiness of employees. As at 31 December 2021, the Group had 2,682 employees, representing an increase of 93 employees compared with the same period in the previous year.

ESG and carbon neutral governance first, setting an example for the industry

In 2021, the Group continued to practice the concept of green and sustainable corporate development and actively contribute to the national carbon neutral strategy. On 18 January 2021, the Group received a welcome letter from the United Nations Global Compact (UNGC), and thus officially became a corporate member of the UNGC. On 27 July 2021, the UNGC officially published the "Corporate Net Zero Pathway: Delivering the Paris Agreement and the Sustainable Development Goals", and as the first company representing the livestock industry, the Group was included in the "Corporate Net Zero Pathway". As a good example of how to reduce carbon emissions from farming activities in the agri-food industry, the Group has achieved significant results in reducing carbon emissions from farming activities and promoting corporate carbon reduction initiatives through recycling and reusing methane from manure, scientific and efficient use of fertilisers, improving soil health and enhancing energy efficiency on farms. In August, the Group was awarded full membership of the International Federation of Organic Agriculture Movements (IFOAM-Organics International), the world's top trade association for the organic industry, after a rigorous audit. As a result, the Group has become the first member of IFOAM-Organics International and IFOAM-Asia with voting rights in China's cows farming industry, and has the power to participate in the formulation of international organic product standards and exercise election rights. In the future, the Group will play an exemplary, driving and facilitating role in promoting the improvement of international organic product standards and enhancing China's position in the international organic farming arena. On 19 October 2021, the "Action for the Future" 3rd Carbon Neutral Summit and Golden Key - Low Carbon Action Roadshow was held in Beijing. Speaking as a representative of the Golden Key Corporate Low Carbon Initiative, the Group was awarded the first winner of the Golden Key Initiative's "New Natural Economy" category after a highly competitive competition. On 10 November 2021, during the opening of the 26th United Nations Conference on Climate Change (COP26), the UNGC held a high-level online conference on "Corporate Ambition for Climate Action", in which the Group was invited to participate as a member of the UNGC and actively share its views, strategies and practices in addressing climate change.

Major shareholder increases holdings, strategic synergy for common development

On 6 July 2021, Start Great Holdings Limited, a wholly owned subsidiary of China Mengniu Dairy Company Limited ("**China Mengniu**"), the single largest shareholder of the Group, increased its shareholding in the Company by approximately 1.05 billion shares at a price of approximately HK$1.1 per share, bringing China Mengniu's shareholding to 29.99% after the increase. This increase in China Mengniu's shareholding reflects the major shareholder's recognition of the Group's development prospects and corporate value, and the Group will achieve better joint development in the future under China Mengniu's broad strategy.

FINANCIAL REVIEW

In response to the ongoing impact of the COVID-19 pandemic, the Group has established a mature and comprehensive internal pandemic prevention system. Through the effective operation of this system, the Group's cows, staff and operating results have not been materially affected.

In 2021, the Group's sales revenue amounted to RMB2,984.6 million, representing an increase of 12.2% as compared with the sales revenue of RMB2,660.8 million in 2020. Profit for the year increased by RMB48.6 million from RMB461.0 million in 2020 to RMB509.6 million in 2021. Of which, profit attributable to owners of the parent increased by RMB65.0 million or 16.0% from RMB406.7 million in 2020 to RMB471.7 million in 2021. The Group's gross profit margin decreased from 38.5% in 2020 to 35.7% in 2021 due to the significant increase in feed procurement costs.

ANALYSIS ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

	For the year ended 31 December					
	2021			2020		
	Revenue (RMB'000)	**Sales volume (tonnes)**	**Average selling price (RMB/tonne)**	Revenue (RMB'000)	Sales volume (tonnes)	Average selling price (RMB/tonne)
Raw milk	**2,984,616**	**584,787**	**5,104**	2,660,823	589,621	4,513

In 2021, sales amount of the Group's raw milk business was RMB2,984.6 million (2020: RMB2,660.8 million), representing an increase of 12.2% year on year, mainly benefiting from the increase in raw milk prices and the optimization of product structure due to the transformation of ordinary farms to organic farms.

Dairy Farming Business

	For the year ended 31 December							
	2021				2020			
	Revenue (RMB'000)	Sales volume (tonnes)	Average selling price (RMB/tonne)	Revenue as a percentage of dairy farming segment revenue	Revenue (RMB'000)	Sales volume (tonnes)	Average selling price (RMB/tonne)	Revenue as a percentage of dairy farming segment revenue
Organic raw milk	2,101,609	394,730	5,324	70.4%	1,459,267	285,073	5,119	54.8%
Premium non-organic raw milk [(1)]	883,007	190,057	4,646	29.6%	1,201,556	304,548	3,945	45.2%
Total	2,984,616	584,787	5,104	100.0%	2,660,823	589,621	4,513	100.0%

(1) Premium non-organic raw milk includes natively functional DHA milk.

In 2021, the Group focused on organic milk business in line with market development and achieved the transformation of five ordinary farms to organic farms during the year. Organic milk sales volume increased by 38.5% from 285,073 tonnes in 2020 to 394,730 tonnes in 2021. Non-organic milk sales volume in 2021 were 190,057 tonnes, including 43,972 tonnes of natively functional DHA milk.

In 2021, the average selling price of the Group's raw milk was RMB5,104 per tonne, representing an increase of 13.1% year on year. The average selling price of organic raw milk was RMB5,324 per tonne, representing an increase of 4.0% year on year, while the average selling price of non-organic raw milk was RMB4,646 per tonne, representing an increase of 17.8% year on year.

Cost of Sales, Gross Profit and Gross Profit Margin

Unit: RMB'000, except percentages

	For the year ended 31 December					
	2021			2020		
	Cost of sales amount	Gross profit amount	Gross profit margin	Cost of sales amount	Gross profit amount	Gross profit margin
Organic raw milk	1,291,384	810,225	38.6%	800,699	658,568	45.1%
Premium non-organic raw milk	628,842	254,165	28.8%	835,006	366,550	30.5%
Total	1,920,226	1,064,390	35.7%	1,635,705	1,025,118	38.5%

In 2021, the Group's cost of sales increased by 17.4% from RMB1,635.7 million in 2020 to RMB1,920.2 million in 2021 due to the increase in bulk feed prices. Meanwhile, the Group actively adjusted its product structure and increased the proportion of sales of high-value products.Through the transformation of five organic farms and three natively functional DHA milk farms, we effectively avoided a sharp decrease in our gross profit margin. The gross profit margin for the year was 35.7%, representing a year-on-year decrease of only 2.8%.

Other Gains and Losses, net

In 2021, the Group's net gains arising from other gains and losses amounted to RMB23.0 million (2020: net losses of RMB44.5 million). The change was mainly due to the impairment loss on fixed assets and intangible assets of RMB68.7 million in 2020.

Selling and Distribution Expenses

The Group's selling and distribution expenses mainly included logistics and transportation expenses and staff's remunerations. In 2021, the Group's selling and distribution expenses amounted to RMB53.8 million (2020: RMB32.1 million). The significant increase in 2021 as compared with 2020 was mainly due to the increase in transportation costs as a result of the increase in the average distance of raw milk transportation.

Administrative Expenses

Administrative expenses mainly comprise salaries and welfare, travel expenses and transportation expenses of management and administrative employees, as well as attorney and audit fees etc. In 2021, the Group's administrative expenses amounted to RMB111.7 million (2020: RMB111.7 million). In 2021, the ratio of administrative expenses to revenue was 3.7% (2020: 4.2%).

Other Expenses

In 2021, the Group's other expenses (which mainly includes donation and provision for litigation) amounted to RMB56.1 million (2020: RMB1.0 million), representing an increase of RMB55.1 million as compared with the previous year, mainly due to the provision of RMB54.0 million for litigation during the year.

Financing Costs

In 2021, the Group's financing costs amounted to RMB71.2 million (2020: RMB116.8 million), representing a decrease of RMB45.6 million as compared with the previous year. The decrease was mainly due to the combined effect of optimizing the debt structure and lower financing rates during the year.

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 mainly represents fair value changes in the dairy cows, due to changes in the physical attributes and market prices of the dairy cows and the discounted future cash flow to be generated by those cows. In general, the value of a heifer increases when it grows up to a milkable cow, as the discounted cash flow from milkable cow is higher than the selling price of heifer. Further, when a milkable cow is ousted and sold, its value decreases.

In 2021, the Group's loss arising from changes in fair value less costs to sell of biological assets of RMB248.8 million (2020: RMB224.2 million).

Share of Losses of Associates

The Group's associates include: (a) Inner Mongolia Mengniu Shengmu Hi-Tech Dairy Products Co., Ltd. (內蒙古蒙牛聖牧高科乳品有限公司) invested and owned as to 49% by the Group, which is primarily engaged in the operating and selling of Shengmu organic liquid milk products; (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd (巴彥淖爾市聖牧高科生態草業有限公司) ("**Shengmu Forage**") and its subsidiary in which the Group invested and held minority interests, Shengmu Forage was transferred to other financial assets from December 2021 and ceased to be an associate of the Company; (c) Food Union Shengmu Dairy Co., Ltd. (富友聯合聖牧乳品有限公司) ("**Food Union Shengmu**") and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司), both of which are invested and held by the Group with minority interests, producing dairy products with the raw milk from the Group; (d) Inner Mongolia Yiyingmei Dairy Co., Ltd. (內蒙古益嬰美乳業有限公司) ("**Yiyingmei**") in which the Group invested and held minority interests, producing high-end organic infant milk powder with the raw milk from the Group in the future; and (e) Mudanjiang Liangyuan Technology Limited (牡丹江糧源科技有限公司) in which the Group invested and held minority interests, which is primarily engaged in feed processing. In 2021, the Group's share of losses of the above associates, amounted to RMB25.7 million (2020: RMB35.6 million).

Income Tax Expense

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a PRC corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required.

In 2021, the Group's income tax expense amounted to RMB0.9 million (2020: Nil).

Profit Attributable to Owners of the Parent and Profit Attributable to Non-controlling Interests

In 2021, profit attributable to owners of the Group's parent amounted to RMB471.7 million (2020: RMB406.7 million), representing a net increase of RMB65.0 million or a growth rate of 16.0% as compared with the previous year, which was mainly attributable to (1) the year-on-year increase in the selling price of raw milk; (2) the year-on-year increase in organic milk sales volume due to the restructuring of organic milk; and (3) the decrease in the Group's financing costs.

Profit attributable to non-controlling interests mainly represents the profit for the year attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In 2021, profit attributable to non-controlling interests amounted to RMB37.9 million (2020: RMB54.3 million).

ANALYSIS ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at 31 December 2021, the Group's total current assets amounted to RMB2,049.8 million (31 December 2020: RMB2,196.4 million), primarily consisting of inventories of RMB768.1 million (31 December 2020: RMB715.1 million), trade receivables of RMB248.1 million (31 December 2020: RMB136.6 million), prepayments, other receivables and other assets of RMB107.6 million (31 December 2020: RMB614.6 million), cash and bank balances and restricted bank deposits of RMB788.3 million (31 December 2020: RMB715.1 million), other financial assets of RMB72.0 million (31 December 2020: Nil) and consumable biological assets of RMB65.7 million (31 December 2020: RMB15.0 million). The decrease in the Group's current assets as at 31 December 2021 as compared with 31 December 2020 was mainly due to the recovery of some current accounts during the year. Trade receivables increased by RMB111.5 million or 81.6% from that at the beginning of the year, which was because that no early collection of trade receivables from Mengniu Group, a major customer, was made during the year as the Company recorded positive operating results and increasingly adequate cash flow.

Current liabilities

As at 31 December 2021, the Group had total current liabilities of RMB2,862.7 million (31 December 2020: RMB3,275.3 million), primarily consisting of trade and bills payables of RMB1,253.3 million (31 December 2020: RMB1,699.4 million), other payables and accruals of RMB302.1 million (31 December 2020: RMB240.0 million), interest-bearing bank borrowings of RMB1,299.5 million (31 December 2020: RMB1,335.9 million), tax payable of RMB0.6 million (31 December 2020: Nil), and derivative financial instruments of RMB7.2 million (31 December 2020: Nil). The significant decrease in the Group's current liabilities as at 31 December 2021 as compared with 31 December 2020 was mainly due to a decrease in trade payable and bills payable of RMB446.1 million as compared with the previous year as the Group relinquished the payment cycle of its suppliers to cope with the increase in bulk feed prices.

Liquidity, Financial Resources and Capital Structure

In 2021, the Group's sources of daily working capital were mainly cash flow generated from internal operations and bank borrowings. As of 31 December 2021, the Group held (a) cash and bank balances of RMB531.8 million (31 December 2020: RMB327.7 million), and (b) interest-bearing bank borrowings of RMB1,679.2 million (31 December 2020: RMB1,366.3 million), all denominated in RMB, of which RMB379.6 million were repayable within one to five years and the remaining interest-bearing bank borrowings were repayable within one year. Borrowing requirements on the Group is not affected by seasonality.

The Group's bank borrowings are denominated and bear interest at fixed rates in RMB, except for the equivalent of RMB27.6 million which are denominated in Euros and RMB517.2 million which are denominated in United States dollars and bear interest at fixed rates. The bank borrowings equivalent to RMB517.2 million denominated in United States dollars and bearing interest at fixed rates had entered into currency swap agreement with financial institutions to hedge the impact on the Company's profit or loss due to changes in exchange rates.

As at 31 December 2021, the Group's net borrowings (total interest-bearing bank borrowings net of cash and bank balances) amounted to RMB1,147.3 million (31 December 2020: RMB1,038.6 million).

As of 31 December 2021, annual interest rate of bank loans ranged from 1.55% to 5.22% (for the year ended 31 December 2020: 1.55% to 6.53%).

As at 31 December 2021, the Group's total equity amounted to RMB3,889.2 million (as at 31 December 2020: RMB3,419.5 million) and the financial leverage ratio (calculated based on total debt (total interest-bearing bank borrowings) divided by total equity) was 43.2% (as at 31 December 2020: 40.0%).

Charge on Assets

As at 31 December 2021, the Group had restricted deposits of RMB256.5 million in total (as at 31 December 2020: RMB387.5 million), of which RMB170.8 million was pledged to banks in the PRC as deposits for the issuance of letters of credit and bank drafts, and RMB85.7 million was frozen due to litigation.

Capital Commitments

As at 31 December 2021, the Group's capital commitments in relation to the acquisition of property, plant and equipment amounted to RMB2.6 million (31 December 2020: Nil).

Contingent Liabilities

As at 31 December 2021, the Group provided guarantee of RMB106.5 million (as at 31 December 2020: RMB94.6 million) for bank borrowings of Shengmu Forage , and provided no (as at 31 December 2020: RMB14.5 million) guarantee for bank borrowings of Food Union Shengmu. The external guarantees provided by the Group were recognised in the financial statements on the basis of the valuation of the guarantees provided by the independent professional valuer regarded as the best estimates required to pay for the performance of the relevant current obligations in accordance with the requirements of IFRSs.

On 16 August 2021, A civil judgment ("**Judgment**") was issued by the Huhehaote Intermediate People's Court in relation to a claim made against Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司)("**Inner Mongolia Shengmu**"), and two of the Company's former directors (the "**Former Directors**") concerning certain payment obligations which the plaintiff claimed it was owed under an investment agreement entered into amongst the plaintiff, Inner Mongolia Shengmu, and the former directors in or around July 2014. Pursuant to the Judgment, Inner Mongolia Shengmu and the Former Directors were held jointly and severally liable to pay (i) to the plaintiff a sum of RMB118.4 million, together with relevant interest in the sum of RMB16.4 million; (ii) to the plaintiff a sum of RMB0.04 million, being the plaintiff's legal fees; and (iii) for the litigation expenses in the sum of RMB0.7 million. Furthermore, in connection with the litigation, certain bank accounts of Inner Mongolia Shengmu with an aggregate balance of about RMB85.7 million and its 65% shareholding in Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司), a subsidiary of Inner Mongolia Shengmu, were frozen by the Court. As at 31 December 2021, the Group had applied to Inner Mongolia High People's Court for second instance which still in progress. Provision was made amounting to RMB49.2 million for the probable losses, which was reflected in other expenses of the financial statements, to the Group based on the reasonable estimation of the outcome of the lawsuits after taking into account the legal advice by the management.

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and most transactions are conducted in RMB. As at 31 December 2021, the Group did not have significant foreign exchange exposure in its operations, except for cash balances equivalent to approximately RMB0.1 million, RMB0.04 million and RMB0.01 million which were denominated in United States dollars, Euros and Hong Kong dollars, respectively. As at 31 December 2021, the Group did not enter into any arrangement to hedge against any fluctuation in foreign exchange.

Credit Risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Credit risk related to the Group's other financial assets arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

Environmental Policy and Performance

In 2021, the Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC.

Human Resources

As at 31 December 2021, the Group had a total of 2,682 staff (as at 31 December 2020, 2,589 staff). Total staff costs in 2021 (including the emoluments of Directors and senior management of the Company) amounted to RMB272.0 million (2020: RMB263.6 million).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation and efficiency incentive based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

Sustainable Development

On 18 January 2021, China Shengmu Group received a welcome letter signed by Ms. Sanda Ojiambo, the Director General of the United Nations Global Compact (UNGC), and thus officially became a corporate member of the United Nations Global Compact (UNGC).

The United Nations Global Compact (UNGC) is the world's largest international organization that promotes corporate social responsibility and sustainable development, with approximately 10,000 corporate members and more than 3,000 other stakeholder members from 170 countries. Chinese members include over 420 companies, such as Huawei, Lenovo, State Grid, Sinopec, Haier and Yili, etc.

For more than 10 years, China Shengmu Group has invested a total of RMB7.5 billion in the Ulan Buh Desert, helping over 200 square kilometers of the desert become oasis and building 150 square kilometers of high-quality grassland. As at 27 July 2021, the United Nations Global Compact (UNGC) officially published the "Corporate Net Zero Pathway - Delivering the Paris Agreement and the Sustainable Development Goals", in which 12 Chinese enterprises including China Shengmu as the first representative enterprise in the livestock industry, China Development Bank, Huawei and Baidu were jointly included in the "Corporate Net Zero Pathway".

The selection of the Group as one of the United Nations Net-Zero enterprise cases not only represents a recognition of the Group's sustainable development and the environmental, social and governance (ESG) performance, but also demonstrates the responsibility of China Shengmu as the first enterprise in the Chinese livestock industry to respond to the national carbon neutrality strategy. China Shengmu will adhere to organic, ecological and sustainable development, continuously optimize the industrial chain and energy structure, accelerate the planning and implementation of scientific carbon reduction, and contribute to the country's "double-carbon" green goal.

Material Acquisitions and Disposals

In 2021, the following events took place: (1) On 30 September 2021, Inner Mongolia Shengmu (an indirect wholly-owned subsidiary of the Company) entered into the Investment Agreement with Modern Farming (Group) Co. Ltd. (現代牧業 (集團)有限公司) ("**Modern Farming**"), Mudanjiang Wanding Dairy Co., Ltd. (牡丹江萬鼎乳業有限公司) ("**Mudanjiang Wanding Dairy**") and Mudanjiang Inland Port International Development Co. Ltd. (牡丹江陸港國際發展有限公司) ("**Mudanjiang Inland Port**") (the "**Investment Agreement**"), in relation to the proposed formation of the joint venture (the "**Joint Venture**") in connection with the construction of a feed processing base in the Mudanjiang Economic and Technology Development Zone Bonded Logistics Park of the PRC. The registered capital of the Joint Venture established was RMB100 million, of which Inner Mongolia Shengmu has completed a cash injection of 7.0%; and (2) On 17 November 2021, Beijing Muhe Farming Technology Development Co. Ltd. (北京牧和農業科技發展有限責任公司) ("**Beijing Muhe**") (a wholly-owned subsidiary of the Company), entered into an equity transfer agreement with Shengmu Forage. Upon completion of the equity transfer agreement, Shanghai Youmu Sand and Grass Enterprise Development Co., Ltd. (上海優牧沙草企業發展有限責任公司) ("**Shanghai Youmu**") has ceased to be a subsidiary of the Company and Alashanmeng Shengmu High-Tech Grass Co., Ltd. (阿拉善盟聖牧高科生態草業有限公司) ("**Alashanmeng Grass**") has became a wholly-owned indirect subsidiary of the Company, the acquisition has been accounted for as acquisition of assets as the major assets held by Alashanmeng Grass is right-of-use assets. Save for the above, the Company did not made any other material acquisition and disposal of subsidiaries and associates.

Future Plans for Material Investments or Acquisition of Capital Assets and Expected Source of Funding

Save as disclosed above in "Capital Commitments" and in the prospectus under the section headed "Future Plans and Use of Proceeds", the Group does not have any plan for material investments or acquisition of capital assets as at the date of this announcement. Please refer to note 2.1 to the financial statements in relation to the Group's expected source of funding.

FUTURE OUTLOOK

On 16 February 2022, the Ministry of Agriculture and Rural Affairs released the "14th Five-Year Plan for Action to Improve the Competitiveness of the Dairy Industry", which states that by 2025, national milk production will reach about 41 million tonnes, and the proportion of large-scale breeding above 100 cows will reach about 75 per cent. The proportion of large-scale farms with grass and animal support and combined farming production will increase by about 5 percentage points, the cost of forage inputs will be further reduced, the level of modern facilities and equipment in farms will be significantly improved, and the average annual output per cow will reach about 9 tonnes. The linkage of farming and processing interests has become closer and more diverse, and the competitiveness of the domestic dairy industry has been further enhanced. The document also highlights the coordinated use of central and local financial subsidies, financial capital, implementation of the self-financing and other multi-channel funds to support. On 22 February 2022, the Central Government No. 1 document pointed out that we should give top priority to fully grasping food production and the supply of important agricultural products, further highlighting the importance of food security, which also provides policy support for the next round of new development of China's dairy industry. Achieving carbon peaking and carbon neutrality is a broad and profound economic and social systemic change, and the dairy industry will also face reshuffling. Whether we can do a good job of carbon emission and carbon neutral governance while balancing and coordinating economic, social and environmental benefits is a key point for companies to achieve sustainable development in the future.

The strong empowerment of national policies and industrial resources indicates that the Group has tremendous advantages and development potential in terms of team building, business model and resource endowment. In the next three to five years, relying on the new resource endowment and with the capital and resources support of our major shareholder, Mengniu Group, the Group will push forward the implementation of our business plan and achieve the strategic goal of doubling organic milk sales and doubling profit growth.

In terms of business, the Group will continue to leverage on the growth situation of the industry to deepen its organic raw milk business, continue to expand the scale of its organic raw milk business and strengthen its desert organic raw milk brand. In accordance with the market demand for downstream dairy products, the production of organic raw milk will be increased in due course. In terms of farm operations, the Group will focus on practicing cost reduction and efficiency enhancement, pay close attention to cost control, empower supply chain management through digitisation and specialization, establish a strategic supplier management system, optimise feed formulations and broaden feed procurement channels. We will practise a cow welfare system to improve output per cow and enhance lifetime cow production. Relying on the quality resources of the Ulan Buh Desert, we will enhance cow comfort across the board and effectively extend the natural lactation life of cows. At the same time, we are upgrading our moderate cows expansion programme, implementing the three to five year genetic improvement plan to breed core cows, optimizing our breeding system, maintaining a good cows structure and achieving quality growth in cows size. In addition, we will focus on developing and innovating high-end raw milk products to enhance the added value of the Group's raw milk products, including A2 raw milk and zero-carbon raw milk. We will continue to build a smart farm to achieve process flow, standardization, digitalisation and intelligence in cows farming and production management.

In terms of human resources, the Group will continue to promote the construction of corporate culture, consolidate the cultural roots, sublimate cultural propaganda and effectively promote the implementation of cultural values in practice. We have in-depth promotion of the three-tier talent cultivation system of the Company, system and departments. We continuously build a talent training platform, strengthen the team's rejuvenation and professionalism, and carry out quality training programs. We improve the common development mechanism and land the long-term incentive mechanism scheme for employees, provide solid talent guarantee for practicing the corporate vision and strategic objectives, stimulate the endogenous power of corporate development, and experience a new team organisational structure for the long-term sustainable development of the Group to achieve the common development of the team, business and individuals.

In terms of sustainable development, the Group will adhere to ecological priority and green development, build a model ESG and carbon neutral governance enterprise in the industry, promote the marketing of raw milk branding and enhance the competitive strength of raw milk. The Group will continue to improve and promote desert control and the reasonable and sustainable agricultural production system that integrates planting and breeding with returning cow dung to the fields and feeding cows with forage grass, continue to optimize the industrial chain and energy structure, accelerate the planning and implementation of scientific carbon reduction, and aim to achieve a 17% reduction in carbon emission intensity and a 10% reduction in absolute emissions by 2022 through the emission reduction initiatives already in place. We will continue to establish relevant emission reduction initiatives and quantified standards within the Company to contribute to the country's "double carbon" green goal, build a "moat" for the Group's differentiated competition in the dairy farming industry and make steady progress in realizing our corporate vision of shaping the world's first organic milk brand.

The Board has the pleasure in submitting its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021. Save as stated otherwise in this annual report, the defined terms herein shall have the same meaning as in the prospectus (the "**Prospectus**") dated 30 June 2014.

BUSINESSES REVIEW

The Group's principal businesses consist of dairy farming business. For details of the principal subsidiaries of the Group, please refer to note 1 to the financial statements.

The Group's income is mainly derived from its business activities in the PRC. Further details of the Group's business review of the financial year are set out in the section headed "Management Discussion and Analysis" of this annual report.

The Group is exposed to a variety of business risks, including financial risk, regulatory and environmental risks, climate, disease and other natural risks in the ordinary course of business.

Further details of the Group's principal risks, please refer to note 16 and note 38 to the financial statements.

RESULTS

The Group's consolidated results for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income in the financial statements.

FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Summary" in this annual report.

PROPERTY, PLANT AND EQUIPMENT

For details of the changes in the property, plant and equipment of the Group during the year, please refer to note 12 to the financial statements.

DONATIONS

The Group made donations with a total amount of RMB2,062,000 during the year of 2021 (2020: RMB997,000).

DIVIDEND POLICY AND DIVIDEND DISTRIBUTION

The Board does not recommend the payment of final dividend for the year ended 31 December 2021 (2020: nil).

DISTRIBUTABLE RESERVES

The Company's distributable reserves amounted to RMB3,574.6 million as at 31 December 2021. For details of the changes in the Company's reserves in 2021, please refer to note 39 to the financial statements.

SHARE CAPITAL

For details of the changes in the Company's share capital in 2021, please refer to the consolidated statement of changes in equity in the financial statements and note 28 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

The Company adopted the Shengmu Long Term Award Scheme of the Company ("**Share Award Scheme**") with effect from 19 April 2022, being the adoption date. The purposes and objective of the Share Award Scheme are to recognize the contributions by certain employees of the Group and to provide them with incentives in order to (i) improve the corporate governance structure to achieve sustainable development of the Company; (ii) attract, retain and motivate outstanding talents and build a common interest among shareholders, the Company and employees; (iii) fully motivate the core employees and continue to stimulate high-quality growth of the team performance; and (iv) attract external talents for the Company. Pursuant to the Share Award Scheme, the shares of the Company (the "**Shares**") under the award, being conditional entitlements to acquire Shares pursuant to the rules of the Share Award Scheme and the grant letter issued thereunder (the "**Award**") will be comprised of Shares purchased by the trustee on the market. The Share Award Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules. No shareholders' approval is required for the adoption or implementation of the Share Award Scheme. As at the date of this annual report, no Award has been granted under the Share Award Scheme. Details of the adoption of the Share Award Scheme are set out in the announcement of the Company dated 19 April 2022.

Save as disclosed above, the Group has no material post-period events to disclose from the end of the reporting period to the latest practicable date prior to the publication of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company will be held on 20 June 2022. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from 15 June 2022 to 20 June 2022, both days inclusive. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 14 June 2022.

The notice of annual general meeting and related circular will be despatched to the shareholders in due course.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the laws of the Cayman Islands, where the Company is incorporated, contains any provisions relating to pre-emptive rights.

MAJOR CUSTOMERS AND SUPPLIERS

In 2021, the five largest customers of the Group in aggregate accounted for 97.7% of the Group's total revenue and the largest customer accounted for 87.8% of the Group's total income. In 2021, the five largest suppliers of the Group accounted for 31.69% of the Group's total amount of purchases and the largest supplier accounted for 10.87% of the Group's total amount of purchases.

In 2021, to the knowledge of the Directors, other than China Mengniu, none of any of shareholders or any of Directors or any of their close associates who owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers of the Group.

In 2021, we did not experience any material disputes with our customers or suppliers.

TAX RELIEF

The Company is not aware of any relief from taxation to which the Shareholders are entitled by reason of their holding of the Shares.

DIRECTORS

For the year ended 31 December 2021, the Company's Directors were as follows:

Executive Directors

Mr. ZHANG Jiawang (re-elected on 28 June 2021)
Mr. YAO Tongshan resigned as an executive Director with effect from 30 July 2021 due to his other business commitments.

Non-executive Directors

Mr. LU Minfang (Chairman) (appointed on 30 July 2021)
Mr. SHAO Genhuo resigned as a non-executive Director and the chairman of the Board with effect from 30 July 2021 as he will focus on the strategic development of Beijing Dabeinong Technology Group Co., Ltd.
Mr. ZHANG Ping (re-elected on 28 June 2021)
Mr. ZHAO Jiejun
Mr. SUN Qian (re-elected on 28 June 2021)
Ms. SHAO Lijun (appointed on 30 July 2021)

Independent Non-executive Directors

Mr. FU Wenge resigned as an independent non-executive Director of the Company with effect from 30 July 2021 due to his other business commitments.
Mr. WANG Liyan (re-elected on 28 June 2021)
Mr. WU Liang (re-elected on 28 June 2021)
Mr. SUN Yansheng (appointed on 30 July 2021)

BIOGRAPHICAL DETAILS OF DIRECTORS AND MEMBERS OF OUR SENIOR MANAGEMENT

Biographical details of Directors and members of our senior management are set out in the section headed "Directors and Senior Management" in this annual report.

PERMITTED INDEMNITY PROVISION

During the financial year, the Company has maintained adequate liability insurances covering all losses or liabilities that might incur or be suffered by the Directors and senior managements in relation to the performing of their duties or other related matters.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years starting from the respective appointment date and shall retire by rotation at the general meeting according to the requirements of the Articles of Association of the Company. The Board may appoint any person as a Director from time to time and at any time either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. None of our Directors has entered into any service contract or appointment letter which cannot be terminated within one year without payment of compensation (other than statutory compensation) with the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the financial year.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

As at 31 December 2021, there was no change to the information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. LU Minfang, a non-executive Director of the Company, is currently the executive director and chief executive officer of China Mengniu. Mr. LU is the chairman and a non-executive director of Yashili International Holdings Ltd (雅士利國際控股有限公司) ("**Yashili**"), the chairman and a non-executive director of China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司) ("**China Modern Dairy**"), and the chairman and a non-independent director of Shanghai Milkground Food Technology Co., Ltd (上海妙可藍多食品科技股份有限公司) ("**Milkground**"). Mr. LU is also a director of International Dairy Federation.

Mr. ZHAO Jiejun, a non-executive Director of the Company, has been appointed as the vice president and the general manager of milk sources and group supply chain of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司) ("**Inner Mongolia Mengniu**"), a subsidiary of China Mengniu since November 2019. He is also currently a non-executive director and a member of the strategy and development committee of China Modern Dairy.

Mr. ZHANG Ping, a non-executive Director of the Company, is currently the executive director, vice president and chief financial officer of China Mengniu. Mr. ZHANG is the non-executive director and a member of the audit committee of Yashili, a non-executive director and a member of the remuneration committee and a member of the audit committee of China Modern Dairy, and a non-independent director of Milkground.

For further information on the businesses of China Mengniu and the potential competition between those businesses with the business of the Group, please refer to the section headed "Relationship with Mengniu Group – Competition" in the Prospectus.

China Mengniu is one of the leading dairy products manufacturers in the PRC, principally engaged in the manufacture and distribution of premium dairy products, including liquid milk, ice cream, formula milk and other dairy products. Yashili is an investment holding company which, together with its subsidiaries, is principally engaged in the manufacture and sale of dairy products and nutritional products. The principal activity of China Modern Dairy is the production and sale of raw milk to customers for processing into dairy products. Milkground is principally engaged in the research and development, production and sale of cheese related dairy products. Inner Mongolia Mengniu is an indirect non-wholly owned subsidiary of China Mengniu and is principally engaged in the manufacture and sale of dairy products. The above-mentioned competing business is managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Director, in performance of his duty as Director, has acted and will continue to act in the best interests of the Group.

Save as disclosed above, all Directors have confirmed that for the year ended 31 December 2021 and as at the date of this annual report, they and their close associates have not engaged in or held any interest in any business which is or may be, directly or indirectly, in competition with our business.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the criteria set out in Rule 3.13 of the Listing Rules, the Company considers that Mr. WANG Liyan, Mr. WU Liang and Mr. SUN Yansheng are independent parties and has received from them written confirmations on their independence.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

1. On 30 September 2021 Inner Mongolia Shengmu (an indirect wholly-owned subsidiary of the Company) entered into the Investment Agreement with Modern Farming, Mudanjiang Wanding Dairy and Mudanjiang Inland Port, in relation to the proposed formation of the Joint Venture in connection with the construction of a feed processing base in the Mudanjiang Economic and Technology Development Zone Bonded Logistics Park of the PRC. The registered capital of the Joint Venture established was RMB100 million, of which Inner Mongolia Shengmu has completed a cash injection of 7.0%.

   Details of the Investment Agreement and the formation of the Joint Venture are set out in the announcement of the Company dated 3 October 2021.

2. On 17 November 2021, Beijing Muhe, a wholly-owned subsidiary of the Company, entered into the share transfer agreement with Shengmu Forage (the "**Share Transfer Agreement**"), pursuant to which Beijing Muhe will transfer the shares representing 100% of the entire issued share capital of Shanghai Youmu ("**Shanghai Youmu Shares**") to Shengmu Forage at a consideration of RMB524,400,000 to be settled with (i) shares representing 100% of the entire issued share capital of Alashenmeng Grass, (i.e. the entire issued share capital of Alashanmeng Grass held by Shengmu Forage) and (ii) RMB10,400,000 in cash. The transfer of the Shanghai Youmu Shares and the Alashanmeng Grass Shares shall occur on the closing date, the cash consideration shall be payable by Shengmu Forage to Beijing Muhe within 30 business days from the completion of transfer of the Shanghai Youmu Shares. The transfers of the Shanghai Youmu Shares and the Alashanmeng Grass Shares shall take place within 10 business days after the satisfaction of the following conditions: (1) the Share Transfer Agreement being effective; and (2) the representations, undertakings and warranties under the Share Transfer Agreement given by both parties are true, accurate and not misleading. The Share Transfer Agreement shall be effective upon the execution of the Share Transfer Agreement and obtaining respective internal approvals by the parties.

   Upon completion of the Share Transfer Agreement, Shanghai Youmu will cease to be a subsidiary of the Company and Alashanmeng Grass will become a wholly-owned subsidiary of the Company.

   Details of the Share Transfer Agreement are set out in the announcement of the Company dated 17 November 2021.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

So far as is known to any Director or chief executive of the Company, as at 31 December 2021, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which were required to be immediately notified to the 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 the interests or short positions which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or the interests or short positions which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), to be immediately notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
SHAO Genhuo[(1)]	Interest of a controlled corporation[(2)]	1,301,651,000[(2)]	15.53%
YAO Tongshan[(3)]	Beneficial owner	238,100,319	2.84%
ZHANG Jiawang	Beneficial owner	138,130,000	1.65%

(1) Mr. SHAO Genhuo (邵根夥) resigned as a non-executive Director of the Company with effect from 30 July 2021.

(2) Mr. SHAO Genhuo (邵根夥) holds the entire equity interests of Beijing Zhi Nong Investment Co., Ltd. ("**Beijing Zhi Nong**"), which in turn holds the entire equity interests of Nong You Co., Ltd ("**Nong You**"). Therefore, Mr. SHAO is deemed to be interested in the Shares held by Nong You.

(3) Mr. YAO Tongshan (姚同山) resigned as an executive Director with effect from 30 July 2021.

(ii) Long position in the shares of associated corporation

Name	Name of associated corporation	Percentage of interest
YAO Tongshan[(1)]	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	1.45%

(1) Mr. YAO Tongshan (姚同山) resigned as an executive Director with effect from 30 July 2021.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2021, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations which were required to be immediately notified to the 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 were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed in the section headed "Share Option Scheme" in this annual report, at no time during the year ended 31 December 2021 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2021, the following persons (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested or deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
Start Great Holdings Limited	Beneficial owner	2,513,178,555 (L)	29.99% (L)
China Mengniu Dairy Company Limited	Interest of a controlled corporation	2,513,178,555 (L)	29.99% (L)
Nong You Co., Ltd.	Beneficial owner	1,301,651,000 (L)	15.53% (L)
Beijing Zhi Nong Investment Co., Ltd.	Interest of a controlled corporation	1,301,651,000 (L)	15.53% (L)
Greenbelt Global Limited	Beneficial owner	536,097,305 (L)	6.40% (L)
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
Salata Jean	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial owner	378,320,000 (L)	4.51% (L)
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SC China Holding Limited	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
Sequoia Capital China Advisors Limited	Investment manager	378,320,000 (L)	4.51% (L)
Sequoia Capital China Growth 2010, L.P.	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SNP China Enterprises Limited	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SHEN Nanpeng (沈南鵬)	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
ZHANG Junli (張軍力)	Interest of the spouse	238,100,319 (L)	2.84% (L)
The Goldman Sachs Group, Inc.	Interest of a controlled corporation	396,960,506 (L)	4.74% (L)
		1,723,000 (S)	0.02% (S)

INTERESTS OF THE SUBSTANTIAL SHAREHOLDER OF ANY MEMBER OF THE GROUP (OTHER THAN THE COMPANY)

Name	Name of member company	Percentage of interest
Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司)	Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司)	30.00%
WU Jianye (武建鄴)	Bayannur Shengmu Pangu Farming Co., Ltd.	45.00%
LIU Shiling (劉世玲)	Inner Mongolia Shengyou Cattle Industry Co., Ltd. (內蒙古晟有牛業有限公司)	15.31%
GAO Feng (高峰)	Inner Mongolia Shengyou Cattle Industry Co., Ltd. (內蒙古晟有牛業有限公司)	10.94%

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who, as at 31 December 2021, was interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

SHARE OPTION SCHEME

On 18 June 2014, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. The participants of the Share Option Scheme are any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group. The basis of eligibility of any of the class of the participants to the grant of any options under the Share Option Scheme shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group and any invested entity.

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares of the Company in issue on the Listing Date, being a total of 635,440,000 Shares, which also represents 7.58% of the issued share capital of the Company as at the date of this annual report.

The total number of Shares issued and to be issued upon exercise of the options granted to each eligible participant under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. Any further grant of options to an eligible participant under the Share Option Scheme which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the above said limit shall be subject to our Shareholders' approval in general meeting with such participant and his associates (as defined under the Listing Rules) abstaining from voting.

The amount of HK$1.00 is payable as consideration for each grant of options under the Share Option Scheme, upon acceptance of such grant. The subscription price in respect of Shares upon exercise of options under the Share Option Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant, and (c) the nominal value of a Share.

An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme.

No option has been granted under the Share Option Scheme since the adoption date of the Share Option Scheme and up to the latest practicable date prior to the publication of this annual report. A summary of the terms of the Share Option Scheme has been set out in the section headed "Appendix IV – Statutory and General Information – E. Share Option Scheme" in the Prospectus.

The Share Option Scheme was approved by shareholders' resolutions of the Company passed on 18 June 2014 and will remain in force for a period of 10 years following such date.

EQUITY-LINKED AGREEMENTS

Save as disclosed in sections headed "Material Acquisition and Disposal of Subsidiaries and Associated Companies" and "Share Option Scheme" of this annual report, during the year ended 31 December 2021, the Company has not entered into any equity-linked agreement (as defined in section 6 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering of the Company were approximately RMB801.2 million. The relevant net proceeds are intended to be or have been used in accordance with the proposed usages as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus of the Company dated 30 June 2014.

As at 31 December 2021, the net proceeds were applied as follows:

	Planned use of the net proceeds from the initial public offering RMB million	Actual use of the net proceeds from the initial public offering from the Listing Date to 1 January 2021 RMB million	Actual use of the net proceeds from the initial public offering from the Listing Date to 31 December 2021 RMB million	Unutilised net proceeds from the initial public offering as of 1 January 2021 RMB million	Unutilised net proceeds from the initial public offering as of 31 December 2021 RMB million
Constructing six additional organic dairy farms	200.1	200.1	200.1	–	–
Acquiring dairy cows domestically and from overseas	145.6	145.6	145.6	–	–
Sales and marketing activities and expansion of distribution network	40.1	40.1	40.1	–	–
Expanding the Group's liquid milk production capacity	120.3	120.3	120.3	–	–
Repayment of loans	120.3	120.3	120.3	–	–
Additional working capital and general corporate purposes	174.8	80.2	174.8	94.6	–
Total	801.2	706.6	801.2	94.6	–

As at 31 December 2021, the net proceeds from the initial public offering have been fully utilised as intended.

CONTRACT OF SIGNIFICANCE WITH DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as the related party disclosures set out in note 35 to the financial statements and as disclosed in the section headed "Connected and Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company, an entity connected with a Director of the Company or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted for the year ended 31 December 2021.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

The Company's connected and continuing connected transactions during the year of 2021 are as follows:

(a) Connected Transactions

Name of Group company	Name of connected person	Nature of transaction	Note
Inner Mongolia Shengmu	Modern Farming	Proposed formation of a joint venture, Mudanjiang Liangyuan Technology Limited	(9)

(b) Continuing Connected Transactions

Name of Group company	Name of connected person	Nature of transaction	Period of framework agreement	Note	Annual Cap *RMB million*
Inner Mongolia Shengmu Holding Co., Ltd. ("**Shengmu Holding**") (for itself and on behalf of the Group (excluding Shengmu Pangu))	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾聖牧盤古牧業有限責任公司) ("**Shengmu Pangu**")	Sale and purchase of cows between the Group and Shengmu Pangu	23 April 2019 – 31 December 2021	(1)	Purchase of cows made by the Company (excluding Shengmu Pangu) from Shengmu Pangu: 14.2 (for the year ending 31 December 2021) Sale of cows made by the Group (excluding Shengmu Pangu) to Shengmu Pangu: 35.7 (for the year ending 31 December 2021)

Name of Group company	Name of connected person	Nature of transaction	Period of framework agreement	Note	Annual Cap *RMB million*
Inner Mongolia Shengmu (for itself and on behalf of the Group (excluding Shengmu Pangu))	Shengmu Pangu	Provision of financial assistance by the Group to Shengmu Pangu	23 April 2019 - 31 December 2021	(2)	60.0 (for the year ending 31 December 2021)
Shengmu Holding (for itself and on behalf of the Group (excluding Shengmu Pangu))	Shengmu Pangu	Purchase of feed by Shengmu Pangu from the Group	23 April 2019 – 31 December 2021	(3)	93.0 (for the year ending 31 December 2021)
Inner Mongolia Shengmu (for itself and on behalf of the Group)	Inner Mongolia Mengniu (for itself and on behalf of China Mengniu and its subsidiaries (together, the "**China Mengniu Group**"))	Sale of raw fresh milk from the Group	1 January 2020 – 31 December 2022	(4)	3,700.0 (for the year ending 31 December 2021) 4,200.0 (for the year ending 31 December 2022)
Inner Mongolia Shengmu (for itself and on behalf of the Group)	Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group)	Provision of entrusted loans by the China Mengniu Group to the Group	1 January 2020 to 31 December 2022	(5)	1,600.0 (for each of the years ending 31 December 2021 and 2022)
Inner Mongolia Shengmu (for itself and on behalf of its subsidiaries)	Inner Mongolia Aiyangniu Technology Co., Ltd (內蒙古愛養牛科技有限公司) ("**Aiyangniu Technology**") (for itself and on behalf of its subsidiaries)	Supply of materials by Aiyangniu Technology to Inner Mongolia Shengmu	28 March 2022 – 31 December 2024	(6)	120.0 (for each of the three years ending 31 December 2022, 2023 and 2024)

Name of Group company	Name of connected person	Nature of transaction	Period of framework agreement	Note	Annual Cap *RMB million*
Inner Mongolia Shengmu	Inner Mongolia Fuyuan International Industrial (Group) Co., Limited (內蒙古富源國際實業(集團)有限公司) ("**Fuyuan International**") (for itself and on behalf of its subsidiaries) ("**Fuyuan International Group**")	Supply of materials by Fuyuan International Group to Inner Mongolia Shengmu	21 November 2020 to 31 December 2022	(7)	30.0 (for each of the years ending 31 December 2021 and 2022)
Inner Mongolia Shengmu (for itself and on behalf of its subsidiaries)	Beijing Dabeinong Technology Group Co., Ltd. (北京大北農科技集團股份有限公司) ("**Dabeinong Group**") for itself and on behalf of its subsdiaries	Purchase of feed, additives and medicine by Inner Mongolia Shengmu from Dabeinong Group	28 March 2022 to 31 December 2024	(8)	146.0 (for each of the three years ending 31 December 2022, 2023 and 2024)
Inner Mongolia Shengmu (for itself and on behalf of the Group and its subsidiaries)	Yiyingmei	Sale of raw fresh milk from Inner Mongolia Shengmu to Yiyingmei	28 March 2022 to 31 December 2024	(10)	17.0 (for the year ending 31 December 2022) 84.0 (for the year ending 31 December 2023) 146.0 (for the year ending 31 December 2024)

Notes:

(1) On 23 April 2019, Shengmu Holding, a company incorporated in the PRC and a wholly owned subsidiary of the Company (for itself and on behalf of the Group (excluding Shengmu Pangu) and Shengmu Pangu entered into a framework agreement in relation to the sale and purchase of cows between the Group (excluding Shengmu Pangu)) and Shengmu Pangu (the "**Framework Agreement for Sale and Purchase of Cows**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. Pursuant to the Framework Agreement for Sale and Purchase of Cows, the parties thereto will sell and purchase cows from the other, such that the calves and heifers of the parties will be raised on a centralised basis and separately from milkable cows. The term of the agreement is from 23 April 2019 to 31 December 2021. For each of the years ending 31 December 2019, 2020 and 2021, under the Framework Agreement for Sale and Purchase of Cows, (i) the total annual amount of purchases of cows made by the Company (excluding Shengmu Pangu) from Shengmu Pangu shall not exceed RMB16.0 million, RMB13.6 million and RMB14.2 million, respectively; and (ii) the total annual sales of cows made by the Group (excluding Shengmu Pangu) to Shengmu Pangu shall not exceed RMB29.4 million, RMB45.8 million and RMB35.7 million, respectively. However, Mr. WU Jianye resigned from the Company with effect from 30 March 2020. Hence, Shengmu Pangu is no longer a connected person from 31 March 2021 and the transactions between the Group (excluding Shengmu Pangu) and Shengmu Pangu are no longer considered as connected transactions. For the period from 1 January 2021 to 29 March 2021, the total annual purchase amount of cows by the Group (excluding Shengmu Pangu) from Shengmu Pangu was nil and the total annual sale amount of cows by the Group to Shengmu Pangu was RMB1.6 million. Reasons for and benefits of the transactions under the Framework Agreement for Sale and Purchase of Cows are that the Group manages the dairy farming business on a centralised basis and as a subsidiary of the Group, Shengmu Pangu is also subject to such centralised management. Details of the Framework Agreement for Sale and Purchase of Cows are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

(2) On 23 April 2019, Inner Mongolia Shengmu (for itself and on behalf of the Group (excluding Shengmu Pangu)) and Shengmu Pangu entered into a framework agreement in relation to the provision of financial assistance (in the form of guarantees) by the Group (excluding Shengmu Pangu) to Shengmu Pangu for the commercial loans and borrowings of Shengmu Pangu on normal commercial terms, based on the requests of Shengmu Pangu from time to time (the "**Shengmu Pangu Financial Assistance Framework Agreement**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. The term of the Shengmu Pangu Financial Assistance Framework Agreement is from 23 April 2019 to 31 December 2021. Pursuant to such agreement, the Group will provide financial assistance (in the form of guarantees) to Shengmu Pangu on normal commercial terms. The maximum daily balance of financial assistance (in the form of guarantees) to be provided by the Group (excluding Shengmu Pangu) to Shengmu Pangu under the Shengmu Pangu Financial Assistance Framework Agreement may not exceed RMB60.0 million for each of the three years ending 31 December 2019, 2020 and 2021, respectively. However, as mentioned in note (1) above, Shengmu Pangu is no longer a connected person from 31 March 2021 and the transactions between the Group (excluding Shengmu Pangu) and Shengmu Pangu are no longer considered as connected transactions. For the period from 1 January 2021 to 29 March 2021, no financial assistance in the form of guarantees was provided by the Group (excluding Shengmu Pangu) to Shengmu Pangu. Reasons for and benefits of the transactions under the Shengmu Pangu Financial Assistance Framework Agreement are the fact that Shengmu Pangu, as a subsidiary of the Group, has been obtaining commercial loans and borrowings with

the guarantees provided by the other more established subsidiaries of the Group, such as Shengmu Holding and Inner Mongolia Shengmu. Without such guarantees, it would incur higher financial costs to obtain such commercial loans and borrowings. As such, it is commercially beneficial to the Group to continue to provide financial assistances to Shengmu Pangu, which will also lower the overall financial costs of the Group. Details of the Shengmu Pangu Financial Assistance Framework Agreement are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

(3) On 23 April 2019, Shengmu Holding (for itself and on behalf of the Group (excluding Shengmu Pangu)) and Shengmu Pangu entered into a framework agreement in relation to the purchase of feed by Shengmu Pangu from the Group (excluding Shengmu Pangu) (the "**Feed Supply Framework Agreement**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. Accordingly, the transactions contemplated under the Feed Supply Framework Agreement constitute continuing connected transactions of the Company. The term of the Feed Supply Framework Agreement is from 23 April 2019 to 31 December 2021. Pursuant to such agreement, the total purchase amount by Shengmu Pangu from the Group (excluding Shengmu Pangu) under the Feed Supply Framework Agreement may not exceed RMB84.1 million, RMB93.4 million, RMB93.0 million for the three years ending 31 December 2019, 2020 and 2021, respectively. However, as mentioned in note (1) above, Shengmu Pangu is no longer a connected person from 31 March 2021 and the transactions between the Group (excluding Shengmu Pangu) and Shengmu Pangu are no longer considered as connected transactions. For the period from 1 January 2021 to 29 March 2021, the total annual purchase amount of feed by Shengmu Pangu from the Group was RMB29.1 million. Reasons for and benefits of the transactions under the Feed Supply Framework Agreement are to facilitate the Group in managing the production and use of feed on a centralised basis, that is, all feed is produced by Shengmu Holding and subsequently sold to the cattle farming subsidiaries of the Group (including Shengmu Pangu) at a price referred to the market price. Details of the Feed Supply Framework Agreement are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

(4) On 30 December 2019, Inner Mongolia Shengmu (for itself and on behalf of the Group) and Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group) entered into a framework agreement in relation to the sale of raw fresh milk from the Group (the "**Raw Fresh Milk Supply Framework Agreement**"). As China Mengniu holds approximately 29.9% equity interest in the Company through Start Great Holdings Limited and is therefore a connected person of the Company as defined under the Listing Rules and Inner Mongolia Mengniu is therefore an associate of China Mengniu and also a connected person of the Company. The term of the Raw Fresh Milk Supply Framework Agreement is from 1 January 2020 to 31 December 2022. Pursuant to such agreement, the total annual sale amount by the Group to China Mengniu Group may not exceed RMB3,300.0 million, RMB3,700.0 million and RMB4,200.0 million for the three years ending 31 December 2020, 2021 and 2022, respectively. For the year ended 31 December 2021, the total annual sale amount by the Group to China Mengniu Group was RMB2,621.6 million. Reasons for and the benefits of the transactions under the Raw Fresh Milk Supply Framework Agreement include (i) the close proximity between the dairy farms of the Group and the manufacturing facilities of China Mengniu Group would help to maintain freshness and lower transportation and preservation cost in the sale of raw fresh milk to China Mengniu Group; and (ii) the sales will ensure stable revenue and cash flow for the Group. Details of the Raw Fresh Milk Supply Framework Agreement are set out in the announcement of the Company dated 30 December 2019 and the circular of the Company dated 6 March 2020 with respect to continuing connected transactions of the Company.

(5) On 30 December 2019, Inner Mongolia Shengmu (for itself and on behalf of the Group) and Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group) entered into a framework agreement in relation to the provision of entrusted loans by the China Mengniu Group to the Group (the "**Financial Assistance Framework Agreement**"). China Mengniu holds approximately 29.99% equity interest in the Company through Start Great Holdings Limited and is a connected person of the Company as defined under the Listing Rules and Inner Mongolia Mengniu is therefore be an associate of China Mengniu and also a connected person of the Company. The term of the Financial Assistance Framework Agreement is from 1 January 2020 to 31 December 2022. Pursuant to such agreement, the maximum daily balance of entrusted loans provided by the China Mengniu Group may not exceed RMB1,600.0 million for each of the three years ending 31 December 2020, 2021 and 2022. For the year ended 31 December 2021, the Group has not received any financial assistance in the form of entrusted loans provided by the China Mengniu Group. Reasons for and the benefits of the transactions under the Financial Assistance Framework Agreement are the fact that the China Mengniu Group is an important business partner of the Group and has a strong capital base and financing capabilities. The financial assistance provided by the China Mengniu Group to the Group will lower the overall financial risk of the Group. Details of the Financial Assistance Framework Agreement are set out in the announcement of the Company dated 30 December 2019 and the circular of the Company dated 6 March 2020 with respect to continuing connected transactions of the Company.

(6) Reference is made to the announcement of the Company dated 5 August 2020 in relation to the entering of a materials supply framework agreement in relation to the supply of materials by Aiyangniu Technology to Inner Mongolia Shengmu for a term of period commencing from 5 August 2020 to 31 December 2022 (the "**2020 Aiyangniu Technology Materials Supply Framework Agreement**"). The Company expects that the annual transaction amount between Inner Mongolia Shengmu and Aiyangniu Technology for the year ending 31 December 2022 will exceed the annual cap as stated in the 2020 Aiyangniu Announcement. In this connection, Inner Mongolia Shengmu (for itself and on behalf of its subsidiaries) and Aiyangniu Technology (for itself and on behalf of its subsidiaries) entered into a materials supply framework agreement (the "**2022 Aiyangniu Technology Materials Supply Framework Agreement**") on 28 March 2022 to (i) terminate the 2020 Aiyangniu Technology Materials Supply Framework Agreement; (ii) renew for a term of period commencing from 28 March 2022 and ending on 31 December 2024; (iii) revise the annual cap for the year ending 31 December 2022; and (iv) set annual caps for the years ending 31 December 2023 and 2024. As Inner Mongolia Shengmu is an indirectly wholly-owned subsidiary of the Company; approximately 73.66% equity interest in Aiyangniu Technology is held by Inner Mongolia Mengniu, which in turn is a non-wholly owned subsidiary of China Mengniu. As China Mengniu indirectly holds approximately 29.99% equity interest in the Company and is a substantial shareholder of the Company. As a result, China Mengniu is a connected person of the Company, Aiyangniu Technology is an associate of China Mengniu and also a connected person of the Company. Accordingly, the entering into of the 2022 Aiyangniu Technology Materials Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The term of the 2022 Aiyangniu Technology Materials Supply Framework Agreement is from 28 March 2022 to 31 December 2024. Pursuant to such agreement the total annual purchase amount by Inner Mongolia Shengmu from Aiyangniu Technology shall not exceed RMB120.0 million for each of the three years ending 31 December 2022, 2023 and 2024. For the period from 5 August 2020 to 31 December 2020 and the year ended 31 December 2021, the total purchase amount was approximately RMB11.8 million and RMB29.3 million, respectively. Reasons for and benefits of the transactions under the 2022 Aiyangniu Technology Materials Supply Framework Agreement are to closely monitor the market trends of its common materials and adjust the purchasing strategy in time and ensure low cost and quality safety of the materials supplied to the Group. Details of the 2022 Aiyangniu Technology Materials Supply Framework Agreement are set out in the announcement of the Group dated 28 March 2022 with respect to the continuing connected transactions of the Company.

(7) On 21 November 2020, Inner Mongolia Shengmu and Fuyuan International (for itself and on behalf of its subsidiaries) entered into a materials supply framework agreement in relation to the supply of materials by Fuyuan International Group to Inner Mongolia Shengmu (the "**Fuyuan International Materials Supply Framework Agreement**"). At the time of the transaction, Inner Mongolia Shengmu was an indirectly wholly-owned subsidiary of the Company and approximately 43.35% equity interest in Fuyuan International was held by Inner Mongolia Mengniu, which in turn was a non-wholly owned subsidiary of China Mengniu. On 29 November 2021, upon China Modern Dairy's acquisition of the entire equity interests in Fuyuan International, Fuyuan International has become a non-wholly owned subsidiary of China Modern Dairy. As of the date of this annual report, China Modern Dairy is indirectly owned as to approximately 56.36% by China Mengniu. China Mengniu indirectly holds approximately 29.99% equity interest in the Company and hence is a substantial shareholder of the Company. As a result, China Mengniu is a connected person of the Company and Fuyuan is an associate of China Mengniu, therefore a connected person of the Company. Accordingly, the entering into of the Fuyuan International Materials Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The term of the Fuyuan International Materials Supply Framework Agreement is from 21 November 2020 to 31 December 2022. Pursuant to such agreement the total annual purchase amount by Inner Mongolia Shengmu from Fuyuan International Group under the Fuyuan International Materials Supply Framework Agreement shall not exceed RMB30.0 million, RMB30.0 million and RMB30.0 million for the three years ending 31 December 2020, 2021 and 2022, respectively. For the year ended 31 December 2021, the total annual purchase amount by Inner Mongolia Shengmu from Fuyuan International Group was RMB19.9 million. Reasons for and benefits of the transactions under the Fuyuan International Materials Supply Framework Agreement are to ensure the high quality and safety of materials supplied to the Group which are essential to the production of high quality and fresh raw milk by the Group. Details of the Fuyuan International Materials Supply Framework Agreement are set out in the announcement of the Company dated 22 November 2020 with respect to the continuing connected transaction of the Company.

(8) Reference is made to the announcement of the Company dated 30 December 2020 in relation to the entering of a materials supply framework agreement in relation to the purchase of feed, additives and medicines by Inner Mongolia Shengmu and its subsidiaries from Dabeinong Group for a term of period commencing from 1 January 2021 to 31 December 2023 (the "**2021 Dabeinong Group Materials Supply Framekwork Agreement**"). The Company expects that the annual transaction amount between Inner Mongolia Shengmu and Dabeinong Group for the years ending 31 December 2022 and 2023 will exceed the annual caps as stated in the 2020 Dabeinong Announcement. In this connection, Inner Mongolia Shengmu (for itself and on behalf of its subsidiaries) and Dabeinong Group (for itself and on behalf of its subsidiaries) entered into a materials supply framework agreement (the "**2022 Dabeinong Group Materials Supply Framework Agreement**") on 28 March 2022 to (i) terminate the 2021 Dabeinong Group Materials Supply Framework Agreement; (ii) renew for a term of period commencing from 28 March 2022 and ending on 31 December 2024; (iii) revise the annual caps for the years ending 31 December 2022 and 2023; and (iv) set annual cap for the year ending 31 December 2024. As Inner Mongolia Shengmu is an indirectly wholly-owned subsidiary of the Company and Mr. SHAO Genhuo was a non-executive Director of the Company in the preceding 12 months of the date of entering into the 2022 Dabeinong Group Materials Supply Framework Agreement. Mr. SHAO holds 24.49% equity interests in Dabeinong Group. Mr. SHAO also holds the entire equity interests of Beijing Zhi Nong, which in turn holds the entire equity interests of Nong You, a substantial shareholder of the Company. Mr. SHAO is therefore a connected person of the Company and Dabeinong Group is an associate of Mr. SHAO and therefore each also a connected person of the Company as defined under the Listing Rules. Accordingly, the entering into of 2022 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The term of the 2022 Dabeinong Group Materials Supply Framework Agreement is from 28 March 2022 to 31 December 2024. Pursuant to such agreement the total annual purchase amount by Inner Mongolia Shengmu from Dabeinong Group shall not exceed RMB146.0 million for each of the

three years ending 31 December 2022, 2023 and 2024. For the year ended 31 December 2021, the total actual annual purchase amount under the 2021 Dabeinong Group Materials Supply Framework Agreement amounted to RMB49.4 million. Reasons for and benefits of the transactions under the 2022 Dabeinong Group Materials Supply Framework Agreement are to ensure that the Group is supplied with high quality and safe materials, which is essential for the Group to produce high quality raw milk. Details of the 2022 Dabeinong Group Materials Supply Framework Agreement are set out in the announcement of the Company dated 28 March 2022 with respect to the continuing connected transactions of the Company.

(9) Reference is made to the announcement of the Company dated 30 September 2021 in relation to the entering into the Investment Agreement between Inner Mongolia Shengmu, an indirect wholly-owned subsidiary of the Company, Modern Farming, Mudanjiang Wanding Dairy and Mudanjiang Inland Port, in relation to the proposed formation of the Joint Venture, Mudanjiang Liangyuan Technology Limited in connection with the construction of a feed processing based in the Mudanjiang Economic and Technology Development Zone Bonded Logistics Park of the PRC. The registered capital of the Joint Venture shall be RMB100.0 million. The amount of capital contribution to be paid by each of Modern Farming, Mudanjiang Wanding Dairy, Mudanjiang Inland Port and Inner Mongolia Shengmu shall be RMB51.0 million, RMB22.0 million, RMB20.0 million and RMB7.0 million, respectively. Accordingly, each of Modern Farming, Mudanjiang Wangding Dairy, Mudanjiang Inland Port and Inner Mongolia Shengmu will hold 51%, 22%, 20% and 7% of the equity interest in the Joint Venture, respectively. All of the capital contribution shall be paid in cash. Modern Farming is indirectly owned as to approximately 1.65% by China Mengniu and approximately 98.35% by China Modern Dairy which in turn is indirectly owned as to approximately 56.36% by China Mengniu as of the date of this annual report. China Mengniu indirectly holds approximately 29.99% equity interest in the Company and is a substantial shareholder of the Company. Modern Farming is an associate of China Mengniu and therefore a connected person of the Company. Accordingly, the transaction contemplated under the Investment Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. Details of the Investment Agreement and the formation of the Joint Venture are set out in the announcement of the Company dated 3 October 2021.

(10) On 28 March 2022, Inner Mongolia Shengmu (a wholly-owned subsidiary of the Company) (for itself and on behalf of the Group and its subsidiaries) entered into the Raw Fresh Milk Supply Framework Agreement with Yiyingmei in relation to the sale of raw fresh milk from Inner Mongolia Shengmu to Yiyingmei. Mr. SHAO Genhuo was a non-executive Director of the Company in the preceding 12 months of the date of entering into the Raw Fresh Milk Supply Framework Agreement. Mr. SHAO holds 24.49% equity interests in Dabeinong Group, which is interested in approximately 91.36% in Yiyingmei and hence Yiyingmei is a subsidiary of Dabeinong Group. Mr. SHAO also holds the entire equity interests of Beijing Zhi Nong, which in turn holds the entire equity interests of Nong You, a substantial shareholder of the Company. Mr. SHAO is therefore a connected person of the Company and Dabeinong Group and Yiyingmei are associates of Mr. SHAO and therefore each also a connected person of the Company as defined under the Listing Rules. Accordingly, the entering into of the Raw Fresh Milk Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The term of period of the Raw Fresh Milk Supply Framework Agreement is from 28 March 2022 to 31 December 2024. Pursuant to such agreement the total annual sale amount by Inner Mongolia Shengmu to Yiyingmei under the Raw Fresh Milk Supply Framework Agreement shall not exceed RMB17.0 million, RMB84.0 million and RMB146.0 million for the three years ending 31 December 2022, 2023 and 2024, respectively. For the year ended 31 December 2021, the raw fresh milk Yiyingmei purchase from Inner Mongolia Shengmu amounted to approximately RMB0.3 million. Reasons for and benefits of the transaction under the Raw Fresh Milk Supply Framework Agreement was to expand the market share of the Group's high quality organic milk sources. Details of the Raw Fresh Milk Supply Framework Agreement are set out in the announcement of the Company dated 28 March 2022 and the supplemental announcement of the Company dated 20 April 2022 with respect to the continuing connected transaction of the Company.

The Directors (including the independent non-executive Directors) are of the view that the connected and continuing connected transactions referred to above are entered into during the ordinary course of the Group's business on normal or better commercial terms and under agreements of such transactions, the terms of which are fair and reasonable and in the interests of the Shareholders of listed companies as a whole. The Company's auditor has confirmed that: (i) nothing has come to their attention that causes them to believe that the disclosed connected and continuing connected transactions have not been approved by the Company's board of Directors; (ii) nothing has come to their attention that causes them to believe that the price and terms of the transactions were not, in all material respects, determined in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the connected and continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed connected and continuing connected transactions have exceeded the maximum annual cap as set by the Company.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 35 to the financial statements. During the year, the related party transactions mainly comprised: (1) sale of products to certain associates (such associates constitute associates under the accounting standards as the Group holds certain shares in them); (2) sale and purchase of cows pursuant to the Framework Agreement for Sale and Purchase of Cows entered into with Shengmu Pangu; (3) financial assistance pursuant to the Shengmu Pangu Financial Assistance Framework Agreement entered into with Shengmu Pangu; (4) supply of feed pursuant to the Feed Supply Framework Agreement entered into Shengmu Pangu; (5) sale of raw fresh milk to Mengniu Group; (6) entrusted loan provided by Mengniu Group to the Group; (7) purchase of materials from Aiyangniu Technology in accordance with the 2022 Aiyangniu Technoloy Materials Supply Framework Agreement; (8) purchase of materials in accordance with the Fuyuan International Materials Supply Framework Agreement; (9) purchase of materials from Dabeinong Group in accordance with the 2022 Dabeinong Group Materials Supply Framework Agreement; (10) sale of raw fresh milk to Yiyingmei; (11) formation of the Joint Venture among others, between Inner Mongolia Shengmu and Modern Farming; (12) payment of emoluments to key management of the Group; (13) guarantees provided by the Group for the bank borrowings of Shengmu Forag; and (14) entrusted loan provided by the Group to Shengmu Forage. The arrangement whereby Shengmu Forage provided biowaste (i.e. cow dung) cleaning services to our organic dairy farms for free in return for our supply of such unprocessed biowaste from our organic dairy farms to Shengmu Forage for free, is an exempt continuing connected transaction, details of which has been set out in the section headed "Continuing Connected Transaction" in the prospectus.

EMPLOYEES

As at 31 December 2021, the Group had a total of 2,682 employees (2,589 employees in total as at 31 December 2020). Total staff costs for 2021 (including the emoluments of Directors and senior management of the Company) amounted to RMB272.0 million (RMB263.6 million in 2020). The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

The Group has also approved and adopted the Share Option Scheme. The purpose of the Share Option Scheme is to attract, retain and motivate the Directors, senior management and employees of the Group and other participants.

RETIREMENT BENEFIT PLANS

The Group has participated in a number of fixed contribution retirement plans for eligible employees within the Group in accordance with applicable laws and regulations.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

The remunerations of Directors and senior management are determined based on their working experience, industry expertise, educational background and skills as well as the Group's performance and operating results and with reference to the remuneration policies of other companies in the industry and prevailing market rates. Directors and employees also participate in performance incentive arrangements relating to the performance of the Group and individuals.

For the year of 2021, no emoluments were paid by the Group to any Director or any of the five highest paid individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

For details of remuneration paid to the Directors and the five highest paid individuals which are required to be disclosed pursuant to Appendix 16 of the Listing Rules, please refer to notes 7 and 8 to the financial statements.

SUFFICIENT PUBLIC FLOAT

Based on the public information available to the Company and so far as all Directors are aware, the Company had maintained the public float as required by the Listing Rules throughout the period up to the latest practicable date prior to the publication of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For details of the Company's corporate governance practices, please refer to the section headed Report on Corporate Governance Practices in this annual report.

AUDITORS

Ernst & Young has audited the financial statements for the year ended 31 December 2021. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

All references in this part of the annual report (Report of the Directors) to other parts, sections of or notes in the annual report, form part of the Report of the Directors.

By Order of the Board of
China Shengmu Organic Milk Limited
LU Minfang
Chairman

Hong Kong, 28 March 2022

EXECUTIVE DIRECTOR

Mr. ZHANG Jiawang (張家旺), aged 43, is an executive Director of the Company. He was appointed to the Board on 25 January 2019.

Mr. ZHANG Jiawang was appointed as the chief executive officer of China Shengmu on 16 January 2019. Mr. ZHANG joined Dabeinong Group in August 2001 and held various positions including director of the Chief Executive's Office, general manager of business department, development and investment manager and vice president since then.

Mr. ZHANG received a bachelor's degree in horticulture from Inner Mongolia Agricultural University (內蒙古農業大學) in July 2001 and an EMBA degree from Renmin University of China (中國人民大學) in January 2010.

Save as disclosed above, Mr. ZHANG did not hold any directorship in any public listed companies in the last three years.

NON-EXECUTIVE DIRECTORS

Mr. LU Minfang (盧敏放), aged 53, was appointed as a non-executive Director of the Company and the chairman of the Board on 30 July 2021.

Mr. LU is currently the executive director and chief executive officer of China Mengniu, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 2319). Mr. LU is the chairman and a non-executive director of Yashili, a subsidiary of China Mengniu, and a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 1230), the chairman and a non-executive director of China Modern Dairy, an associate of China Mengniu, and a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 1117), and the chairman and a non-independent director of Milkground, an associate of China Mengniu, a company incorporated in the PRC with limited liability whose shares are listed on the Shanghai Stock Exchange (stock code: 600882). Mr. LU is also a director of International Dairy Federation. He was the chief executive officer and an executive director of Yashili before his appointment as chairman of the board of directors of Yashili. Mr. LU was also a director of the following subsidiaries of Yashili, namely Yashili International Ltd. (雅士利國際有限公司), Yashili International Group Limited (雅士利國際集團有限公司), Newou Hong Kong International Co., Limited (新歐香港國際有限公司) and Mengya International Group Limited (蒙雅國際集團有限公司) (formerly known as Scient International Group Limited (施恩國際集團有限公司)). Mr. LU was the Vice President (Greater China) of Danone Early Life Nutrition Greater China and had been with Danone S.A. and its subsidiaries (the "**Danone Group**") and Dumex Baby Food Co. Ltd. for over 10 years. During his tenure at Danone Group, he demonstrated strong strategic business and market planning capabilities. With strong leadership, management skills and in-depth market knowledge, Mr. LU had contributed significantly to the success of Danone Group's baby nutrition business in China. Prior to joining Danone Group, Mr. LU spent 9 years with Johnson & Johnson (China) Company Limited and almost 4 years with General Electric Company (China). Prior to joining China Mengniu Group, Mr. LU has over 18 years of experience in sales and marketing and has been in general manager or senior executive roles for over 7 years. Mr. LU has extensive experience in the management of fast-moving consumer products and dairy companies and has an excellent grasp and in-depth knowledge of the PRC market. Mr. LU obtained his bachelor's degree from Fudan University (復旦大學) in Shanghai.

Save as disclosed above, Mr. LU did not hold any directorship in any public listed companies in the last three years.

Mr. ZHANG Ping (張平), aged 57, is a non-executive Director of the Company. He was appointed to the Board on 25 August 2020. He joined Mengniu Group in 2014 and is currently an executive director, a vice president and chief financial officer of Mengniu Group. Mr. ZHANG is also a director in several subsidiaries of Mengniu Group, including major subsidiaries Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業（集團）股份有限公司) and Inner Mongonlia Mengniu Danone Dairy Co., Ltd. (內蒙古蒙牛達能乳製品有限公司). He has over 25 years of experience in the fast-moving consumer goods industry, specialising in management of operation, finance and audit as well as risk control. Mr. ZHANG successively worked as manager of internal audit and system development and finance director at Swire Beverages Co., Ltd., general manager of its bottler manufacturing company and chief executive officer of Coca-Cola Bottlers Manufacturing Holdings Limited. Mr. ZHANG is also a non-executive director of Yashili (a Hong Kong-listed company) and China Modern Dairy respectively, and a non-independent director of Milkground, a company listed on Shanghai Stock Exchange. Mr. ZHANG graduated from Beijing Information Science and Technology University (北京信息科技大學) with a master's degree in management engineering.

Save as disclosed above, Mr. ZHANG did not hold any directorship in any public listed companies in the last three years.

Mr. ZHAO Jiejun (趙傑軍), aged 45, is a non-executive director of the Company. He was appointed to the Board on 30 March 2020. Mr. ZHAO is currently a vice president and the manager of milk sources and group supply chain and is responsible for strengthening and collaborating the management of dairy segment of China Mengniu, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 2319). Mr. ZHAO is also currently a non-executive Director and a member of the strategy and development committee of China Modern Dairy, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 1117). Mr. ZHAO joined Mengniu in 2000 and has held various positions, including divisional sales manager, chief sales officer, general manager of operation, general logistics manager. Mr. ZHAO has nearly 20 years of experience in dairy industry and is specialized in sales management and supply chain management. Mr. ZHAO has good vision and sharp market insight into the dairy industry of China.

Mr. ZHAO received his bachelor's degree majoring in business administration from China University of Geosciences, Wuhan (中國地質大學(武漢)) in 2009 and his master's degree in software engineering from Beihang University (北京航空航天大學) in 2013.

Save as disclosed above, Mr. ZHAO did not hold any directorship in any public listed companies in the last three years.

Mr. SUN Qian (孫謙), aged 48, is a non-executive Director of the Company. He was appointed to the Board on March 26, 2014 and he is a member of the Strategic and Sustainability Committee. Mr. SUN currently is a partner of Sequoia Capital China.

Mr. SUN received a bachelor's degree in applied mathematics from Harvard University in the United States in June 1997, and a master's degree in business administration from Harvard University and a juris doctor's degree from Harvard Law School in the United States both in June 2003.

Mr. SUN was a director of Bona Film Group Limited (principally engaged in film distribution business), a company listed on NASDAQ, from 2007 to 2011 and a director of 500.com Limited (principally engaged in online sports lottery services) since October 2013. Mr. SUN was a director of COOTEK (NASDAQ: CTK), a company with input method being its core business, in September 2018. From December 2013 to June 2016, Mr. SUN was a non-executive director of Dongpeng Holdings Company Limited, a company listed on the Stock Exchange (stock code: 3386, delisted from the Stock Exchange at 4:00 p.m. on 22 June 2016) and since October 2020, he has been a director of Dongpeng Holdings Company Limited listed on the Shenzhen Stock Exchange (SZ.003012).

Save as disclosed above, Mr. SUN did not hold any directorship in any public listed companies in the last three years.

Ms. SHAO Lijun (邵麗君), aged 36, is appointed as a non-executive Director of the Company on 30 July 2021. Ms. SHAO is currently a director of Nong You Co., Ltd. and the general manager of Beijing Zhi Nong, each a substantial shareholder of the Company. Ms. SHAO is also currently a director of Shanghai Fujie Information Technology Co., Ltd. (上海富捷信息技術有限公司), Shanghai Congrong Information Technology Co., Ltd. (上海聰融資訊技術有限公司), Naifen Information Technology (Shanghai) Co., Ltd. (奈紛信息技術 (上海) 有限公司), NetFin Works International Limited and NetFin Works Holdings Limited. Ms. SHAO was an account executive of Beijing Hengdu Intellectual Property Agency Co. and the assistant general manager and the director of the general manager office of Beijing Zhi Nong before her appointment as the general manager of Beijing Zhi Nong. Ms. SHAO obtained a Bachelor of Law degree from China University of Mining and Technology (中國礦業大學).

Save as disclosed above, Ms. SHAO did not hold any directorship in any public listed companies in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Liyan (王立彥), aged 65, was appointed as an independent non-executive Director of the Company on 28 June 2017. He is also a member of the Audit Committee and Nomination Committee. He is currently a professor of the Department of Accounting and a doctoral advisor of Guanghua School of Management in Peking University and a certified public accountant in the PRC. He obtained his doctor's degree from Peking University. His major research area lies in accounting information and corporate value, overseas listing, dual financial report, corporate governance system, environmental cost, accounting, corporate sustainability report and CSR report. He also serves as the chief editor of China Accounting Review and China Management Accounting. Mr. WANG has been an independent director of Unigroup Guoxin Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002049), since 23 March 2017. Mr. WANG has been appointed as an independent non-executive director of Jinshang Bank Co., Ltd., a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Stock Exchange (stock code: 2558), since 5 November 2019. Since 20 March 2020, he has served as an independent director of Beijing Dabeinong Technology Group Co., Ltd (北京大北農科技集團股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002385).

Save as disclosed above, Mr. WANG did not hold any directorship in any public listed companies in the last three years.

Mr. WU Liang (吳亮), aged 52, was appointed as an independent non-executive Director of the Company on 22 December 2020 and also a member of each of the Remuneration Committee and the Nomination Committee. He is currently a distinguished professor of Tongji University and the executive dean of the National Research Institute of Modernization of Tongji University (同濟大學國家現代化研究院).

Mr. WU joined Xinhua News Agency (新華社) in 1993 and served in various entities of Xinhua News Agency for over 25 years. He successively worked as the chief of the economic segment and a member of the editorial board of the Outlook Weekly of Xinhua News Agency (新華社瞭望週刊社), the executive vice chief editor and the executive chief editor of the Financial National Weekly (財經國家週刊), the chairman and the chief executive officer of Outlook Think Tank (瞭望智庫) between 2006 and 2018. Mr. WU graduated from Shandong University (山東大學) with a bachelor's degree in chemistry in 1993 and also obtained his bachelor's degree in journalism from China Journalism Academy (中國新聞學院) in 1998.

Save as disclosed above, Mr. WU did not hold any directorship in any public listed companies in the last three years.

Mr. SUN Yansheng (孫延生), aged 58, is appointed as an independent non-executive Director of the Company on 30 July 2021.

Mr. SUN is currently an independent director of Newonder Special Electric Co.,Ltd. (新華都特種電氣股份有限公司), a company incorporated in the People's Republic of China with limited liability whose shares are listed on the National Equities Exchange and Quotations (stock code: 837503), an independent non-executive director of Steve Leung Design Group Limited (香港梁志天設計集團有限公司), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 2262), an independent director of Arctech Solar Holding Co.,Ltd. (江蘇中信博新能源科技股份有限公司), a company incorporated in the People's Republic of China with limited liability whose shares are listed on the Shanghai Stock Exchange (stock code: 688408), an independent director of Lanpec Technologies Limited (甘肅藍科石化高新裝備股份有限公司), a company incorporated in the People's Republic of China with limited liability whose shares are listed on the Shanghai Stock Exchange (stock code: 601798), an independent director of Mudanjiang Hengfeng Paper Co.,Ltd. (牡丹江恒豐紙業股份有限公司), a company incorporated in the People's Republic of China with limited liability whose shares are listed on the Shanghai Stock Exchange (stock code: 600356) and a director of China National Machinery Industry International Co., Ltd. (中國機械國際合作股份有限公司).

Mr. SUN qualified as a PRC Lawyer in June 1994 and founded Beijing Tian Yin Law Firm (北京市天銀律師事務所) in December 2002. From February 2013 to April 2016, he was a member of the planning committee of the China Securities Regulatory Commission, which was principally engaged in the carrying out of forward-looking research on and to propose solutions to capital market-related laws and policies, where he was mainly responsible for advising on regulatory reform as well as carrying out research on capital market supervision, registration reform and information disclosure. Since April 2016, he has been the founding partner of Beijing Duncheng Investment Management Consultation Centre (Limited Partnership) (北京敦誠投資管理諮詢中心 (有限合夥)), which is principally engaged in the provision of investment advice on industries and government guidance and the management of industry funds, where he is mainly responsible for participating in the formation of industry funds, guiding the formation of local government industrial funds and serving as a listed company and government financing and strategic adviser.

Mr. SUN obtained a Bachelor of Law degree from the Inner Mongolia University (內蒙古大學), the PRC in 1986 and a Master of Law degree from the Renmin University of China (中國人民大學), the PRC in 2003. He also received a certificate of completion for a postgraduate course in political economics from the Harbin Institute of Technology (哈爾濱工業大學), the PRC in 1999.

Save as disclosed above, Mr. SUN did not hold any directorship in any public listed companies in the last three years.

SENIOR MANAGEMENT

Mr. LU Minfang(盧敏放), aged 53, is the non-executive Director of the Company and the chairman of the Board. His biographical details are set out under the section "Non-Executive Directors" above.

Mr. ZHANG Jiawang (張家旺), aged 43, is the chief executive officer and executive Director of the Company. His biographical details are set out under the section "Executive Director" above.

Mr. AU Wai Keung (區偉強), aged 50, is Secretary of the Company. Mr. AU was appointed on March 27, 2014. Mr. AU has more than 18 years of experience in the area of accounting. Currently, Mr. AU is a director of Arion & Associated Limited (亞利安會計事務所有限公司), a corporate secretarial and accounting services provider in Hong Kong. He is now also the company secretary of Honworld Group Limited (老恒和釀造有限公司) (stock code: 2226), Xin Point Holdings Limited (stock code: 1571), China Digital Video Holdings Limited (stock code: 8280), and SDM Education Group Holdings Limited (stock code: 8363). Mr. AU obtained a bachelor's degree in social sciences from the Chinese University of Hong Kong in December 1993 and a master's degree in business administration from the City University of Hong Kong in November 1999. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales.

For details of Directors' interests (as defined in Part XV of the Securities and Futures Ordinance) in shares of the Company, please refer to the section headed "Report of the Directors – Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company" in this annual report.

Save as disclosed above, no further information of our Directors or senior management is required to be disclosed pursuant to Rules 13.51(2) (h) to (v) under the Listing Rules.

REPORT ON CORPORATE GOVERNANCE PRACTICES

OVERVIEW

The Company ensures that the Company and its subsidiaries are committed to achieving and maintaining high standards of corporate governance. The Board understands the influence and importance of high standards of corporate governance on the value of the Company, and that good corporate governance is in the interest of the Group and shareholders as a whole.

We have adopted, applied and complied with the code provisions contained in the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (as amended from time to time) for the year ended 31 December 2021.

BOARD OF DIRECTORS

The Board is the decision-making body of the Company, and is responsible for formulating overall strategies and policies of the Group and approving its implementation plans to ensure that the Group achieves its goal swiftly. For the year ended 31 December 2021, the responsibilities performed by the Board include: formulation of strategies of the Company; formulation of development goals, guidelines and policies and implementation plans of the Company; control of and assessment on the fulfillment of the Company's financial and operating goals; review and approval of annual financial budgets, final accounts plans, profit distribution plans and compensation plans of the Company; establishment of effective internal control systems for risks assessment; and review and approval of the Company's material contracts and transactions, information disclosure, connected transactions and other matters required to be handled by the Board.

Moreover, the functions of corporate governance of the Board include: formulation and review of corporate governance policies and practices of the Company; review and monitoring of the training and continuous professional development of the Directors and senior management; review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements; formulation, review and monitoring of the code of conducts for staff and the Directors; and review of the Company's compliance with other provisions contained in the Listing Rules from time to time and disclosure in the Corporate Governance Report.

Delegation by the Board

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to several committees under the Board (including the Audit Committee, Remuneration Committee, Nomination Committee and Strategic and Sustainability Committee) and senior management. All Board committees perform respective functions and duties within their terms of reference (which are available for inspection by the public on the websites of the Company and the Stock Exchange).

With the leadership of the chief executive officer, the senior management is delegated by the Board with authorities and duties on the daily operation and management of the Group. The delegated functions and work progress will be reviewed regularly. Approval from the Board shall be obtained by the Company before entering into of any material transactions.

Composition of the Board

As at the date of this annual report, the Board was comprised of nine Directors, including one executive Director (Mr. ZHANG Jiawang); five non-executive Directors (Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun, Mr. SUN Qian and Ms. SHAO Lijun); and three independent non-executive Directors (Mr. WANG Liyan, Mr. WU Liang and Mr. SUN Yansheng). The Chairman of the Board of the Company is Mr. LU Minfang. Mr SHAO Genhuo resigned as the chairman of the Board on 30 July 2021 as he will focus on the strategic development of Beijing Dabeinong Technology Group Co., Ltd. Mr. LU Minfang, Ms. SHAO Lijun were appointed as non-executive Directors and Mr. SUN Yansheng was appointed as an independent non-executive Director of the Company on 30 July 2021. Mr. YAO Tongshan, an executive Director, Mr. SHAO Genhuo, a non-executive Director and Mr. FU Wenge, an independent non-executive Director resigned with effect from 30 July 2021 due to their other business commitments.

There was no financial, business, family or other material relationship between the Directors of the Company and in particular, between the Chairman of the Board of the Company and the chief executive officer.

Biographical details of the existing Directors are set out in the section headed "Directors and Senior Management" in this annual report.

Appointment, Re-election and Dismissal of Directors

Each of the Directors (including independent non-executive Directors) has signed a service agreement or an appointment letter with the Company for a term of three years. The Directors shall be subject to retirement from office by rotation or re-election at the forthcoming annual general meeting of the Company pursuant to Article 16 of the Articles of Association of the Company.

Pursuant to Article 16.2 of the Articles, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for the re-election. Pursuant to Article 16.3 of the Articles, any Director appointed by ordinary resolution to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

According to Article 16.18 of the Articles, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Board Diversity Policy

The Board implements a policy of diversified composition of the Board. For the purpose of sustained and balanced development, the Company recognises that the Board diversity is critical for facilitating its strategic goals and maintaining its sustainable development. All appointments to the Board are made in accordance with the principle of talents priority, together with the benefits of the diversified Board composition being taken into account. The selection of Board members is initially based on multiple factors from the point of the Board diversity, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and terms of service. Then, we will make decisions according to our specific requirements for talents at different stages of business development and strategic planning. As of 31 December 2021, 63% of the Company's employees are male, whereas 37% of the Company's employees are female.

Independent Non-executive Directors

During the reporting period, the Company complied with Rule 3.10(1) and Rule 3.10(2) of the Listing Rules which requires the Company to maintain at least three independent non-executive Directors and have an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise. Mr. WANG Liyan, one of the independent non-executive Directors of the Company is a certified public accountant in the PRC.

The Company has received the letter of confirmation issued by each of the independent non-executive Directors as to his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent.

Chairman and Chief Executive Officer

Mr. LU Minfang is the Chairman of the Board, while Mr. ZHANG Jiawang is the Chief Executive Officer of the Company. As such, the roles of the chairman and the chief executive officer of the Company are separate and exercised by different individuals.

Board Meeting

The Board convenes a meeting on a regular basis and at least four meetings each year. In 2021, the Board held 5 meetings at which the operating results, investment issues, etc. of the Company were considered and discussed.

Attendance record is below:

Members	Meetings attended/ meetings held since respective appointment date	Attendance
Executive Directors		
Mr. YAO Tongshan (Note 1)	2/2	100%
Mr. ZHANG Jiawang	5/5	100%
Non-executive Directors		
Mr. LU Minfang *(Chairman)* (Note 2)	4/4	100%
Mr. SHAO Genhuo (Note 3)	2/2	100%
Mr. ZHANG Ping	5/5	100%
Mr. ZHAO Jiejun	5/5	100%
Mr. SUN Qian	5/5	100%
Ms. SHAO Lijun (Note 4)	4/4	100%
Independent non-executive Directors		
Mr. FU Wenge (Note 5)	2/2	100%
Mr. WANG Liyan	5/5	100%
Mr. WU Liang	5/5	100%
Mr. SUN Yansheng (Note 6)	4/4	100%

Notes:

(1) Mr. YAO Tongshan resigned on 30 July 2021.

(2) Mr. LU Minfang was appointed on 30 July 2021. He was entitled to attend the relevant Board meetings convened after his appointment.

(3) Mr. SHAO Genhuo resigned on 30 July 2021.

(4) Ms. SHAO Lijun was appointed on 30 July 2021. She was entitled to attend the relevant Board meetings convened after her appointment.

(5) Mr. FU Wenge resigned on 30 July 2021.

(6) Mr. SUN Yansheng was appointed on 30 July 2021. He was entitled to attend the relevant Board meetings convened after his appointment.

DIRECTOR TRAINING

The Company provides an introduction and related documents necessary for all new Directors upon joining the Board to ensure a broad understanding of the Company's business and operation model as well as the laws, regulations and various rules pertaining to the Company.

The Company encourages and supports all the Directors (i.e. Mr. ZHANG Jiawang, Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun, Mr. SUN Qian, Ms. SHAO Lijun, Mr. WANG Liyan, Mr. WU Liang and Mr. SUN Yansheng) to receive training and encourages their continuous professional development, so as to develop and keep abreast of their knowledge and skills better and serve the Company more efficiently. The Company offers training opportunities for all the Directors from time to time.

BOARD COMMITTEES

The Company has four Board committees, namely the Remuneration Committee, the Nomination Committee, the Audit Committee and the Strategic and Sustainability Committee. Each committee performs its work in accordance with the terms of reference approved by the Board.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary functions of the Remuneration Committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages for the Directors and senior management members. As at 31 December 2021, the Remuneration Committee comprised one non-executive Director (Mr. ZHANG Ping) and two independent non-executive Directors (Mr. SUN Yansheng and Mr. WU Liang) and was chaired by Mr. SUN Yansheng. Mr. FU Wenge resigned as the chairman of the Remuneration Committee of the Company with effect from 30 July 2021. Mr. SUN Qian resigned as a member of the Renumeration Committee of the Company with effect from 30 July 2021. Mr. SUN Yansheng was appointed as the chairman of the Remuneration Committee of the Company with effect from 30 July 2021. Mr. ZHANG Ping was appointed as a member of the Remuneration Committee of the Company with effect from 30 July 2021.

According to the terms of reference of the Remuneration Committee of the Company, the Remuneration Committee convenes at least one meeting in each year. In 2021, the Remuneration Committee convened one meeting, whereby the remuneration for the Company's Directors newly appointed in 2021, the overall remuneration policy and structure for the Company's Directors and senior management members and proposals on the establishment of standard and transparent procedures for the formulation of remuneration policies were reviewed.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Nomination Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. As at 31 December 2021, the Nomination Committee comprised a non-executive director (Mr. LU Mingfang) and two independent non-executive Directors (Mr. WANG Liyan and Mr. WU Liang) and was chaired by Mr. LU Minfang. Mr. FU Wenge resigned as the chairman of the Nomination Committee of the Company with effect from 30 July 2021. Mr. SHAO Genhuo resigned as a member of the Nomination Committee of the Company with effect from 30 July 2021. Mr. LU Minfang was appointed as the chairman of the Nomination Committee of the Company with effect from 30 July 2021. Mr. WU Liang was appointed as a member of the Nomination Committee of the Company with effect from 30 July 2021.

The Nomination Committee recommends potential candidates to appointments on the Board based on merits of such candidates, having regard for the benefits of diversity of the members of the Board and the necessity of ensuring a balanced composition of expertise appropriate for the businesses of the Group. The selection of potential candidates is based on a range of diverse factors, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills, knowledge, and leadership qualities, and ultimately, the contribution that such candidates will be able to bring to the Board, to complement the abilities of existing Directors.

According to the terms of reference of the Nomination Committee of the Company, the Nomination Committee convenes at least one meeting in each year. In 2021, the Nomination Committee convened one meeting, whereby the members discussed the structure and composition of the Board of the Company, performed qualification review on preliminary candidates recommended by the management of the Company and identified suitable candidates, advised on the proposed changes to the Board for the purpose of the Company's corporate strategies and assessed the independence of independent non-executive Directors. Prior to election of a new Director, the chairman of the Nomination Committee submitted recommendations and relevant materials of the directorial candidates to the Board of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Company modified the terms of reference of the Audit Committee on 1 January 2016. As at 31 December 2021, the Audit Committee comprised one non-executive Director (Mr. ZHANG Ping) and two independent non-executive Directors (Mr. WANG Liyan and Mr. WU Liang) and was chaired by Mr. WANG Liyan. Mr. FU Wenge resigned as a member of the Audit Committee of the Company with effect from 30 July 2021. Mr. ZHANG Ping was appointed as a member of the Audit Committee of the Company with effect from 30 July 2021.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the annual results and interim results for 2021.

According to the terms of reference of the Audit Committee of the Company, the Audit Committee convenes at least two meetings in each year. In 2021, the Audit Committee convened a total of three meetings, whereby the members discussed various matters, including the 2020 annual results and 2021 interim results of the Company and its subsidiaries.

STRATEGIC AND SUSTAINABILITY COMMITTEE

The Company established the Strategic and Sustainability Committee on 30 July 2021. The Strategic and Sustainability Committee comprised one executive Director (Mr. ZHANG Jiawang) and three non-executive Directors (Mr. LU Minfang, Mr. ZHAO Jiejun and Mr. SUN Qian) and was chaired by Mr. LU Minfang.

The primary function of the Strategic and Sustainability Committee include formulating the Company's long-term development strategy and covering environmental, social and corporate governance related matters. The sustainability department of the Company will report the work progress to the Strategic and Sustainability Committee on a regular basis.

In 2021, the Strategic and Sustainability Committee convened one meeting, whereby the Sustainable Development Department reported on the progress of the Carbon Neutral Project and all members discussed the future work plan.

The attendance record of Directors at meetings of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic and Sustainability Committee is as follows:

	Number of attendances/meetings			
Directors	Audit Committee	Remuneration Committee	Nomination Committee	Strategic and Sustainability Committee
Mr. SHAO Genhuo (Note 1)	N/A	N/A	1/1	N/A
Mr. ZHANG Jiawang (Note 2)	N/A	N/A	N/A	1/1
Mr. LU Minfang (Note 3)	N/A	N/A	0/0	1/1
Mr. ZHANG Ping (Note 4)	2/2	0/0	N/A	N/A
Mr. ZHAO Jiejun (Note 5)	N/A	N/A	N/A	1/1
Mr. SUN Qian (Note 6)	N/A	1/1	N/A	1/1
Ms. SHAO Lijun	N/A	N/A	N/A	N/A
Mr. FU Wenge (Note 7)	1/1	1/1	1/1	N/A
Mr. WANG Liyan	3/3	N/A	1/1	N/A
Mr. WU Liang (Note 8)	3/3	1/1	0/0	N/A
Mr. SUN Yansheng (Note 9)	N/A	0/0	N/A	N/A

Notes:

(1) Mr. SHAO Genhuo resigned as a member of the Nomination Committee of the Company with effect from 30 July 2021.

(2) Mr. ZHANG Jiawang was appointed as a member of the Strategic and Sustainability Committee of the Company with effect from 30 July 2021.

(3) Mr. LU Minfang was appointed as the chairman of the Nomination Committee and Strategic and Sustainability Committee of the Company with effect from 30 July 2021.

(4) Mr. ZHANG Ping was appointed as a member of the Audit Committee and the Remuneration Committee of the Company with effect from 30 July 2021.

(5) Mr. ZHAO Jiejun was appointed as a member of the Strategic and Sustainability Committee of the Company with effect from 30 July 2021.

(6) Mr. SUN Qian resigned as a member of the Remuneration Committee of the Company and was appointed as a member of the Strategic and Sustainability Committee of the Company with effect from 30 July 2021.

(7) Mr. FU Wenge resigned as the chairman of the Remuneration Committee and Nomination Committee of the Company and a member of the Audit Committee of the Company with effect from 30 July 2021.

(8) Mr. WU Liang was appointed as a member of the Nomination Committee of the Company with effect from 30 July 2021.

(9) Mr. SUN Yansheng was appointed as the chairman of the Remuneration Committee of the Company with effect from 30 July 2021.

GENERAL MEETINGS

For the year ended 31 December 2021, the attendance record of each Director at General Meetings is as follows:

Directors	Number of attendances/ meetings Annual General Meeting and Extraordinary General Meetings
Mr. YAO Tongshan (Note 1)	0/1
Mr. ZHANG Jiawang	1/1
Mr. LU Minfang (Note 2)	0/0
Mr. SHAO Genhuo (Note 3)	0/1
Mr. ZHANG Ping	1/1
Mr. ZHAO Jiejun	0/1
Mr. SUN Qian	0/1
Ms. SHAO Lijun (Note 4)	0/0
Mr. FU Wenge (Note 5)	0/1
Mr. WANG Liyan	0/1
Mr. WU Liang	0/1
Mr. SUN Yansheng (Note 6)	0/0

Notes:

(1) Mr. YAO Tongshan resigned on 30 July 2021, which was after the date of the annual general meeting held on 28 June 2021.

(2) Mr. LU Minfang was appointed on 30 July 2021, which was after the date of the annual general meeting held on 28 June 2021.

(3) Mr. SHAO Genhuo resigned on 30 July 2021, which was after the date of the annual general meeting held on 28 June 2021.

(4) Ms. SHAO Lijun was appointed on 30 July 2021, which was after the date of the annual general meeting held on 28 June 2021.

(5) Mr. FU Wenge resigned on 30 July 2021, which was after the date of the annual general meeting held on 28 June 2021.

(6) Mr. SUN Yansheng was appointed on 30 Jun 2021, which was after the date of the annual general meeting held on 28 June 2021.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the year ended 31 December 2021.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's accounts and other financial disclosures required under the Listing Rules, meanwhile, the senior management should provide relevant and sufficient information and explanation to the Board to enable it to make informed assessment of the financial and other decisions.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2021 is set out in the "Independent Auditor's Report" contained in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Group has complied and implemented relevant necessary risk management and internal control in accordance with the Corporate Governance Code during the year.

The Board acknowledges its responsibility to maintain sound and effective risk management and internal control systems of the Company, which are designed to provide reasonable but not absolute assurance against material misstatement or loss, and to manage rather than eliminate risks of failure to achieve business objectives.

The Board is also responsible for monitoring our risk management and internal control systems of the Group and reviewing the effectiveness of such systems. The Board also ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. The Board conducts review of the risk management and internal control systems of the Group once every year. The Board conducted a review of the effectiveness of the Group's risk management and internal control systems, including all material controls, including financial, operational and compliance controls in 2021 and the Company considers them effective and adequate.

The internal control management center of the Group is established to act as the management institution of risk management and internal control, responsible for the evaluation of the establishment, optimization and implementation of internal control system throughout the industrial chain of the Group as to whether the internal control system of the Group is reasonably designed, free from risk and implemented effectively, as well as providing management support for the improvement and refinement of such defects and risks identified, if any, in the progress of evaluation. Meanwhile, the internal control management center is also responsible for diagnosing material risk control matters in each segment throughout the industrial chain of the Group, analysing, assessing and selecting risk management object for review so as to provide solutions to risk control and related requirements, and tracking the progress and result of risk control for acceptance for the purpose of effective risk management and control.

During the year, each operating and management department of the Group continued to work in system improvement and process optimization to realise the management goal in a more effective and consistent way.

The Group conducts risk management and internal control in different aspects in line with different level of corporate governance, and aims to provide necessary adjustment, restriction, assessment and control measures for the economics, efficiency and effectiveness of the implementation of the Group's operational goals, to keep the assets of the Group safe and intact and to ensure the correctness and reasonableness of accounting data, the compliance with relevant laws, regulations and rules, and such that all operational procedures are free from fraud or error, as it is reasonably able to. All employees are committed to continually enhancing the risk management and internal control systems of the Company, linking such systems to our corporate strategies as well as integrating such systems into our day-to-day operation.

With respect to the dissemination of inside information, the Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Listing Rules and the overriding principle (that inside information should be announced as soon as possible when it is the subject of a decision). The Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website. Unauthorised use of confidential or inside information is strictly prohibited by the internal policies of the Group, and the Group has also established and implemented procedures for responding to external enquiries about the Group's affairs.

The Group maintains an internal audit function. Internal audit reports are presented to and reviewed by the Audit Committee, who reports the findings to the Board. Based on the assessment by the Audit Committee, senior management members and the internal audit department, we did not identify any material internal control flaw or deficit, nor was any major issue raised for improvement, as at 31 December 2021.

COMPANY SECRETARY

We have appointed and engaged Mr. AU Wai Keung (區偉強) ("**Mr. AU**"), who possesses the qualification required under Rule 3.28, to act as our company secretary.

Mr. AU discharges the duties and responsibilities of a company secretary.

Mr. ZHANG Jiawang, the executive Director of the Company, is the usual contact person to liaise with Mr. AU.

Mr. AU confirmed that he had complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules by taking at least 15 hours of relevant professional training for the year 2021.

EXTERNAL AUDITOR AND ITS EMOLUMENTS

The Group's external auditor is Ernst & Young. For the year ended 31 December 2021, the emoluments paid or payable for the audit and non-audit services (including review and consultancy services) provided by Ernst & Young was as follows:

	Amount (RMB)
Audit Services	2,600,000
Non-audit Services	886,000
Total	3,486,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

We adopt active policies to welcome shareholders and investors to put forward valuable advice and suggestions. We assign dedicated staff members to maintain investor relations and regularly or occasionally communicate or coordinate with institutional investors, with an aim to enhance communication and mutual understanding in a timely manner. We will also update the investor relations website in a timely manner, so as to ensure that the shareholders and investors can have timely access to and understand the Company's latest data, information and reports.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Shareholders can also send enquiries and proposals to be put forward at general meetings for shareholders' consideration to the Board or senior management by email at zgsm@smorganic.cn or by mail to the principal place of business of the Company in Hong Kong at Unit 1303, 13/F, Hua Fu Commercial Building, 111 Queen's Road West, Hong Kong Special Administrative Region.

PROCEDURES FOR THE CONVENING OF EXTRAORDINARY GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to the provisions set out in the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2021, there was no change in or amendment to the Company's constitutional documents.

To the shareholders of China Shengmu Organic Milk Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 145, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Valuation of dairy cows	
Biological assets of the Group, which represent dairy cows and beef cattle, were measured at fair value less costs to sell of amounting to RMB2,764,240,000 as of 31 December 2021. Dairy cows of the Group included milkable cows, heifers and calves, which were raised for the purpose of producing raw milk. Beef cattle were raised to three to six months old and then for sale. The fair value of biological assets as assessed by management was significant to the Company's consolidated financial statements since (i) the carrying values of such biological assets accounted for approximately 38.76% of the total assets of the Group; and (ii) significant estimates were involved in management's fair value assessment. Management engaged an external valuation expert to assist in the valuation of the biological assets as at 31 December 2021. The accounting policies and disclosures for biological assets are included in note 2.4 "summary of significant accounting policies", note 3 "significant accounting judgements and estimates" and note 16 "biological assets" to the consolidated financial statements.	We assessed the objectivity, independence and competence of the external valuation expert employed by the Group. We evaluated the underlying basis and assumptions used by management. In particular, we assessed the assumptions applied to which the outcome of the valuation was most sensitive, including the estimated local market selling price of the relevant dairy cows, feed costs per kilogram of raw milk production, daily milk yield at each lactation cycle and local future market prices for raw milk. We checked the computation of the fair value of biological assets. We also assessed the adequacy of the Group's disclosures relating to the fair value measurement of biological assets.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young
Certified Public Accountants

Hong Kong
28 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	4	**2,984,616**	2,660,823
Cost of sales		**(1,920,226)**	(1,635,705)
Gross profit		**1,064,390**	1,025,118
Loss arising from changes in fair value less costs to sell of biological assets	16	**(248,771)**	(224,237)
Fair value changes of financial guarantee contracts		**(2,954)**	–
Other income and gains/(losses)	4	**23,039**	(44,457)
Selling and distribution expenses		**(53,828)**	(32,084)
Administrative expenses		**(111,674)**	(111,718)
Impairment losses on financial and contract assets, net		**(6,814)**	1,683
Other expenses		**(56,089)**	(997)
Finance costs	6	**(71,170)**	(116,788)
Share of losses of associates		**(25,697)**	(35,551)
PROFIT BEFORE TAX	5	**510,432**	460,969
Income tax expense	9	**(861)**	–
PROFIT FOR THE YEAR		**509,571**	460,969
Profit attributable to:			
Owners of the parent		**471,713**	406,680
Non-controlling interests		**37,858**	54,289
		509,571	460,969
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	11	**RMB0.0563**	RMB0.0535

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
PROFIT FOR THE YEAR		**509,571**	460,969
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(650)**	2,013
Net other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods		**(650)**	2,013
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value	21(a)	**12,038**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**12,038**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**11,388**	2,013
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**520,959**	462,982
Attributable to:			
Owners of the parent		**483,101**	408,693
Non-controlling interests		**37,858**	54,289
		520,959	462,982

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**1,699,637**	1,772,651
Right-of-use assets	13(a)	**519,306**	45,100
Other intangible assets	14	**7,591**	6,242
Investments in associates	15	**59,048**	122,255
Biological assets	16	**2,698,642**	2,572,102
Other financial assets	21	**91,200**	–
Long term receivables	17	**6,355**	10,498
Total non-current assets		**5,081,779**	4,528,848
CURRENT ASSETS			
Inventories	18	**768,105**	715,078
Biological assets	16	**65,598**	15,008
Trade receivables	19	**248,137**	136,611
Prepayments, other receivables and other assets	20	**107,641**	614,578
Other financial assets	21	**72,000**	–
Restricted bank deposits	22	**256,490**	387,452
Cash and bank balances	22	**531,835**	327,651
Total current assets		**2,049,806**	2,196,378
CURRENT LIABILITIES			
Trade and bills payables	23	**1,253,354**	1,699,448
Other payables and accruals	24	**302,088**	239,981
Derivative financial instruments	26	**7,172**	–
Tax payable		**618**	–
Interest-bearing bank borrowings	25	**1,299,529**	1,335,873
Total current liabilities		**2,862,761**	3,275,302
NET CURRENT LIABILITIES		**(812,955)**	(1,078,924)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,268,824**	3,449,924

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	379,639	30,398
Total non-current liabilities		379,639	30,398
Net assets		3,889,185	3,419,526
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	69	69
Reserves	29	3,679,764	3,196,663
		3,679,833	3,196,732
Non-controlling interests		209,352	222,794
Total equity		3,889,185	3,419,526

ZHANG Jiawang
Director

ZHANG Ping
Director

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	50	1,757,767	566,681	95,558	483,414	14,953	(732,002)	2,186,421	224,407	2,410,828
Profit for the year	–	–	–	–	–	–	406,680	406,680	54,289	460,969
Exchange differences related to foreign operations	–	–	–	–	–	2,013	–	2,013	–	2,013
Total comprehensive income for the year	–	–	–	–	–	2,013	406,680	408,693	54,289	462,982
Issue of shares (note 28)	7	199,993	–	–	–	–	–	200,000	–	200,000
Warrants exercised (note 28)	12	398,265	–	–	–	–	–	398,277	–	398,277
Capital injection	–	–	–	–	–	–	–	–	14,150	14,150
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(70,052)	(70,052)
Equity-settled warrant arrangements (note 28)	–	78,945	(75,604)	–	–	–	–	3,341	–	3,341
Transfer from retained profits	–	–	–	–	58,357	–	(58,357)	–	–	–
At 31 December 2020	69	2,434,970#	491,077#	95,558#	541,771#	16,966#	(383,679)#	3,196,732	222,794	3,419,526

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the parent										
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	69	2,434,970	491,077	95,558	541,771	16,966	–	(383,679)	3,196,732	222,794	3,419,526
Profit for the year	–	–	–	–	–	–	–	471,713	471,713	37,858	509,571
Changes in fair value of equity investments at fair value through other comprehensive income	–	–	–	–	–	–	12,038	–	12,038		12,038
Exchange differences related to foreign operations	–	–	–	–	–	(650)	–	–	(650)	–	(650)
Total comprehensive income for the year	–	–	–	–	–	(650)	12,038	471,713	483,101	37,858	520,959
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(51,300)	(51,300)
Transfer from retained profits	–	–	–	–	66,262	–	–	(66,262)	–	–	–
At 31 December 2021	69	2,434,970#	491,077#	95,558#	608,033#	16,316#	12,038#	21,772#	3,679,833	209,352	3,889,185

\# These reserve accounts comprise the consolidated reserves of RMB3,679,764,000 (2020: RMB3,196,663,000) in the consolidated statement of financial position.

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**510,432**	460,969
Adjustments for:			
Loss arising from changes in fair value less costs to sell of biological assets	16	**248,771**	224,237
Fair value changes of financial guarantee contracts		**2,954**	–
Finance costs	6	**71,170**	116,788
Share of losses of associates	15	**25,697**	35,551
Interest income	4	**(16,450)**	(7,651)
Loss on disposal of items of property, plant and equipment	4	**6,529**	11,947
Gain on disposal of a subsidiary	4	**(3,991)**	(845)
Gain on deem disposal of investments in an associate	4	**(1,856)**	(23,144)
Loss on disposal of an associate	5	**9,062**	–
Depreciation of property, plant and equipment	5	**105,363**	108,478
Depreciation of right-of-use assets	5	**2,172**	2,045
Amortisation of other intangible assets	5	**567**	687
Impairment of items of property, plant and equipment	4	**1,427**	60,470
Impairments of receivables	19	**7,327**	–
Impairment of intangible assets	4	**–**	8,250
Provision for litigations and claims	5	**54,027**	–
Foreign exchange differences, net	4	**(1,201)**	4,966
		1,022,000	1,002,748
Increase in inventories		**(53,027)**	(17,200)
Increase in biological assets-current		**(44,985)**	(10,544)
(Increase)/decrease in trade receivables		**(118,853)**	30,034
(Increase)/decrease in deposits and other receivables		**523,606**	(19,157)
(Increase)/decrease in restricted bank deposits		**130,962**	(209,936)
Increase in other non-current assets		**–**	(11,841)
Increase/(decrease) in trade and bills payables		**(444,654)**	311,902
Increase/(decrease) in other payables and accruals		**(5,712)**	8,220
Cash generated from operations		**1,009,337**	1,084,226
Interest received		**17,171**	6,173
Income tax paid		**(243)**	–
Net cash flows from operating activities		**1,026,265**	1,090,399

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(130,993)**	(135,697)
Additions to right-of-use assets		**(6,844)**	(180)
Additions to other intangible assets		**(2,546)**	(4,619)
Purchases of biological assets		**(97)**	(1,205)
Payments for breeding calves and heifers		**(670,904)**	(559,931)
Proceeds from disposal of biological assets		**338,084**	336,494
Proceeds from disposal of items of property, plant and equipment		**6,361**	2,057
Proceeds from disposal of items of other intangible assets		**376**	353
Entrusted loan to an associate	21	**(72,000)**	–
Acquisition of a subsidiary		**–**	(19,020)
Disposal of subsidiaries		**(520,998)**	72,784
Acquisition of an associate	15	**(7,000)**	–
Proceeds from partial disposal of associates		**87**	41,909
Net cash flows used in investing activities		**(1,066,474)**	(267,055)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of shares		**–**	398,277
Dividends paid to non-controlling interests		**–**	(70,052)
New bank loans borrowings	32(a)	**2,287,443**	2,533,791
Capital injection by non-controlling interests		**–**	14,150
Repayment of bank loans	32(a)	**(1,974,546)**	(3,351,795)
Principal portion of lease payments		**–**	(32,287)
Interest paid		**(74,573)**	(117,535)
Net cash flows from/(used in) financing activities		**238,324**	(625,451)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**198,115**	197,893
Cash and cash equivalents at beginning of year		**327,651**	132,636
Effect of foreign exchange rate changes, net		**6,069**	(2,878)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**531,835**	327,651

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk in the People's Republic of China (the "PRC").

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct (%)	Indirect (%)	
內蒙古聖牧高科牧業有限公司 Inner Mongolia Shengmu High-tech Farming Co., Ltd. ("Inner Mongolia Shengmu")# (note (i))	PRC/ Mainland China	RMB888,700,000	–	100	Production and distribution of raw milk
內蒙古聖牧控股有限公司 Inner Mongolia Shengmu Holding Co., Ltd. ("Shengmu Holding")# (note (i))	PRC/ Mainland China	RMB280,000,000	–	100	Production and distribution of raw milk
巴彥淖爾市聖牧盤古牧業有限責任公司 Bayannur Shengmu Pangu Farming Co., Ltd. ("Shengmu Pangu")#	PRC/ Mainland China	RMB80,000,000	–	55	Production and distribution of raw milk

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

Note:

(i) The entity was registered as a foreign investment enterprise under PRC law.

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

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain biological assets, agriculture produce and derivative financial liabilities. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern

The Group had net current liabilities of RMB812,955,000 as at 31 December 2021 (2020: net current liabilities of RMB1,078,924,000). In view of the net current liabilities position, the board of directors has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB3,383,116,000 as at the date of this annual report, the unutilised entrusted loan facility of RMB1,600,000,000 granted by China Mengniu Dairy Co., Ltd. that will expire on 31 December 2022 and cash flow projections for the year ending 31 December 2022, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the directors have prepared the consolidated financial statements on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*

The nature and the impact of the revised IFRSs are described below:

(a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) Amendment to IFRS 16 issued in March 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

During the year ended 31 December 2021, no leases of the Group have been reduced or waived by the lessors as a result of the covid-19 pandemic. The amendment did not have any impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to IAS 28 and IFRS 10	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 17	*Insurance Contracts*[2,4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 17	*Initial Application of IFRS17 and IFRS9- Comparative Information*[2]
Amendments to IAS 37	*Onerous Contracts – Costs of Fulfilling a Contract*[1]
Annual Improvements to *IFRS Standards 2018–2020*	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41*[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IAS 1 Disclosure of Accounting Policies require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

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

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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

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

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

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

Business combinations and goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

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

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

Fair value measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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

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

	Useful lives	Residual values
Buildings	20 years	5%
Machinery and equipment	5-10 years	5%
Office and other equipment	5 years	5%
Motor vehicles	5 years	5%

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

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

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

Biological assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agricultural produce

Agricultural produce represents raw milk. Upon harvest, agricultural produce is recognised at its fair value less costs to sell, which is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of the agricultural produce, mainly transportation costs, excluding finance costs and income tax.

Intangible assets (other than goodwill)

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

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

Technical know-how

Technical know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 to 20 years.

Computer software

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

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

	Useful lives
Leasehold land	8 to 50 years

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

(b) Lease liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

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

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

Group as a lessor

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

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

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

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

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

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

General approach

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

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

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

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

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

Income tax

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

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

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

Government grants

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants (continued)

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

Revenue recognition

Revenue from contracts with customers

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

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

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

Sale of products

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

Revenue from other sources

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

Other income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Other income (continued)

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

Contract assets

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

Contract liabilities

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

Other employee benefits

Pension scheme

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

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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

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

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

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Withholding tax arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgements on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiary. As at 31 December 2021, the deferred tax liabilities recognised thereon amounted to nil (2020: Nil).

Estimation uncertainty

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

Fair value of biological assets

The Group's biological assets are valued at fair value less costs to sell. The fair value of biological assets is determined based on either the market-determined prices as at each year end adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of biological assets; or the present value of expected net cash flows from the biological assets discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the biological assets significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of biological assets. Further details are given in note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Fair value of financial guarantee contracts

The financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

The fair value of a financial guarantee contract is determined based on either the credit rating of the warrantee and the risk-free interest rate. The determination of each warrantee and the risk-free interest rate of each guarantee contract involves significant estimate. Any changes in the estimates may affect the fair value of the financial guarantee contracts significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of financial guarantee contracts. Further details are given in note 24 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 21 to the financial statements. The valuation requires the Group to determine the comparable public companies and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3.

Impairment of non-financial assets (other than goodwill)

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

4. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	**2,984,616**	2,660,823

Revenue from contracts with customers

(a) Disaggregated revenue information

	2021 RMB'000	2020 RMB'000
Type of goods		
Sale of products	**2,984,616**	2,660,823
Geographical market		
Mainland China	**2,984,616**	2,660,823
Timing of revenue recognition		
Goods transferred at a point in time	**2,984,616**	2,660,823

Revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period amounted to RMB40,000 (2020: RMB49,131,000).

(b) Performance obligation

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

Information about a major customer

Revenue of approximately RMB2,621,629,000 (2020: RMB2,504,619,000) was derived from sales of raw milk to a single customer, including sales to a group of entities which are known to be under common control of that customer.

4. REVENUE, OTHER INCOME AND GAINS/(LOSSES) (CONTINUED)

	2021 RMB'000	2020 RMB'000
Other income and gains/(losses)		
Other income		
Beef cattle	**92,099**	113,080
Raw materials	**17,049**	5,245
	109,148	118,325
Other costs		
Beef cattle	**(92,099)**	(113,080)
Raw materials	**(15,646)**	(3,889)
	(107,745)	(116,969)
Government grants*	**11,174**	4,088
Bank interest income	**13,792**	7,651
Foreign exchange differences, net	**1,201**	(4,966)
Loss on disposal of items of property, plant and equipment	**(6,529)**	(11,947)
Impairment loss of items of property, plant and equipment	**(1,427)**	(60,470)
Impairment loss of intangible assets	**–**	(8,250)
Loss on partial disposal of an associate	**1,856**	23,144
Loss on disposal of an associate	**(9,062)**	–
Gain on disposal of a subsidiary	**3,991**	845
Others	**6,640**	4,092
	23,039	(44,457)

* The government grants have been received for the Group's contribution to the development of the local farming industry. There are no unfulfilled conditions or contingencies attaching to these grants.

5. PROFIT BEFORE TAX

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

	2021 RMB'000	2020 RMB'000
Cost of inventories sold	**1,920,226**	1,635,705
Loss arising from changes in fair value less costs to sell of biological assets	**248,771**	224,237
Fair value changes of financial guarantee contracts	**2,954**	–
Depreciation of property, plant and equipment	**152,269**	154,715
Less: Capitalised in biological assets	**46,906**	46,237
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	**105,363**	108,478
Depreciation of right-of-use assets	**3,145**	3,061
Less: Capitalised in biological assets	**973**	1,016
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	**2,172**	2,045
Amortisation of other intangible assets	**821**	1,028
Less: Capitalised in biological assets	**254**	341
Amortisation recognised in the consolidated statement of profit or loss and other comprehensive income	**567**	687
Research and development costs	**5,968**	5,696
Lease payments not included in the measurement of lease liabilities	**4,973**	8,035
Auditor's remuneration	**3,080**	2,680
Foreign exchange differences, net	**(1,201)**	4,966
Reversal/(impairment) on financial and contract assets, net	**6,814**	(1,683)
Write-down of inventories to net realisable value	**–**	1,458
Impairment of other intangible assets	**–**	8,250
Impairment losses of property, plant and equipment	**1,427**	60,470
Provision for litigations and claims	**54,027**	–
Gain on partial disposal of an associate	**(1,856)**	(23,144)
Loss on disposal of an associate	**9,062**	–
Gain on disposal of a subsidiary	**(3,991)**	(845)
Loss on disposal of items of property, plant and equipment	**6,529**	11,947
Employee benefit expense (including directors' and chief executive's remuneration (note 7)):		
Wages, salaries, bonuses and allowances	**247,711**	251,574
Other social insurances and benefits	**15,129**	7,424
Pension scheme contributions	**9,160**	4,590
	272,000	263,588

There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

6. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on bank loans and other loans	**63,998**	115,436
Fair value loss on interest rate swaps	**7,172**	–
Interest on long term payables	**–**	1,352
	71,170	116,788

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2021 RMB'000	2020 RMB'000
Fees	**411**	382
Other emoluments:		
Salaries, allowances and benefits in kind	**1,953**	1,240
Pension scheme contributions	**45**	–
	1,998	1,240
	2,409	1,622

(a) Independent non-executive directors

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

	2021 RMB'000	2020 RMB'000
Mr. SUN Yansheng	**51**	–
Mr. WU Liang	**120**	–
Mr. WANG Liyan	**120**	100
Mr. LI Xuan	**–**	100
Mr. FU Wenge	**120**	100
	411	300

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021				
Executive directors:				
Mr. YAO Tongshan^	**–**	**354**	**–**	**354**
Mr. ZHANG Jiawang#	**–**	**1,599**	**45**	**1,644**
	–	**1,953**	**45**	**1,998**
Non-executive directors:				
Mr. ZHAO Jiejun	**–**	**–**	**–**	**–**
Mr. ZHANG Ping	**–**	**–**	**–**	**–**
Mr. LU Minfang	**–**	**–**	**–**	**–**
Mr. SUN Qian	**–**	**–**	**–**	**–**
Mr. SHAO Genhuo	**–**	**–**	**–**	**–**
Ms. SHAO Lijun	**–**	**–**	**–**	**–**
	–	**1,953**	**45**	**1,998**
2020				
Executive directors:				
Mr. YAO Tongshan^	20	334	–	354
Mr. WU Jianye	–	–	–	–
Mr. ZHANG Jiawang#	20	906	–	926
	40	1,240	–	1,280
Non-executive directors:				
Mr. ZHAO Jiejun	–	–	–	–
Mr. ZHANG Ping	–	–	–	–
Mr. LU Boxiang	42	–	–	42
Mr. SUN Qian	–	–	–	–
Mr. SHAO Genhuo	–	–	–	–
	82	1,240	–	1,322

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) *Executive directors, non-executive directors and the chief executive (continued)*

^ As Mr. YAO Tongshan has already reached the statutory retirement age in January 2018, he did not make pension scheme contributions during the year ended 31 December 2021 (2020: Nil).

Mr. ZHANG Jiawang was appointed as an executive director of the Group on 25 January 2019. As the pension scheme contributions of Mr. ZHANG Jiawang has been borne by Beijing Dabeinong Technology Group Co., Ltd ("Dabeinong"), one of the Group's shareholders, Mr. ZHANG Jiawang agreed to waive pension scheme contributions in the Group until 31 March 2020.

Save as disclosed above, there was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2020: one), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining four (2020: four) highest paid employees, who are neither a director nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	**4,335**	3,274
Pension scheme contributions	**129**	10
	4,464	3,284

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

	Number of employees	
	2021	2020
Nil to RMB1,000,000	**1**	4
RMB1,000,001 to RMB1,500,000	**3**	–
	4	4

9. INCOME TAX

	2021 RMB'000	2020 RMB'000
Current - PRC		
Charge for the year	625	–
Overprovision in prior year	236	–
Total tax charge for the year	861	–

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

	2021 RMB'000	2020 RMB'000
Profit before tax	510,432	460,969
Tax at the statutory tax rate (note (i))	127,608	115,242
Lower tax rate for specific provinces or enacted by local authority (note (iii))	13,773	1,533
Income not subject to tax (note (ii))	(143,621)	(121,661)
Effect of withholding tax at 10% on the interest paid by a PRC subsidiary of the Group	625	–
Adjustments in respect of current tax of previous years	236	–
Tax losses not recognised	2,240	4,886
Tax charge at the Group's effective rate at 0.2% (2020: Nil)	861	–

Notes:

(i) The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations. Hong Kong profits tax has not been provided as there were no assessable profits arising in Hong Kong during the year. Entities in the PRC were generally subject to the PRC enterprise income tax rate of 25% for the year ended 31 December 2021 (2020: 25%).

(ii) According to the Enterprise Income Tax Law of the PRC (the "EIT Law"), the Group's income arising from agricultural activities, such as dairy farming and the processing of raw agricultural products, is exempt from income tax.

(iii) In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (財政部、海關總署、國家稅務總局《關於延續西部大開發企業所得稅政策的公告》), the Group's taxable income arising from the processing of grass is subject to a preferential tax rate of 15% from 2021 to 2030.

10. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

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

The basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 8,381,295,000 (2020: 7,605,396,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB471,713,000 (2020: RMB406,680,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation of 8,381,295,000(2020: 7,605,396,000) shares, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of warrants and dilutive potential ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2021 (2020: Nil).

	Number of shares	
	2021	2020
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**8,381,295,000**	7,605,396,000
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**8,381,295,000**	7,605,396,000

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021						
At 1 January 2021						
Cost	2,083,195	465,496	76,314	4,113	60	2,629,178
Accumulated depreciation	(565,880)	(242,215)	(45,774)	(2,658)	–	(856,527)
Net carrying amount	1,517,315	223,281	30,540	1,455	60	1,772,651
At 1 January 2021, net of accumulated depreciation	1,517,315	223,281	30,540	1,455	60	1,772,651
Additions	655	24,964	14,938	603	49,173	90,333
Reclassification	(8,314)	(21,995)	30,232	77	–	–
Transfers	41,903	2,704	2,643	–	(47,250)	–
Disposals	(3,849)	(3,757)	(1,627)	(418)	–	(9,651)
Depreciation provided during the year	(98,864)	(37,822)	(15,157)	(426)	–	(152,269)
Impairment	(1,276)	–	(151)	–	–	(1,427)
At 31 December 2021, net of accumulated depreciation and impairment	1,447,570	187,375	61,418	1,291	1,983	1,699,637
At 31 December 2021						
Cost	2,111,155	442,147	138,804	3,489	1,983	2,697,578
Accumulated depreciation and impairment	(663,585)	(254,772)	(77,386)	(2,198)	–	(997,941)
Net carrying amount	1,447,570	187,375	61,418	1,291	1,983	1,699,637

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020						
At 1 January 2020						
Cost	2,027,768	480,596	37,607	4,178	153,996	2,704,145
Accumulated depreciation	(408,968)	(222,771)	(25,859)	(3,022)	–	(660,620)
Net carrying amount	1,618,800	257,825	11,748	1,156	153,996	2,043,525
At 1 January 2020, net of accumulated depreciation	1,618,800	257,825	11,748	1,156	153,996	2,043,525
Additions	6,970	19,640	8,427	618	74,857	110,512
Reclassification	–	(16,178)	16,178	–	–	–
Transfers	53,539	21,789	1,433	–	(76,761)	–
Disposals	(4,163)	(9,198)	(571)	(71)	–	(14,003)
Depreciation provided during the year	(101,358)	(46,477)	(6,632)	(248)	–	(154,715)
Disposal of a subsidiary (note 31)	(127)	(26)	(13)	–	(152,032)	(152,198)
Impairment	(56,346)	(4,094)	(30)	–	–	(60,470)
At 31 December 2020, net of accumulated depreciation and impairment	1,517,315	223,281	30,540	1,455	60	1,772,651
At 31 December 2020						
Cost	2,083,195	465,496	76,314	4,113	60	2,629,178
Accumulated depreciation and impairment	(565,880)	(242,215)	(45,774)	(2,658)	–	(856,527)
Net carrying amount	1,517,315	223,281	30,540	1,455	60	1,772,651

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 8 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery, motor vehicles and other equipment generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Leasehold land RMB'000
As at 31 December 2019 and I January 2020	54,272
Additions	180
Depreciation charge	(3,061)
Right-of-use assets included in the disposal of a subsidiary	(6,291)
As at 31 December 2020	45,100
As at 31 December 2020 and I January 2021	**45,100**
Additions	**490,144**
Depreciation charge	**(3,145)**
Right-of-use assets included in the disposal of a subsidiary (note 31)	**(6,793)**
Disposal	**(6,000)**
As at 31 December 2021	**519,306**

(b) Lease liabilities

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

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	**–**	32,287
New leases	**6,883**	–
Lease liabilities included in the disposal of a subsidiary (note 31)	**(6,883)**	–
Payments	**–**	(32,287)
Carrying amount at 31 December	**–**	–

13. LEASES (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets	**2,172**	2,045
Expense relating to short-term leases (included in cost of sales)	**4,005**	5,888
Expense relating to leases of low-value assets (included in administrative expenses)	**968**	2,147
Total amount recognised in profit or loss	**7,145**	10,080

(d) The total cash outflow for leases is disclosed in note 32 to the financial statements.

14. OTHER INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2021			
Cost at 1 January 2021, net of accumulated amortisation and impairment	**2**	**6,240**	**6,242**
Additions	**–**	**2,546**	**2,546**
Disposal	**–**	**(376)**	**(376)**
Amortisation provided during the year	**(2)**	**(819)**	**(821)**
At 31 December 2021	**–**	**7,591**	**7,591**
At 31 December 2021			
Cost	**15,004**	**8,832**	**23,836**
Accumulated amortisation and impairment	**(15,004)**	**(1,241)**	**(16,245)**
Net carrying amount	**–**	**7,591**	**7,591**

14. OTHER INTANGIBLE ASSETS (CONTINUED)

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	8,629	2,625	11,254
Additions	–	4,619	4,619
Disposal	–	(353)	(353)
Amortisation provided during the year	(377)	(651)	(1,028)
Impairment during the year	(8,250)	–	(8,250)
At 31 December 2020	2	6,240	6,242
At 31 December 2020			
Cost	15,004	8,528	23,532
Accumulated amortisation and impairment	(15,002)	(2,288)	(17,290)
Net carrying amount	2	6,240	6,242

15. INVESTMENTS IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Share of net assets	**59,048**	122,255

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

15. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the associates as at 31 December 2021 are as follows:

Name	Registered capital	Place of incorporation/ registration and operations	Percentage of equity interests attributable to the Group	Principal activities
Food Union Shengmu Dairy Co., Ltd. ("Food Union Shengmu")	USD 111,000,000	PRC/ Mainland China	5.90%	Dairy processing
Inner-Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd.	RMB 300,000,000	PRC/ Mainland China	49%	Dairy products sales
Inner-Mongolia Yiyingmei Dairy Co., Ltd. ("Yiyingmei")	RMB 250,000,000	PRC/ Mainland China	8.64%	Dairy processing
Mudanjiang Liang yuan Technology Co., Ltd. (" Liang yuan")	RMB 100,000,000	PRC/ Mainland China	7%	Feed processing

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2021 RMB'000	2020 RMB'000
Share of the associates' profit for the year	(25,697)	(35,551)
Share of the associates' total comprehensive income	(25,697)	(35,551)
Aggregate carrying amount of the Group's investments in the associates	59,048	122,255

The Group's shareholdings in the associates comprise all the equity shares held by the subsidiaries of the Company.

All the above associates have been accounted for using the equity method in these financial statements. The Group has discontinued the recognition of its share of losses of an associate because the share of losses of the associate exceeded the Group's interests in the associate. The amount of the Group's total unrecognised share of losses of cumulatively was RMB77,000 (2020: RMB1,532,000), respectively.

16. BIOLOGICAL ASSETS

(A) Nature of activities

The biological assets of the Group comprise primarily dairy cows held to produce raw milk and beef cattle raised for sale.

The quantity of biological assets owned by the Group as at 31 December 2021 and 31 December 2020 is shown below.

	2021 Head	2020 Head
Milkable cows	60,154	57,658
Heifers, calves and beef cattle	62,364	53,077
Total	122,518	110,735

The Group's biological assets include heifers and calves, milkable cows and beef cattle. Heifers and calves are dairy cows that have not had their first calves. In general, heifers are inseminated with semen when they reach the age of approximately 14 months. After approximately 9 months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 305 days before a dry period of approximately 60 days. The male calves will be sold when born while the female calves will be bred for six months and then transferred to heifers. Beef cattle will be bred for three to six months and then sold for profits. The sale of biological assets is not the Group's principal activity and the proceeds net of cost of sales are recorded as other gains or losses.

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

(i) Regulatory and environmental risks

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

(ii) Climate, disease and other natural risks

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

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

16. BIOLOGICAL ASSETS (CONTINUED)

(B) Value of biological assets

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

	Milkable cows RMB'000	Heifers, calves and beef cattle RMB'000	Total RMB'000
31 December 2021			
At 1 January 2021	1,763,463	823,647	2,587,110
Increase due to raising (feeding costs and others)	–	853,720	853,720
Transfer	557,308	(557,308)	–
Decrease due to sales	(282,978)	(144,841)	(427,819)
Loss arising from changes in fair value less costs to sell	(188,539)	(60,232)	(248,771)
At 31 December 2021	1,849,254	914,986	2,764,240
Current	–	65,598	65,598
Non-current	1,849,254	849,388	2,698,642
	1,849,254	914,986	2,764,240

	Milkable cows RMB'000	Heifers, calves and beef cattle RMB'000	Total RMB'000
31 December 2020			
At 1 January 2020	1,761,300	783,687	2,544,987
Increase due to raising (feeding costs and others)	–	710,503	710,503
Transfer	436,080	(436,080)	–
Decrease due to sales	(293,977)	(150,166)	(444,143)
Loss arising from changes in fair value less costs to sell	(139,940)	(84,297)	(224,237)
At 31 December 2020	1,763,463	823,647	2,587,110
Current	–	15,008	15,008
Non-current	1,763,463	808,639	2,572,102
	1,763,463	823,647	2,587,110

16. BIOLOGICAL ASSETS (CONTINUED)

(B) Value of biological assets (continued)

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

(C) Fair value hierarchy

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

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

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

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2021	**–**	**–**	**2,764,240**	**2,764,240**
As at 31 December 2020	–	–	2,587,110	2,587,110

16. BIOLOGICAL ASSETS (CONTINUED)

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

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

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers	The fair value of the heifers purchased within 6 months prior to each reporting date is determined with adjustment by adding the feeding costs from the purchase date to the reporting date. For the calves and the rest of the heifers, the fair value of 14-month-old heifers is determined by referring to the market price of the actively traded market. The fair values of the heifers over 14 months of age are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers under 14 months of age and the fair values of the calves are determined by subtracting the breeding costs required to raise the heifers or calves from the respective specific ages to 14 months old and the margins that would be required by a raiser.	Average market price of the heifers of 14 months of age: RMB18,000 to RMB18,500 for the year ended 31 December 2021 (2020: RMB18,000 to RMB18,500).	The estimated fair value increases when the market price increases.

16. BIOLOGICAL ASSETS (CONTINUED)

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

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the year end will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or completion of all lactation periods, the estimated overall culling rate ranges from over 18% up to 100% along with the increase of the number of the lactation periods.	The estimated fair value decreases when the estimated culling rate increases.
	The calving interval (including the dry period and open days) is estimated based on historical data and is assumed to be 400 days (each milkable cow will give birth to a calf every 400 days). This 400-day period is one lactation cycle in this valuation exercise.	A milkable cow could have as many as six to seven lactation periods. The estimated average raw milk production volume per head for the lactation period ranged from 9.5 tonnes to 11.3 tonnes for the year ended 31 December 2021 (2020: 9.5 tonnes to 11.3 tonnes) depending on the number of the lactation periods and the individual physical condition.	The estimated fair value increases when the estimated raw milk production volume increases.
		The estimated feed costs per kilogram of raw milk for the year ended 31 December 2021 ranged from RMB2.69 to RMB2.92 (2020: RMB2.05 to RMB2.60).	The estimated fair value decreases when the estimated feed costs per kilogram of raw milk increase.

16. BIOLOGICAL ASSETS (CONTINUED)

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

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
		The estimated future local market prices for raw milk per tonne for the year ended 31 December 2021 ranged from RMB4,637 to RMB5,159 per tonne (2020: RMB3,902 to RMB4,916 per tonne)	The estimated fair value increases when the estimated future local market price for raw milk increases.
		The discount rate was 14.00% for the year ended 31 December 2021 (2020: 14.00%), calculated by using the capital asset pricing model.	The estimated fair value decreases when the discount rate increases.

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

	2021 Tonne	2020 Tonne
Raw milk	**601,170**	609,746

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

	2021 RMB'000	2020 RMB'000
Raw milk	**2,932,604**	2,631,913

17. LONG TERM RECEIVABLES

	Contract amounts of long term receivables		Present value oflong term receivables	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
Within 1 year	**4,640**	4,640	**4,115**	3,979
1 to 2 years	**4,640**	4,640	**4,319**	4,115
2 to 5 years	**2,386**	7,026	**2,036**	6,383
	11,666	16,306	**10,470**	14,477
Less: Unearned finance income	**(1,196)**	(1,829)	**–**	–
Present value of long term receivables	**10,470**	14,477	**10,470**	14,477
Portion classified as current assets under other receivables	**(4,115)**	(3,979)	**(4,115)**	(3,979)
Non-current portion	**6,355**	10,498	**6,355**	10,498

18. INVENTORIES

	2021 RMB'000	2020 RMB'000
Consumables	**31,537**	33,424
Raw materials	**736,568**	681,654
	768,105	715,078

19. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**255,464**	136,611
Impairment	**(7,327)**	–
	248,137	136,611

The Group's trading terms with its customers are mainly on credit. In 2021, the credit period is generally one month, extending up to three months for major customers. However, the Group normally allows a credit limit to its customers credit terms which are adjustable in certain circumstances and closely monitors overdue balances.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The trade receivables are non-interest-bearing.

19. TRADE RECEIVABLES (CONTINUED)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	**242,301**	136,611
4 to 6 months	**5,088**	–
7 months to 1 year	**748**	–
	248,137	136,611

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

	2021 RMB'000	2020 RMB'000
At beginning of year	**–**	–
Impairment losses	**7,327**	–
At end of year	**7,327**	–

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit losses separately. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 RMB'000	2020 RMB'000
Prepayments	**48,939**	563,784
Deposits and other receivables	**47,739**	39,521
Prepaid expenses	**10,963**	11,273
	107,641	614,578

Deposits and other receivables mainly represent receivables from sales of biological assets, employee loans and financial support to distributors. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. After applying IFRS 9, an impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. ECLs are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

21. OTHER FINANCIAL ASSETS

	2021 RMB'000	2020 RMB'000
Unlisted investment, at fair value through other comprehensive income, non-current (note (a))	**91,200**	–
Entrusted loans to Shengmu Forage, amortised cost, current (note (b))	**72,000**	–
	163,200	–
Current	**72,000**	
Non- current	**91,200**	

Notes:

(a) Although the Group only held a 9.12% equity interest in Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") as at 31 December 2020, two directors out of a total of seven representing the Company were appointed to the board of directors of Shengmu Forage. As such, the Group has determined that it has significant influence in Shengmu Forage. Shengmu Forage, which is considered an associate of the Group, is a strategic partner of the Group and is engaged in grass planting. On 30 November 2021, the two directors representing the Company has resigned from the board of directors of Shengmu Forage, as such, the Group designated the equity investment as a financial asset at fair value through other comprehensive income upon initial application of IFRS 9 (2009) on 1 January 2014, as management considered it a strategic investment for the purpose of securing high quality raw materials in the long run. An accumulated increase in fair value for the year ended 31 December 2021 with amounts of RMB12,038,000 had been recognized in other comprehensive income.

(b) The Group granted a short term entrusted loan to Shengmu Forage with guaranteed by Shengmu Forage's assets, respectively, and China Minsheng Banking Corp Ltd. as lending agent. As at 31 December 2021, the aggregate entrusted loan amount was RMB72,000,000 with annual interest rates of 4.4%, and the aggregate interest income was RMB 2,658,000.

22. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and cash equivalents	**433,799**	299,147
Time deposits with original maturity of more than three months	**98,036**	28,504
Restricted bank deposits (note)	**256,490**	387,452
	788,325	715,103
Less: Restricted bank deposits	**(256,490)**	(387,452)
Cash and bank balances	**531,835**	327,651

22. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Euro	44	96
United States dollars	100	228,424
Hong Kong dollars	11	2,544
RMB	788,170	484,039
	788,325	715,103

Note:

As at 31 December 2021, restricted bank deposits mainly included deposits for the issuance of bank acceptance and the bank accounts which were frozen by the Intermediate People's Court of Huhhot, further details are given in note 24 to the financial statements.

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	992,300	1,014,154
4 to 6 months	171,532	512,573
7 to 12 months	68,999	157,604
1 to 2 years	16,943	9,466
2 to 3 years	505	1,501
Over 3 years	3,075	4,150
	1,253,354	1,699,448

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

24. OTHER PAYABLES AND ACCRUALS

	Notes	2021 RMB'000	2020 RMB'000
Payables for purchases of dairy cows	(a)	**10**	105
Payables for taxes other than corporate income tax	(a)	**2,780**	7,271
Payables for third parties' deposits	(a)	**12,789**	16,264
Long term payables due within one year		**28,940**	28,940
Salary and welfare payables	(a)	**61,064**	62,955
Payables for acquisition of items of property, plant and equipment	(a)	**71,778**	107,718
Dividends payable to Shengmu Pangu	(a)	**51,300**	–
Payables for acquisition of Bayannur Shengmu High-tech Ecological Food Co., Ltd. ("Ecological Food Shengmu")	(a)	**5,000**	5,000
Contract liabilities	(b)	**3,970**	904
Provision for litigations and claims	(d)	**49,223**	–
Financial guarantee contracts	(c)	**1,777**	322
Others	(a)	**13,457**	10,502
		302,088	239,981

(a) These payables are non-interest-bearing and have an average term of 90 days.

(b) Details of contract liabilities as at 31 December 2021 and 31 December 2020 are as follows:

	2021 RMB'000	2020 RMB'000
Short-term advances received from customers		
Sale of goods	**3,970**	904

(c) The financial guarantee contracts represent guarantees given to banks in connection with facilities granted to Shengmu Forage and Food Union Shengmu. As at 31 December 2021, the banking facilities guaranteed by the company were RMB150,000,000 (2020: RMB273,000,000), out of which RMB106,451,000 (2020: RMB109,055,000) was utilised by the Shengmu Forage and Food Union Shengmu. The Group has no consideration received from guarantee contracts.

The Group does not provide financial guarantees except for limited circumstances.

The financial guarantee contracts are measured at the higher of the ECL allowance and the amount initially recognised less the cumulative amount of income recognised. The ECL allowance is measured by estimating the cash shortfalls, which are based on the expected payments to reimburse the holders (i.e., the banks) for a credit loss that it incurs less any amounts that the Group expects to receive from the debtor (i.e., the associates and external distributors).

The credit exposure of the financial guarantee contracts is classified as stage 1. During the year, there were no transfers between stages (2020: Nil).

24. OTHER PAYABLES AND ACCRUALS (CONTINUED)

(d) As of 31 December 2021, A civil judgement in relation to certain payment obligations, provision has been made with amounting to RMB49,233,000 for the probable losses, which was reflected in other expenses of the financial statement. Further details are given in note 33 to the financial statements.

25. INTEREST-BEARING BANK BORROWINGS

	2021			2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	3.06-3.85	2022	834,343	2.90-5.22	2021	1,324,561
Current portion of long term bank loans – unsecured	1.55-3.85	2022	465,186	1.55	2021	11,312
			1,299,529			1,335,873
Non-current						
Bank loans – unsecured	1.55-2.51	2023-2024	379,639	1.55	2022-2024	30,398
			1,679,168			1,366,271

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,299,529	1,335,873
In the second year	362,040	–
In the third to fifth years, inclusive	17,599	30,398
Beyond five years	–	–
	1,679,168	1,366,271

Note:

(i) As at 31 December 2021, substantially all of the Group's bank borrowings were denominated in RMB except for the interest-bearing bank loans of RMB 27,625,000 (2020: RMB41,710,000) which were denominated in Euro and RMB 517,200,000 (2020: RMB 228,372,000) which were denominated in USD.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2021 Liabilities RMB'000
Interest rate swaps	7,172

The Group entered into several interest rate swaps contracts with certain banks to hedge the risk of interest rate fluctuation arising from certain bank loans at floating interest rate. The fair value changes of the swaps were recognised as a deduction of finance costs.

As at December 2021, major terms of the interest rate swaps as follows:

Nominal amount	Swaps
United States Dollars ("USD") 80,000,000	From LIBOR* to 2.3%

* London Interbank Offered Rate ("LIBOR")

27. DEFERRED TAX

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

At 31 December 2021, no (2020: nil) deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB2,005,271,000 as at 31 December 2021 (2020: RMB1,471,664,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group also has tax losses arising in Mainland China of RMB18,244,000, (2020: RMB11,727,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of the losses of RMB18,244,000 (2020: RMB11,727,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

28. SHARE CAPITAL

Shares

	2021 RMB'000	2020 RMB'000
Authorised:		
30,000,000,000 ordinary shares of HKD0.00001 each (2020: 30,000,000,000 ordinary shares HKD0.00001 each)	**236**	236
Issued and fully paid:		
8,381,295,229 (2020: 8,381,295,229) ordinary shares	**69**	69

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

	Number of shares in issue	Share capital RMB'000
1 January 2020	**6,354,400,000**	**50**
Issue of shares	**688,705,234**	**7**
Warrants exercised	**1,338,189,995**	**12**
At 31 December 2020 and 2021	**8,381,295,229**	**69**

29. RESERVES

(i) Movements in components of equity

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

(ii) Contributed surplus

The Group's contributed surplus represents the excess of the net asset value of the subsidiaries acquired by the Company over the nominal amount of the shares issued by the Company as consideration pursuant to the Reorganisation and the warrants exercised.

(iii) Reserve fund

In accordance with the relevant PRC laws and the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The PRC statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

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

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

Shengmu Pangu	2021	2020
Percentage of equity interest held by non-controlling interests	45%	45%
Profit for the year allocated to non-controlling interests	35,877	52,606
Dividends paid to non-controlling interests	(51,300)	(70,052)
Accumulated balances of non-controlling interests at the end of the reporting period	166,447	181,870

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

	2021 RMB'000	2020 RMB'000
Revenue	278,764	261,216
Profit for the year	79,727	116,902
Total comprehensive income for the year	79,727	116,902
Current assets	193,361	104,912
Biological assets	250,612	255,469
Other non-current assets	109,138	115,196
Current liabilities	(181,766)	(69,959)
Net cash flows from operating activities	63,881	197,694
Net cash flows used in investing activities	(19,602)	(25,052)
Net cash flows from/(used in) financing activities	57,129	(167,868)
Net increase in cash and cash equivalents	101,408	4,774

31. ACQUISITION OF ASSETS/DISPOSAL OF A SUBSIDIARY

On 17 November 2021, Beijing Muhe, a wholly owned subsidiary of the Company, entered into a share transfer agreement involving a disposal and an acquisition of shares (the "Share Transfer Agreement") with Shengmu Forage. Pursuant to which Beijing Muhe transfered the shares of Shanghai Youmu Sand and Grass Enterprise Development Co., Ltd. (上海優牧沙草企業發展有限責任公司) ("Shanghai Youmu") to Shengmu Forage, representing the entire issued share capital of Shanghai Youmu at a consideration of RMB524,404,000 to be settled with (i) Alashanmeng Shengmu High-Tech Grass Co., Ltd. (the "Alashanmeng Grass") shares, representing the entire issued share capital of Alashanmeng Grass, held by Shengmu Forage and (ii) RMB10,400,000 in cash. Upon completion of the Share Transfer Agreement, Shanghai Youmu ceased to be a subsidiary of the Company and Alashanmeng Grass became a wholly owned indirect subsidiary of the Company. On 30 November 2021, the Group disposal of 100% interests in equity of Shanghai Youmu. The acquisition has been accounted for as acquisition of assets as the major assets held by Alashanmeng Grass is right-of-use assets. As of 31 December 2021, the consideration in cash with amounting to RMB10,400,000 has not been received. The fair value of the identifiable assets and liabilities of Alashanmeng Grass as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Right-of-use assets	512,400
Prepayments, other receivables and other assets	1,604
Total identifiable net assets at fair value	514,004
Satisfied by:	
Interests in equity	524,404

31. ACQUISITION OF ASSETS/DISPOSAL OF A SUBSIDIARY (CONTINUED)

On 17 November 2021, the Group sold 100% of its equity interest in Shanghai Youmu to Shengmu Forage.

	Note	2021 RMB'000
Net assets disposed of:		
Cash and bank balances		521,798
Prepayments and other receivables		183,671
Inventories		86
Right-of-use assets	13(a)	6,793
Trade payables		(80,430)
Lease liabilities	13(b)	(6,883)
Other payables and accruals		(104,622)
		520,413
Gain on disposal of a subsidiary	4	3,991
Consideration		524,404
Satisfied by:		
Interests in equity		524,404

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2021 RMB'000
Cash consideration	–
Cash and bank balances disposed of	(521,798)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	(521,798)

31. ACQUISITION OF ASSETS/DISPOSAL OF A SUBSIDIARY (CONTINUED)

On 11 September 2020, the Group sold 80% of its equity interest in Yiyingmei to Dabeinong.

	Notes	2020 RMB'000
Net assets disposed of:		
Property, plant and equipment	12	152,198
Right-of-use assets	13(a)	6,291
Cash and bank balances		39
Trade receivables		473
Prepayments and other receivables		3,821
Inventories		1,096
Trade payables		(1,179)
Other payables and accruals		(78,805)
		83,934
Fair value of the remaining equity interest		(26,956)
Gain on disposal of a subsidiary	4	845
Consideration		57,823
Satisfied by:		
Cash		57,823

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2020 RMB'000
Cash consideration	57,823
Cash and bank balances disposed of	(39)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	57,784

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Bank loans RMB'000
At 1 January 2021	1,366,271
Changes from financing cash flows	312,897
At 31 December 2021	1,679,168

	Bank loans RMB'000	Lease liabilities RMB'000	Derivative financial instruments RMB'000
At 1 January 2020	2,184,275	32,287	3,267
Changes from financing cash flows	(818,004)	(32,287)	–
Foreign exchange movement	–	–	74
Transfer to equity	–	–	(3,341)
At 31 December 2020	1,366,271	–	–

(b) *Total cash outflow for leases*

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

	2021 RMB'000	2020 RMB'000
Within operating activities	(4,973)	(8,035)
Within financing activities	–	(32,287)
	(4,973)	(40,322)

33. CONTINGENT LIABILITIES

(a) During the year ended and as of 31 December 2021, the Group provided guarantees to banks in respect of the bank loans of Shengmu Forage with amounting to RMB106,451,000.

(b) On 16 August 2021, A civil judgement was issued by the Intermediate People's Court of Huhhot (the "Court") (the "Judgement") in relation to a claim made against Inner Mongolia Shengmu, and two of the Company's former directors Mr. YAO Tongshan and Mr. WU Jianye (the "Ex-Directors") concerning certain payment obligations which the plaintiff claimed it was owed under an investment agreement entered into amongst the plaintiff, Inner Mongolia Shengmu, and the Ex-Directors in or around July 2014. Pursuant to the Judgement, Inner Mongolia Shengmu and the Ex-Directors were held jointly and severally liable to pay (i) to the plaintiff a sum of RMB118,415,000, together with relevant interest of RMB16,443,000; (ii) to the plaintiff a sum of RMB40,000, being the plaintiff's legal fees; and (iii) for the litigation expenses in the sum of RMB721,000. Furthermore, in connection with the litigation, certain bank accounts of Inner Mongolia Shengmu with an aggregate balance of RMB85,705,000 and its 65% shareholding in Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司), a subsidiary of Inner Mongolia Shengmu, were frozen by the PRC Court. As at 31 December, the Group had applied to Inner Mongolia High People's Court for second instance which still in progress. Provision has been made with amounting to RMB49,233,000 for the probable losses, which was reflected in other expenses of the financial statement, to the Group on the Judgment when management can reasonably estimate the outcome of the lawsuits taking into account the legal advice. The Group does not include any pending lawsuits in the contingent liabilities disclosed if the probability of loss is remote or the claim amount is insignificant to the Group.

34. COMMITMENTS

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

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Buildings	**2,590**	–

35. RELATED PARTY DISCLOSURES

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

	Notes	2021 RMB'000	2020 RMB'000
Associates:			
Sales of products	(i)	**57,365**	42,107
Purchases of raw materials	(i)	**236,969**	165,455
Purchases of property, plant and equipment	(i)	**–**	84
Affiliates of substantial shareholders:			
Purchases of raw materials	(i) (ii)	**78,652**	43,661
Sales of products	(i) (ii)	**2,621,629**	1,069,211

Notes:

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

(ii) The related party transactions also constitute continuing connected transactions as defined in chapter 14A of the Listing Rules.

(iii) Shengmu Forage has no longer be the related party from 1 December 2021. Further details are given in note 21 to the financial statements.

(b) ***Other transactions with related parties:***

During the eleven months ended 30 November 2021, Shengmu Forage provided bio-waste (i.e., cow dung) collecting services to the Group's dairy farms for free. Such services included collecting unprocessed bio-waste and cleaning the Group's farms. In return, Shengmu Forage obtained unprocessed bio-waste for free from the Group's farms.

During the year ended and as of 31 December 2021, the Group provided guarantees to banks in respect of the bank loans of the following related parties:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Shengmu Forage	**–**	94,600
Food Union Shengmu	**–**	14,455

35. RELATED PARTY DISCLOSURES (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Short term employee benefits	**7,581**	5,639
Pension scheme contributions	**207**	12
	7,788	5,651

Further details of directors' and the chief executive's emoluments are included in note 7 to the financial statements.

(d) Outstanding balances with related parties

	2021 RMB'000	2020 RMB'000
Amounts owed by/(owed to) associates included in:		
Trade receivables	**5,695**	9,460
Trade payables	**–**	(142,565)
Prepayments, deposits and other receivables	**–**	534,102
Other payables and accruals	**–**	(9,863)
Affiliates of substantial shareholders:		
Trade receivables	**216,472**	114,083
Trade and bills payables	**(966)**	(16,771)
Prepayments, deposits and other receivable	**32,192**	17,233
Other payables and accruals	**(32,744)**	(28,940)

As at 31 December 2020, prepayment to an associate of RMB513,834,000 was secured by right-of-use assets (prepaid land lease payments) owned by Shengmu Forage with a fair value of RMB521,428,000.

Other than those balances included in trade receivables and trade payables and the secured prepayment balances as disclosed above, the above balances with related parties are unsecured, interest-free and have no fixed terms of repayment. Trade receivables and trade payables with related parties have similar credit terms to those offered by/to third parties.

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

2021

Financial assets

	Financial assets at fair value through comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Long term receivables	–	6,355	6,355
Financial assets included in prepayments, other receivables and other assets	–	51,854	51,854
Restricted bank deposits	–	256,490	256,490
Cash and bank balances	–	531,835	531,835
Trade receivables	–	248,137	248,137
Other financial assets	91,200	72,000	163,200
	91,200	1,166,671	1,257,871

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	
	Designated as such upon initial recognition RMB'000	RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	–	300,311	300,311
Trade and bills payables	–	1,253,354	1,253,354
Interest-bearing bank borrowings	–	1,679,168	1,679,168
Derivative financial instruments	7,172	–	7,172
Financial guarantee contracts included in other payables and accruals	1,777	–	1,777
	8,949	3,232,833	3,241,782

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2020

Financial assets

	Financial assets at amortised cost RMB'000
Long term receivables	10,498
Financial assets included in prepayments, other receivables and other assets	43,501
Pledged deposits	387,452
Cash and bank balances	327,651
Trade receivables	136,611
	905,713

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	
	Designated as such upon initial recognition RMB'000	RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	–	168,530	168,530
Trade and bills payables	–	1,699,448	1,699,448
Interest-bearing bank borrowings	–	1,366,271	1,366,271
Financial guarantee contracts included in other payables and accruals	322	–	322
	322	3,234,249	3,234,571

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts As at 31 December		Fair values As at 31 December	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
Financial assets				
Long term receivables	**6,355**	10,498	**6,334**	10,188
Financial liabilities				
Interest-bearing bank borrowings	**1,679,168**	1,366,271	**1,649,205**	1,360,920

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposits, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and guarantees given to banks in connection with facilities granted to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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

The fair values of the non-current portion of long term receivables, the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Fair value hierarchy

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

Assets measured at fair value:

	Fair value measurement using significant observable inputs (Level 3)	
	2021 RMB'000	2020 RMB'000
Unlisted investment, at fair value through other comprehensive income	**91,200**	–

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities measured at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	2021	2020
	RMB'000	RMB'000
Derivative financial instruments	**7,172**	–
Financial guarantee contracts	**1,777**	322
	8,949	322

Assets and liabilities disclosed at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	2021	2020
	RMB'000	RMB'000
Long term receivables	**6,334**	10,188
Interest-bearing bank borrowings (other than lease liabilities)	**1,649,205**	1,360,920
	1,655,539	1,371,108

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted investment, at fair value through other comprehensive income	Market approach	Discount for lack of control	20%-30%	10% increase/decrease in DLOC would result in decrease/increase in fair value by RMB2,280,000

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Interest rate risk

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

The Group's fair value interest rate risk relates primarily to variable-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile is set out in note 25.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2021			
RMB	**50**	**(2,926)**	**(2,926)**
RMB	**(50)**	**2,926**	**2,926**
2020			
RMB	50	(516)	(516)
RMB	(50)	516	516

* Excluding retained profits

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment. During the year, substantially all of the Group's assets and liabilities were denominated in RMB except that as at 31 December 2021, cash and bank balances of approximately RMB44,000 (2020: RMB96,000), RMB100,000 (2020: RMB228,424,000) and RMB11,000 (2020: RMB2,544,000) were denominated in Euro ("EUR"), United States dollars ("USD") and Hong Kong dollars ("HKD"), respectively, and the interest-bearing bank borrowings of approximately RMB27,625,000 (2020: RMB41,710,000) and RMB517,200,000 (2020: RMB228,372,000) were denominated in EUR and USD. The fluctuations of the exchange rates of RMB against foreign currencies could slightly affect the Group's results of operations.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate (2020: EUR exchange rate) with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
2021	**5**	**3,347**
	(5)	**(3,347)**
2020	5	9,263
	(5)	(9,263)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2021	12-month ECLs	Lifetime ECLs			Total
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	255,464	255,464
Long term receivables**					
– Normal**	6,355	–	–	–	6,355
Financial assets included in prepayments, other receivables and other assets*					
– Normal*	–	–	–	51,854	51,854
Restricted bank deposits					
– Not yet past due	256,490	–	–	–	256,490
Cash and cash equivalents					
– Not yet past due	531,835	–	–	–	531,835
Guarantees given to banks in connection with facilities granted to associates					
– Not yet past due	106,451	–	–	–	106,451
	901,131	–	–	307,318	1,208,449

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (continued)

As at 31 December 2020	12-month ECLs		Lifetime ECLs		Total
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	136,611	136,611
Long term receivables**					
– Normal**	10,498	–	–	–	10,498
Financial assets included in prepayments, other receivables and other assets*					
– Normal*	–	–	–	43,501	43,501
Restricted bank deposits					
– Not yet past due	387,452	–	–	–	387,452
Cash and cash equivalents					
– Not yet past due	327,651	–	–	–	327,651
Guarantees given to banks in connection with facilities granted to associates	–	–	–	–	–
– Not yet past due	109,055	–	–	–	109,055
	834,656	–	–	180,112	1,014,768

* For trade receivables, prepayments, deposits and other receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 19 and 20 to the financial statements, respectively.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments.

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
2021				
Financial liabilities included in other payables and accruals	**300,311**	**–**	**–**	**300,311**
Trade and bills payables	**1,253,354**	**–**	**–**	**1,253,354**
Interest-bearing bank borrowings	**–**	**1,299,529**	**379,639**	**1,679,168**
Guarantees given to banks in connection with facilities granted to associates	**106,451**	**–**	**–**	**106,451**
	1,660,116	**1,299,529**	**379,639**	**3,339,284**
2020				
Financial liabilities included in other payables and accruals	168,530	–	–	168,530
Trade and bills payables	1,699,448	–	–	1,699,448
Interest-bearing bank borrowings (excluding lease liabilities)	–	1,364,493	32,216	1,396,709
Guarantees given to banks in connection with facilities granted to associates	109,055	–	–	109,055
	1,977,033	1,364,493	32,216	3,373,742

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

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

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

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

	2021 RMB'000	2020 RMB'000
Interest-bearing bank borrowings	**1,679,168**	1,366,271
Total equity	**3,889,185**	3,419,526
Gearing ratio	**43.2%**	40.0%

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	31 December 2021 RMB'000	31 December 2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	491,437	491,304
Due from subsidiaries	2,852,188	2,960,116
Total non-current assets	3,343,625	3,451,420
CURRENT ASSETS		
Prepayments, other receivables and other assets	3,332	1,164
Cash and cash equivalents	7,396	2,592
Due from subsidiaries	965,019	595,040
Total current assets	975,747	598,796
CURRENT LIABILITIES		
Interest-bearing bank loans	165,186	239,683
Derivative financial instruments	7,172	–
Other payables and accruals	8,296	4,257
Total current liabilities	180,654	243,940
NET CURRENT ASSETS	795,093	354,856
TOTAL ASSETS LESS CURRENT LIABILITIES	4,138,718	3,806,276
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	379,639	30,398
Total non-current liabilities	379,639	30,398
Net assets	3,759,079	3,775,878
EQUITY		
Share capital	69	69
Reserves (note 29)	3,759,010	3,775,809
Total equity	3,759,079	3,775,878

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium account RMB'000	Share option reserve RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2021	3,702,140	57,265	–	(110,593)	126,997	3,775,809
Loss for the year and total comprehensive income	–	–	–	(16,930)	–	(16,930)
Disposal of subsidiaries	–	–	131	–	–	131
At 31 December 2021	3,702,140	57,265	131	(127,523)	126,997	3,759,010

	Share premium account RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2021	3,100,541	57,265	(96,700)	392,416	3,453,522
Loss for the year	–	–	(13,893)	–	(13,893)
Other comprehensive income	–	–	–	(265,419)	(265,419)
Total comprehensive income for the year	–	–	(13,893)	(265,419)	(279,312)
Equity-settled warrant arrangements	3,341	–	–	–	3,341
Issue of shares	199,993	–	–	–	199,993
Warrants exercised	398,265	–	–	–	398,265
At 31 December 2020	3,702,140	57,265	(110,593)	126,997	3,775,809

The share option reserve comprises the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2022.

FINANCIAL SUMMARY

The following is a summary of the audited financial statements of the Group for each of the years indicated:

Unit: RMB'000	For the year ended 31 December				
	2021	2020	2019	2018	2017
Revenue	**2,984,616**	2,660,823	2,759,369	2,887,167	2,706,842
Profit/(loss) for the year	**509,571**	460,969	135,696	(2,311,217)	(853,790)
Of which: profit/(loss) attributable to owners of the parent	**471,713**	406,680	227,742	(2,225,200)	(1,015,266)
Earnings/(loss) per share attributable to equity holders of the ordinary shares of the parent:					
Basic	**RMB 0.0563**	RMB 0.0535	RMB 0.0044	(RMB 0.350)	(RMB 0.160元)
Diluted	**RMB 0.0563**	RMB 0.0535	RMB 0.0044	(RMB 0.350)	(RMB 0.160元)

	As at 31 December				
	2021	2020	2019	2018	2017
Total assets	**7,131,585**	6,725,226	6,600,253	7,558,361	10,519,695
Total liabilities	**3,242,400**	3,305,700	4,189,425	4,679,474	5,144,582
Net assets	**3,889,185**	3,419,526	2,410,828	2,878,887	5,375,113
Of which: equity attributable to owners of the parent:	**3,679,833**	3,196,732	2,186,421	2,017,913	4,315,662