



蘭州莊園牧場股份有限公司

Lanzhou Zhuangyuan Pasture Co., Ltd.*

(a joint stock limited liability company incorporated in the People's Republic of China)

Stock Code : 1533

2021

ANNUAL REPORT

About Us

We are one of the leading dairy companies in Gansu, Shaanxi and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We believe our business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.



Contents

2	Corporate Information
4	Annual Results Highlights
5	Chairman's Statement
7	Management Discussion and Analysis
30	Directors, Supervisors and Senior Management
36	Supervisory Committee's Report
37	Corporate Governance Report
56	Directors' Report
88	Auditor's Report
94	Consolidated Income Statement
96	Consolidated Balance Sheet
98	Consolidated Cash Flow Statement
99	Consolidated Statement of Changes in Equity
101	Income Statement of the Parent Company
102	Balance Sheet of the Parent Company
104	Cash Flow Statement of the Parent Company
105	Statement of Changes in Equity of the Parent Company
107	Notes to the Financial Statements
242	Financial Summary



Corporate Information

BOARD OF DIRECTORS

Non-Independent Directors

Mr. Yao Gexian
Mr. Ma Hongfu
Mr. Zhang Yu
Mr. Yang Yi
Mr. Lian Enzhong
Ms. Zhang Qianyu

Independent Directors

Mr. Wang Haipeng
Mr. Zhang Yubao
Mr. Sun Jian

Supervisors

Mr. Wang Fengming
Ms. Du Wei
Mr. Wang Xuefeng

AUDIT COMMITTEE

Mr. Wang Haipeng (*Chairman*)
Mr. Zhang Yubao
Mr. Sun Jian

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Wang Haipeng (*Chairman*)
Mr. Ma Hongfu
Mr. Zhang Yubao

NOMINATION COMMITTEE

Mr. Sun Jian (*Chairman*)
Mr. Yao Gexian
Mr. Wang Haipeng

STRATEGY COMMITTEE

Mr. Yao Gexian (*Chairman*)
Mr. Zhang Yubao
Mr. Sun Jian

AUTHORISED REPRESENTATIVES

Mr. Yao Gexian
Ms. Ho Wing Yan (*ACG, HKACG (PE)*)

JOINT COMPANY SECRETARIES

Ms. Zhang Qianyu (*Non-Independent Director*)
Ms. Ho Wing Yan (*ACG, HKACG (PE)*)

STOCK CODE

1533

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

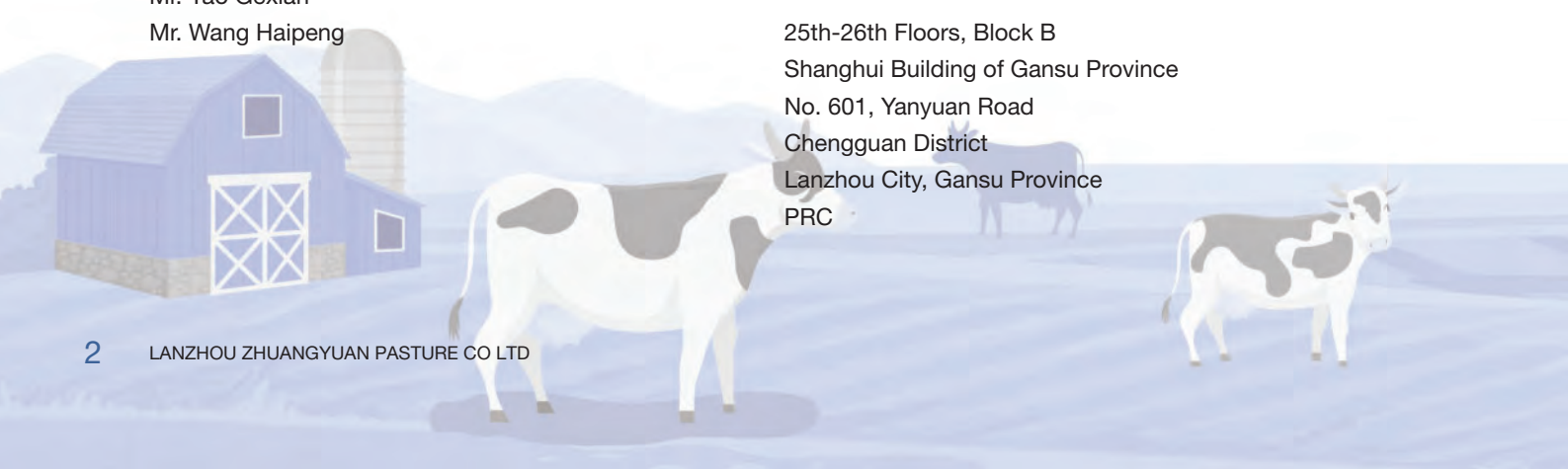
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Shui On Centre
Nos. 6-8 Harbour Road
Wanchai, Hong Kong

REGISTERED OFFICE

No. 398 Sanjiaocheng Commune
Sanjiaocheng Village
Chengguan Town
Yuzhong County
Lanzhou City, Gansu Province
PRC

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

25th-26th Floors, Block B
Shanghai Building of Gansu Province
No. 601, Yanyuan Road
Chengguan District
Lanzhou City, Gansu Province
PRC



Corporate Information

H SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

LEGAL ADVISOR (AS TO HONG KONG LAW)

Wan & Tang

2408, World-Wide House
19 Des Voeux Road Central
Central, Hong Kong

PRINCIPAL BANK

**Agricultural Development Bank of China,
Yuzhong County Branch**

No. 19, Tai Bai Road
Yuzhong County
Lanzhou, Gansu
PRC

AUDITORS

WUYIGE Certified Public Accountants LLP

22/F., Xueyuan International Tower
No. 1 Zhichun Road
Haidian District
Beijing

COMPANY WEBSITE

<http://www.lzzhuangyuan.com>



Annual Results Highlights

FINANCIAL HIGHLIGHTS Results

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Operating income	1,021,432	739,821
Gross profit	242,928	186,431
Profit for the year attributable to equity shareholders of the Company	53,533	10,453
Earnings per share (RMB) ⁽¹⁾	0.23	0.05
Proposed dividend per share (RMB)	4.70 cents	2.00 cents

- Operating income increased by approximately 38.06% as compared to the year ended 31 December 2020.
- Gross profit increased by approximately 30.30% as compared to the year ended 31 December 2020.
- Profit for the year attributable to equity shareholders of the Company increased by approximately 412.11% as compared to the year ended 31 December 2020.

Note:

- (1) The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue during the year.



Chairman's Statement

REPORT TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the audited annual report of 蘭州莊園牧場股份有限公司 Lanzhou Zhuangyuan Pasture Co., Ltd.* (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 (the "Reporting Year").

In 2021, the Company was generally stable and orderly in terms of pasture breeding, production and processing, and product sales. Thanks to its measures such as greater control over channels, more flexible sales policies, better pasture construction, more efficient pasture management, and diversified operation efforts, the Company recorded operating revenue of RMB1,021 million, representing an increase of 38.06% compared with the corresponding period last year, the total profit of RMB55.1275 million, representing an increase of 345.99% compared with the corresponding period last year, and net profit attributable to shareholders of the parent of RMB53.5331 million, representing an increase of 412.11% compared with the corresponding period last year. By the end of 2021, the Company had total assets of RMB2.81 billion, and net assets of RMB1.641 billion, resulting in an asset-liability ratio of 41.62%. We currently have three production bases in Gansu, Qinghai and Shaanxi, and eight operating ranches with 17,573 cows in stock, up 9.19% from 16,094 at the end of 2020. The raw milk yield was 84,668 tons, up 54.96% from 54,639 tons in 2020. Our own milk supply rate during the reporting period exceeded 60%. The Company has three dairy brands, namely "Zhuangyuan Ranch" (莊園牧場), "Shenghu" (聖湖) and "Dongfang Duoxian Zhuangyuan" (東方多鮮莊園), and the main sales areas are Gansu Province, Qinghai Province and Shaanxi Province.

Upholding the corporate mission of "Offering Excellent Quality and Creating a Brand of the Times", the Company strives to build a famous food brand in the western China and develop itself into a first-class Chinese dairy enterprise characterised by the modern corporate culture that all employees believe in. We adapt to the quality management requirements of "safe and fresh" products under the balanced development strategy of "coordination between market development and supply capacity". On the basis of a safe and controllable production, transportation and sales system that integrates dairy farming, procurement of raw milk, processing of dairy product, and transportation and sales of product, we actively develop markets within a reasonable distribution radius with the production base as the centre.

The Company has fully played to its diversified characteristics of the company brand in recent years, and implemented the strategy of differentiation of products. The Company's core and characteristic products, namely pasteurised milk, sterilised milk, modified milk and fermented milk, have been widely accepted by the local consumers, which was nurtured with high brand loyalty consumer groups. Our products have a certain geographical advantage in Gansu, Qinghai, and Shaanxi region, occupying a higher market position and with a certain brand effect. As the star product of the Company, "Manor Concentrated Milk" was selected as the most influential product brand in Gansu Province in the first half of 2021. During the reporting period, the Company's business scope and main business did not change significantly.



* For identification purpose only



Chairman's Statement

In its efforts to follow through on General Secretary Xi Jinping's important instructions on the development of China's dairy industry, the Company involves itself into the realisation of mission of the times, which is to develop China's dairy industry into a stronger and better one so that high-quality dairy products satisfying and reassuring the public could be produced. As the Company recognises a crucial aspect that high-quality milk serves as an important way to develop the domestic dairy market and upgrade the nutrition and health of Chinese consumers, the Company implements its high-quality milk project in accordance with the standard for implementation of high-quality milk project formulated by the National Milk Technology Innovation Association on the basis of three aspects covered by "High-quality Milk Project", a special research project sponsored and implemented by the National Milk Technology Innovation Association to promote the sustainable development of the dairy industry: creation of high-quality milk labeling system, promotion of dairy cattle breeding technology upgrading, and comprehensive implementation of standardised supervision of dairy products processing technology. At the end of June 2021, the Company was awarded the title of "Quality Milk Engineering Demonstration Factory" (優質乳工程示範工廠) by China for its "Reconstruction and Expansion Project with Daily Processing Capacity of 600 Tons of Liquid Milk" (Production Line No. CEMA-N032PL01), and each of Linxia County Ruiyuan Pasture Co. Ltd. (Pasture No.: CEMA-N032DF001), Lanzhou Ruixing Animal Husbandry Co. Ltd. (Pasture No.: CEMA-N032DF003) and Gansu Ruijia Animal Husbandry Co., Ltd. (Pasture No.: CEMA-N032DF004), all of which are subsidiaries of the Company, received the title of "Model Pasture of High-quality Milk Project" from the state.

In 2021, we steadily promoted the "Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District", a project financed by proceeds of non-public offering of A shares in 2020 (the "Project"), and the project became ready for intended use in the same year. As long as the project hits its full production capacity, it could supply 68,000 tons of high-quality raw milk, which would effectively respond to risks such as shortage of sources of raw milk or cost fluctuation.

The Company completed its change of controller on 29 June 2021, and as a result, indirect controlling shareholder of the Company was changed to Gansu Nongken Group Limited Liability Company (甘肅省農墾集團有限責任公司) and the actual controller to State-owned Assets Supervision and Administration Commission of the Gansu Provincial Government (甘肅省人民政府國有資產監督管理委員會).

In 2022, the Board of Directors of the Company will, centring on the overall strategic development objectives of the Company, continuously optimise its governance structure in order to continuously improve its core competitiveness. The Company will enhance its development strategy against the industry trend so that long-term development strategies will be fully geared into and dynamically match with annual plans, thus ensuring sustainable and high-quality development of the Company. The Company will make appropriate arrangements in relation to its business plan targets so that the relevant responsibilities are fully assumed by the management, thus ensuring that all targets are fully undertaken by the management involved with well-defined responsibilities and effective synergy. The Company will further promote the standardised, refined and information-based management to ensure the annual business targets will be achieved fully, thus bringing better performance to the investors.

Yao Gexian
Chairman



Management Discussion and Analysis

INDUSTRY REVIEW

In China, dairy products are mainly divided into three categories: liquid milk, milk powder, and other dairy products. Liquid milk mainly includes UHT milk, modified milk, pasteurised milk (also known as fresh milk), and yogurt, categorised by different processing techniques. Other dairy products mainly include cheese, cream, condensed milk, lactose, and so on.

China constantly attaches great importance to the revitalisation and development of the dairy industry. On 11 June 2018, the “State Council Office’s Opinions on the Revitalisation of the Dairy Industry and Ensuring the Quality and Safety of Dairy Products” (《國務院辦公廳關於推進奶業振興保障乳品質量安全的意見》) was issued by the State Council. It encourages the implementation of rural revitalization strategies, and to aim at high quality, safe and green development in order to mainly promote supply side structural reform, and also to focus on reducing costs, optimizing structure, improving quality, creating brands, and increasing vitality. Further, it promotes the strengthening standards and norms, scientific and technological innovation, policy support, law enforcement supervision and consumption cultivation, so as to accelerate the setting up of a modern dairy industry system, production system, management system and quality and safety system, continuously improving the quality, efficiency and competitiveness of the dairy industry. Also it vigorously promotes the modernization of the dairy industry and thus the China’s dairy industry would grow bigger and stronger. The No.1 Central Documents for 2019, 2020 and 2021 all mentioned “Implementing the Revitalisation of the Dairy Industry Program”. The “14th Five-Year Plan for Economic and Social Development and Long-Range Objectives through the Year 2035 of the People’s Republic of China” (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) issued on 12 March 2021 clearly stated that “we should secure the supply of important agriculture products such as grain, cotton, oil, sugar, meat and milk”, navigating the remarkable development of China’s dairy industry. On 2 July 2021, the Ministry of Agriculture and Rural Affairs and the Ministry of Finance jointly issued the “Key Policies Toward Boosting Agriculture and Bringing Benefits to Farmers for 2021” (《2021年重點強農惠農政策》), in which “promoting the revitalisation of dairy industry” was explicitly incorporated.

In order to improve the quality and safety of dairy products and promote the high-quality development of dairy products industry, the State Administration for Market Supervision issued the “Action Plan for Improving the Quality and Safety of Dairy Products” (《乳製品品質安全提升行動方案》) at the end of 2020. With the national strict restrictions on the market access of dairy products processing industry and the rectification of existing dairy products processing enterprises, the market concentration of China’s dairy industry will enhance.

Amid the epidemic, the National Health Commission of the PRC issued the Nutritional Dietary Guidelines for the Prevention and Treatment of COVID-19, proposing to “try to ensure that 300 grams of milk and dairy products are consumed per day”, further affirming the importance of dairy products in high quality protein intake, calcium absorption and utilization and immunity enhancement, etc. At the same time, four industry associations including the National Health Industry Enterprise Management Association, the Chinese Nutrition Society, the Dairy Association of China, and the China Dairy Industry Association jointly issued the Guidelines for the Consumption of Milk and Dairy Products for Chinese Residents in order to promote, educate and recommend reasonable diet and daily consumption of dairy products to the residents. At the same time, since the outbreak of COVID-19, consumers’ health awareness has been continuously increased. Dairy products are favored by more consumers as they are healthy and nutritional. The market penetration rate of dairy products has been further increased. The overall consumption scale of dairy products shows a continuous growth trend.



Management Discussion and Analysis

Under the current situation of releasing the potential of domestic demand and constantly improving the new domestic circulation of China, the China's dairy industry needs to continue to improve in the aspects of high quality development and serving consumers with high quality products. A majority of market shares will be seized by large enterprises with high brand awareness, great strength and remarkable scale benefits. This trend will become more obvious in the future. The nationwide market shares will be highly occupied by the national tier-1 brands and the regional market shares will be highly occupied by regional strong brands.

BUSINESS REVIEW

We are one of the leading dairy companies in Gansu, Qinghai and Shaanxi where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. We owned and operated eight dairy farms as at 31 December 2021. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and during the reporting period, more than approximately 60% of our raw milk requirement were sourced internally, which enabled us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.



Management Discussion and Analysis

We have three dairy brands, namely “Zhuangyuan Ranch” (莊園牧場), “Shenghu” (聖湖) and “Dongfang Duoxian Zhuangyuan” (東方多鮮莊園). The Company has fully played to its diversified characteristics of the company brand in recent years, and implemented the strategy of differentiation of products. The Company’s core and characteristic products, namely pasteurized milk, sterilized milk, modified milk and fermented milk have been widely accepted by the local consumers, which was nurtured with high brand loyalty consumer groups. Our products have a certain geographical advantage in Gansu, Qinghai, Shaanxi region, occupying a higher market position and with a certain brand effect. During the reporting period, the Company’s business scope and main business did not change significantly.

Key Financial Ratios

The table below sets out our key financial ratios as at the dates indicated:

	2021	2020
Current ratio ⁽¹⁾	0.86	0.95
Quick ratio ⁽²⁾	0.62	0.85
Return on equity ⁽³⁾	3.31%	0.74%
Return on assets ⁽⁴⁾	1.82%	0.38%
Gearing ratio ⁽⁵⁾	41.62%	48.33%

Notes:

- (1) Current assets/current liabilities.
- (2) (Current assets – inventory)/current liabilities.
- (3) Net profit for the year/(total equity attributable to equity shareholders of the Company as at the beginning of the year + total equity attributable to equity shareholders of the Company as at the end of the year)/2 x 100%.
- (4) Net profit for the year/(total assets as at the beginning of the year + total assets as at the end of the year)/2 x 100%.
- (5) Total liabilities/total assets x 100%.



Management Discussion and Analysis

Biological Assets

During the Reporting Year, our biological assets comprised dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our biological assets as at 31 December of 2021 and 2020:

	At 31 December	
	2021	2020
	RMB'000	RMB'000
Dairy cows		
Milkable cows	348,051	338,928
Heifers	150,301	111,986
Calves	36,611	43,778
Total	534,964	494,691

The numbers of dairy cows in our self-owned dairy farms are summarised as follows:

	2021	2020
	(Heads)	(Heads)
Dairy cows		
Milkable cows	9,085	8,236
Heifers	5,748	4,308
Calves	2,740	3,550
Total	17,573	16,094



Management Discussion and Analysis

Diary Farming

- **Milk Production**

Our raw milk production was approximately 84,668 tons (2020: approximately 54,639 tons), representing a year-on-year increase of approximately 54.96%, mainly due to the increase in the number of milkable cows and the improved efficiency of dairy farms through refined management, which increased the proportion of the number of dairy cows with high milk yields.

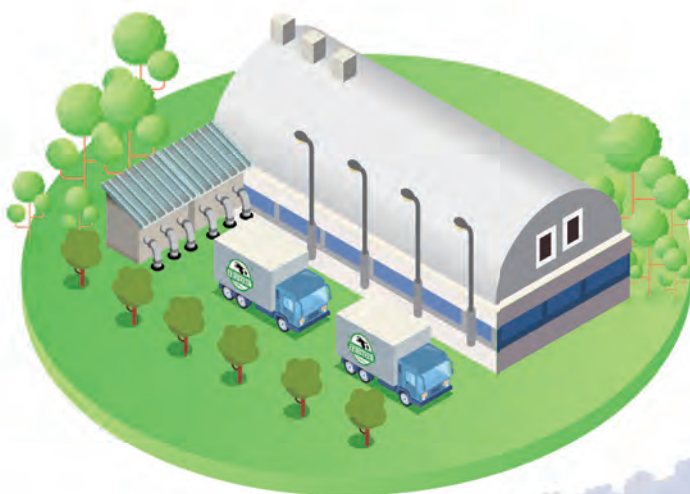
During the Reporting Year, the average annual milk production per milkable cow was approximately 5.9 tons to 11.09 tons, which remained basically the same as compared with 5.96 tons to 11.39 tons in 2020.

Dairy Products Production

The industrial chain of dairy products manufacturing covers many links which are closely related such as forage, dairy farming, dairy products processing and end sales, and calls for a high degree of integration. With the narrowing of the gap between urban and rural per capita disposable income and consumption expenditure level, consumers pay more attention to healthy meals, and the overall dairy consumption market will continue to grow. In particular, given that consumers are paying more attention to the safety of milk sources, dairy enterprises will become more competitive in terms of milk sources.

As a regional dairy enterprise leader, the Company is supported by its own controllable milk sources as well as fresh and safe product quality. With over 20 years of operation experiences accumulated in the core regional market, the Company is able to take swifter actions and provide local consumers with products that meet their needs. It has established a high brand recognition and long-term emotional bond in the local consumer market and has been widely recognized by consumers. Given its regional brand influence, it has a certain market share in the regions of Gansu, Qinghai and Shaanxi.

In the Year of 2021, relying on stable and reliable milk sources and advanced production and processing technology, the Company consolidated traditional channels and adopted an aggressive sales policy. Meanwhile, on the premise of satisfying the needs of the production of our dairy products, the Company intended to diversify its development by selling its surplus own produced fresh milk from time to time to other dairy manufacturers, and it has sold part of its raw milk during the Reporting Year. In the Year of 2021, the Company achieved operating income of RMB1.021 billion, an increase of 38.06% over the same period of last year; and the net profit was RMB53.5331 million, an increase of 412.11% over the same period of last year. As of the end of December 2021, the Company had total assets of RMB2.81 billion, net assets of RMB1.641 billion and asset-liability ratio of 41.62%.



Management Discussion and Analysis

In 2021, the “Reconstruction and Expansion Project with Daily Processing Capacity of 600 Tons of Liquid Milk” project of the Company (production line number: CEMA-N032PL01) won the title of National at the end of June 2021. Ninxia Ruiyuan Pasture Co., Ltd. (臨夏縣瑞園牧場有限公司) (Pasture No.: CEMA-N032DF001), Lanzhou Ruixing Animal Husbandry Co., Ltd. (蘭州瑞興牧業有限公司) (Pasture No.: CEMA-N032DF003) and Gansu Ruijia Animal Husbandry Co., Ltd. (甘肅瑞嘉牧業有限公司) (Pasture No.: CEMA-N032DF004), which are wholly-owned subsidiaries of the Company, were awarded the national title of “Demonstration Pasture for High Quality Milk Engineering”, respectively.

- **Interim Impact of COVID-19 on the Product Sales**

In 2021, the recurring waves of COVID-19 caused not only a material negative impact on daily travelling, work and daily life as well as consumption and shopping of residents, but also an adverse impact on the low-temperature distribution of products to the door and the sales planning of the Company. For example, during the epidemic prevention and control period, the travel of community residents was reduced while the logistics and distribution were restricted, which forced the Company to suspend its low-temperature distribution of products to the door from time to time in compliance with epidemic prevention measures, and hence to adjust its production plan and sales plan, causing an adverse impact on its production and operation.

- **Expansion of our Distribution Network**

We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu, Qinghai and Shaanxi. As at 31 December 2021, we had entered into distribution agreements with 693 distributors and sales agents, as compared to 743 distributors and sales agents as at 31 December 2020. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network, solidify our established position in our primary markets and we have conducted an integrated management of our distributors and sales agents in 2021. Furthermore, we have also expanded our distribution network into the China national market, especially in the northwestern China region.

- **Average Selling Price of our Liquid Milk Products**

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition situation. We reduced the average selling price on an interim basis due to the impact of COVID-19. At the same time, the Company undertook certain dairy products processing business on an OEM basis during the Reporting Period. The average selling price of our liquid milk products decreased from RMB8,607 per tonne in 2020 to RMB7,931 per tonne in 2021.



Management Discussion and Analysis

Quality Control

Product safety management and quality control are our core values and of paramount importance to our business. We implement stringent quality control and production safety management measures throughout our production process from the procurement of feeds, dairy farming, raw milk sourcing and processing to production, packaging, storage and delivery of our products.

Our quality control system is designed based on the Good Manufacturing Practices (GMPs), the Hazard Analysis and Critical Control Points (HACCPs) and the Sanitation Standard Operating Procedures (SSOPs).

GMPs are the foundation for our milk safety and milk quality programme. GMPs are implemented in four main areas of our dairy processing, specifying control measures in respect of (i) personnel hygiene; (ii) building and facilities; (iii) equipment and utensils; and (iv) production and process control (Hygiene Specifications for Factory Environment, Hygiene Specifications for Production and Processing, Hygiene Specifications for Workshops and Facilities, Hygiene Specifications for Personnel, Hygiene Specifications for Raw and Auxiliary Materials, Hygiene Specifications for Toxic and Hazardous Substances, Hygiene Specifications for Packaging, Storage and Transportation, Hygiene Specifications for Inspection, Hygiene Specifications for Pest Control).

In addition, we have also applied the principles of HACCP in the management of our milk safety. Our HACCP plan focuses on areas where problems potentially may occur and requires that production facilities be prepared to deal with problems immediately if they occur. Under our HACCP plan, we conducted a hazard analysis in order to identify any hazardous biological, chemical or physical properties in raw materials and processing steps. Based on the analysis, we identified the critical control points and established monitoring procedures and use the monitoring results to streamline processes on a continuous basis. As a testament of our efforts in complying with HACCP, our production plants in Gansu and Qinghai received the HACCP Certification issued by the China Quality Certification Centre and Beijing Continental Hengtong Certification Co. Ltd., respectively.

Furthermore, we have also implemented the SSOPs specifying step-by-step procedures needed for processes related to sanitation. Following the SSOPs, we focus on key sanitation conditions and requirements, such as the safety of water that comes into contact with dairy products, condition and cleanliness of contact surfaces, prevention of cross-contamination from insanitary objects to dairy product, protection of dairy products and packaging materials, labelling, storage, and use of cleaning solutions and pesticides, control of employee health conditions, and exclusion of pests from the production plant.

Our quality control system is divided into six stages: (i) control over the quality of feeds; (ii) control over the quality of dairy cows; (iii) control over sourcing and processing of raw milk; (iv) control over raw materials and suppliers; (v) control over production process; and (vi) control over storage and delivery of finished products.



Management Discussion and Analysis

Brand Building

Adhering to the tenet of “Offering Excellent Quality and Creating a Brand of the Times”, the Company offers products in dozens of varieties under the series of “Zhuangyuan Ranch” (莊園牧場), “Shenghu” (聖湖) and “Dongfang Duoxian Zhuangyuan” (東方多鮮莊園), including pasteurised milk, sterilised milk, modified milk, fermented milk and milk-containing beverages, etc., in order to meet the needs of different consumer groups. As the star product of the Company, “Manor Concentrated Milk” was selected as the most influential product brand in Gansu Province in 2021.

The liquid milk product industry in China, including Gansu, Qinghai and Shaanxi, our major markets, is highly concentrated. The competitive landscape of the dairy product industry in China can be split into three categories: (1) national brands; (2) regional brands; and (3) foreign brands. As a regional brand, we are located near to the market with shorter transportation time that guarantees better freshness. Our products are also more tailored to the taste and spending habits of end consumers. Compared with our competitors, we benefited from over 60% of our own farm’s supply of raw milk a stable supply of raw milk from our suppliers with whom we have developed good relationship over the years.

We also seek to expand our third party distributors to deepen our regional sales and distribution network and solidify our established position in Gansu, Qinghai and Shaanxi, our primary markets. We will also continue to develop the e-commerce sales channels and satisfy the demands and preferences of different consumer groups through the internet direct sales portal to reach a wider customer base and to adapt to consumers’ purchase preference.



Management Discussion and Analysis

FINANCIAL OVERVIEW

Operating Income

Principal Activities

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the years ended 31 December 2021 and 2020:

	2021			2020		
	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne
Liquid Milk Products						
Pasteurised milk	82,529	9,802	8,420	60,218	7,673	7,848
UHT milk	320,379	43,196	7,417	209,178	29,714	7,040
Modified milk	320,516	35,527	9,022	267,311	29,716	8,995
Yogurt	153,413	12,810	11,976	177,581	15,392	11,537
Subtotal	876,837	101,335	8,653	714,288	82,495	8,659
Milk Beverage	5,336	965	5,532	7,450	1,396	5,338
Other Dairy Products	1,048	38	27,314	415	10	42,229
Raw milk	110,908	23,002	4,822	—	—	—
Total	994,128	125,339	7,931	722,152	83,901	8,607

Our income from principal activities increased by approximately 37.66% from approximately RMB722.2 million for the year ended 31 December 2020 to approximately RMB994.1 million for the year ended 31 December 2021, mainly due to the fact that the Group consolidated traditional channels and adopted an aggressive sales policy in 2021. Meanwhile, on the premise of satisfying the needs of the production of our dairy products, the Company intended to diversify its development by selling its surplus own produced fresh milk from time to time to other dairy manufacturers, and it has sold part of its raw milk during the Reporting Year. The Company's performance in 2021 improved significantly as compared to 2020.



Management Discussion and Analysis

Gross profit and gross profit margin

The following table sets forth the breakdown of our cost of sales and gross profit by our product types, as well as their respective gross profit margin after biological asset fair value adjustments, for the years indicated:

Products	2021			2020		
	Cost of Sales RMB'000	Gross Profit RMB'000	Gross Profit Margin %	Cost of Sales RMB'000	Gross Profit RMB'000	Gross Profit Margin %
Liquid milk products						
Pasteurised milk	56,505	26,024	31.53%	41,838	18,380	30.52%
UHT milk	291,331	29,048	9.07%	170,097	39,081	18.68%
Modified milk	238,520	81,995	25.58%	198,490	68,821	25.75%
Yogurt	110,582	42,831	27.92%	129,750	47,831	26.93%
Sub-total	696,939	179,898	20.52%	540,176	174,111	24.38%
Milk beverage	4,293	1,042	19.54%	5,920	1,530	20.54%
Other dairy products	1,520	(472)	(45.06%)	288	126	30.48%
Raw milk	55,355	55,553	50.09%	—	—	—
Total	758,107	236,021	23.74%	546,384	175,768	24.34%

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was approximately 24.34% for the year ended 31 December 2020 and approximately 23.74% for the year ended 31 December 2021. The overall gross margin during the Reporting Year decreased as compared to the previous year due to the slight decrease in gross profit resulting from the more aggressive sales policy of the Company to promote sales and undertaking of certain OEM-based dairy product processing business by the Company.



Management Discussion and Analysis

Gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased from approximately RMB15.1 million for the year ended 31 December 2020 to approximately RMB17.9 million for the year ended 31 December 2021. The increase during the Reporting Year was primarily due to the increase in the price of raw milk as compared with the corresponding period of last year.

Other income

Other income mainly includes amortisation of deferred income and government grants received in the current period. Government grants are generally obtained from our agricultural activities. For the years ended 31 December 2021 and 2020, other income recognised by us amounted to approximately RMB7.1 million and approximately RMB6.5 million, respectively.

Qualification and independence of the valuers

Beijing Yatai Lianhua Assets Appraisal Co. Ltd. (“Beijing Yatai Lianhua”) was established in 1993 certified with the Licensed Certification for Appraisals in relation to Securities and Futures (《證券期貨相關業務評估資格》) jointly issued by the MOF and the CSRC. It possesses qualifications in the valuation of properties and land. Given the need of the Company for the preparation of financial statements for the year ended 31 December 2021, the Company engaged Beijing Yatai Lianhua to perform a valuation on the biological assets intended to be carried at fair value that are reported by seven wholly-owned subsidiaries and a wholly-owned sub-subsidiary under the Company, being Lanzhou Ruixing Farming Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Qinghai Shengya Plateau Pasture Co., Ltd., Gansu Ruijia Animal Husbandry Co., Ltd., Linxia Ruiyuan Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd., Yuzhong Ruifeng Pasture Co., Ltd. and Shaanxi Duoxian Animal Husbandry Co., Ltd.

Beijing Yatai Lianhua is a firm of independent qualified professional valuer. The asset valuation report was prepared in accordance with the Asset Evaluation Standards — Basic Standards (《資產評估基本準則》) issued by the MOF and the Asset Valuation Professional Ethical Standards (《資產評估職業道德準則》) issued by the China Appraisal Society. Beijing Yatai Lianhua, the party engaged in the valuation and preparation of the valuation results does not hold any interests in the Company or our related parties. The appointment of the valuer for the performance of valuation by the Company is based on the requirements under laws and regulations such as the Asset Appraisal Law of the People’s Republic of China (《中華人民共和國資產評估法》), the Civil Code of the People’s Republic of China (《中華人民共和國民法典》), the Asset Evaluation Basic Standards (《資產評估基本準則》) and the Practicing Standards for Asset Valuation — Asset Valuation Engagement Contracts (《資產評估執業準則—資產評估委託合同》). The valuer of Beijing Yatai Lianhua obtained the appraisal results in accordance with the relevant PRC regulations on valuing assets and the principles of independence, objectiveness, fairness and science. Payment of valuation fees is not contingent upon the conclusion drawn in the valuation results.

The key members of Beijing Yatai Lianhua engaged in this valuation were Mr. Wang Ming and Ms. Chen Ying. Mr. Wang Ming is the deputy head and asset appraiser of Beijing Yatai Lianhua, and Ms. Chen Ying is the project manager and asset appraiser of Beijing Yatai Lianhua. They have provided valuation services in relation to the conversion, listing, transfer of equity interest, etc., to numerous companies in Mainland China and have extensive experience in asset appraisal.



Management Discussion and Analysis

Operating expenses

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Selling and administrative expenses	60,732	52,676
General and administration expenses	101,257	68,815
Total operating expenses	161,990	121,491

Operating expenses increased from approximately RMB121.5 million for the year ended 31 December 2020 to approximately RMB162.0 million for the year ended 31 December 2021.

The increase in selling and distribution expenses during the Reporting Year was mainly due to the fact that in the Reporting Year, compared with the year ended 31 December 2020, the dairy product consumption market fully recovered, and the sales expenses of the Company have increased with the increase of sales volume.

The increase in administration expenses was mainly due to the increase in staff costs, depreciation and amortisation expenses of the Company as compared with the corresponding period last year.

Financial expenses

Our net finance costs decreased by approximately 47.23% from approximately RMB23.9 million for the year ended 31 December 2020 to approximately RMB12.6 million for the year ended 31 December 2021, mainly due to the decrease in the amount of loans and lending rates as compared with the year ended 31 December 2020.

Current ratio

As at 31 December 2021, our current ratio (current assets/current liabilities) was approximately 0.86 compared to approximately 0.95 as at 31 December 2020.



Management Discussion and Analysis

Liquidity and capital resources

During the Reporting Year, we financed our operations primarily through net cash inflows from our daily operations. As at 31 December 2021, we had approximately RMB362.9 million in cash and cash equivalents, which was mainly denominated in RMB and primarily consisted of cash on hand and bank deposits.

Capital expenditures

We had capital expenditures of approximately RMB374.9 million and approximately RMB409.8 million for the years ended 31 December 2021 and 2020, respectively, which were primarily used in purchasing property, plant and equipment, and procuring dairy cows.

Working capital

As at 31 December 2021, we had net current assets of approximately RMB(99.6) million (31 December 2020: net current assets of approximately RMB(52.3) million).

Indebtedness

During the Reporting Year, our borrowings were denominated in RMB. As at 31 December 2021, our outstanding short-term bank loans, including long-term loans due within one year, amounted to approximately RMB319.7 million at interest rates ranging from 4.00% to 6.09% per annum. As at 31 December 2021, our outstanding long-term bank loans, net of amount due within one year, amounted to approximately RMB353.5 million at interest rates ranging from 4.10% to 5.70% per annum.

The management believes that the existing financing resources will be sufficient to meet current operations, current and future expansion plans and, if necessary, we will be able to obtain additional financing with favorable terms. There is no material effect of seasonality on our borrowing requirements.

For the Reporting Year, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed.

Asset-liability ratio

As at 31 December 2021, our asset-liability ratio was approximately 41.62% (the ratio of total liabilities to assets) compared to approximately 48.33% as at 31 December 2020.



Management Discussion and Analysis

Foreign exchange risk and pledge of assets

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 31 December 2021 were denominated in the respective Group companies' functional currencies.

For the year ended 31 December 2021, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed. The management will continue to monitor foreign currency risk and adopt prudent measures as and when appropriate.

As at 31 December 2021, the book value of our restricted assets was approximately RMB227.2 million (31 December 2020: approximately RMB787.4 million). The types and book value of the restricted assets were as follows: (1) monetary capital of approximately RMB40.0 million (31 December 2020: approximately RMB215.2 million); (2) fixed assets of approximately RMB110.6 million (31 December 2020: approximately RMB454.8 million); (3) intangible assets of approximately RMB76.6 million (31 December 2020: approximately RMB82.2 million).

Contingent liabilities

As at 31 December 2021, we did not have significant contingent liabilities.

Capital structure

Save as disclosed in the paragraph headed "PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY" in the Directors' report, there was no change in the capital structure of the Group during the Reporting Year. The capital of the Group only comprises ordinary shares.

Significant investments

The Company was established in April 2000. Its production base located in Sanjiaocheng, Yuzhong County, Lanzhou City, Gansu Province was built according to the then market size, consumer demand and industry characteristics, and was completed and put into production in 2003. After nearly 20 years, some workshops became outdated with some equipment getting obsolete. Due to limited plant area and fixed plant layout, the Company's dairy processing base in Yuzhong County is now unable to fully meet the growing demand for product diversification in the dairy consumer market and introduction of advanced dairy production processes such as filling technology.



Management Discussion and Analysis

In view of its future long-term planning and sustainable development, the Company started the “reconstruction and expansion project with daily processing 600 tons of liquid milk” in 2018. This “reconstruction and expansion project with daily processing 600 tons of liquid milk” will be built on the land where the existing production and processing base is located with a site area of 35.70 acres and 113.82 acres of newly purchased land in 2018, that is, a total of 149.52 acres of land. An experienced and qualified engineering design institute was engaged to provide a rational and modern plan for overall layout for investment and construction. Existing obsolete production equipment with low utilisation rate, long service life and outdated production technology will be demised. At the same time, new production lines will be purchased and built to increase the Company’s production capacity. The capacity and output realised after the project is completed and put into operation will include the existing capacity and output of the Yuzhong processing base with some enhancement.

The Company invested approximately RMB14.5 million in 2018, and approximately RMB316.7 million in 2019. As of 31 December 2020, the cumulative investment was approximately RMB331.2 million.

The completion and acceptance work for the “reconstruction and expansion project with daily processing 600 tons of liquid milk” has been completed during the year ended 31 December 2020, and the Company has obtained the Housing Construction Project and Municipal infrastructure Project Completion Acceptance Recording Form (No. 17 [2020]) (《房屋建築工程和市政基礎設施工程竣工驗收備案表》(編號2020年第17號)), issued by the Housing and Urban-rural Development Bureau of Yuzhong County. The operation of this project will help optimize the production process and enrich the product structure; improve production efficiency and reduce staff costs; improve production standards and strengthen product quality control; and integrate the Group’s production resources for long-term development.

Currently, the Company is a professional dairy production enterprise integrating dairy farming, technology research and development, dairy processing and sales, and has formed a whole industrial chain management mode in which we process and sell liquid milk products with milk source from our own pasture as the main raw milk. The reliability of raw milk quality has been highly valued by the industry and consumers, and has become an important embodiment of our core competitiveness in the industry. In order to further strengthen the control of product quality at source, the Company invested in the construction of “Recycling Industrial Park Project of a Dairy Farm with 10,000 Dairy Cows in Jinchuan District” (金川區萬頭奶牛養殖循環產業園項目) in Shuangwan Town, Jinchuan District, Jinchang City, Gansu Province from 2019. As of 31 December 2021, the Company has made aggregate investments of approximately RMB312.9 million (31 December 2020: approximately RMB218.5 million) in the project, accounting for 11.14% (31 December 2020: approximately 7.09%) of its total assets of approximately RMB2,810.4 million (31 December 2020: approximately RMB3,080.6 million) as at 31 December 2021.



Management Discussion and Analysis

Material acquisitions and disposals of subsidiaries, associates and joint ventures

Save as disclosed herein, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2021.

Details of future plans for material investments or capital assets and expected sources of funding

As at 31 December 2021, the Company had no future plans for material investments or capital assets.

Use of proceeds from the A Share Listing

Information about the use of raised funds from the public offering of A Shares in 2017:

As approved by the “Approval for the Issue of Shares of Lanzhou Zhuangyuan Pasture Co., Ltd. (蘭州莊園牧場股份有限公司) 2017 No. 1779” issued by the CSRC on 29 September 2017, the Company carried out the public offering of 46,840,000 A Shares of RMB1 each via offline placing through price consultations to qualified investors and online issuance at an issue price of RMB7.46 per share to public investors who hold the market value of non-restricted A Shares circulated in the Shenzhen market. The total sum of funds raised was RMB349,426,400 and the total net proceeds after deduction of the related issuance expenses of RMB39,922,700 (exclusive of value-added taxes) amounted to RMB309,503,700. As of 24 October 2017, the Company has received the monetary funds raised through the public offering of A shares. Such proceeds were verified by KPMG Huazhen (Special General Partnership) which accordingly issued its capital verification reports (KPMG Huazhen Yan Zi No. 1700634). The Company deposited the proceeds in a special account for management purposes.

The funds utilised in the Reporting Year were RMB7,944,246.46, the temporary supplemental liquidities were RMB30,000,000.00 and the interest income of the special account for funds raised after deducting handling charges for the current year was RMB67,142.59. As of 31 December 2021, the Company had utilised RMB268,592,377 out of the funds raised from the A Share Listing. The net interest income from the Raised Funds after deduction of handling charges was RMB1,541,183.52. The balance of the Raised Funds deposited in the special account was RMB12,452,506.52, and the balance of the Raised Funds unutilised was RMB42,452,506.52.



Management Discussion and Analysis

Table of actual use of raised funds from the public offering of A Shares in 2017

Unit: RMB'000

Total raised funds	309,504	Total raised funds invested during the period	7,944
Total raised funds which changed purpose during the reporting period		Total raised funds invested accumulatively	268,592
Total accumulatively raised funds which changed purpose	256,104		
The proportion of total accumulatively raised funds which changed purpose	83%		

Committed investment projects and use of excessive raised funds	Whether the project has been changed (including partial changes)	Total committed investment of raised funds	Total investment after adjustment ⁽¹⁾	The amount invested during the period	Accumulated amount invested as of the end of the period ⁽²⁾	Investment progress as of the end of the period (%) (3)=(2)/(1)	The date when the project reaches a predetermined usable state	The benefit realized during the period	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project
Committed investment projects										
1. The project of cultivation and construction of 10,000 imported good dairy cows	Yes	260,193	53,400		53,400	100.00%	December 2021	7,546	N/A	No
2. The construction project of self-service milk selling machines and ancillary facility	Yes	49,310					N/A	N/A	N/A	Yes
3. The acquisition of 82% equity interest of Xi'an Dongfang Dairy Company Limited			150,000		150,000	100.00%	October 2018	N/A	N/A	No
4. Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District			106,104	7,944	65,192	61.44%	December 2021	7,546	N/A	No
Sub-total of committed investment projects		309,504	309,504	7,944	268,592	86.78%		7,546		
Use of excessive raised funds										
No										
Repayment of bank loan (if any)										
Supplemental liquidities (if any)										
Sub-total of use of excessive raised funds										
Total		309,504	309,504	7,944	268,592	86.78%		7,546		

Note: The balance is expected to be fully utilized by the end of 2022.

Management Discussion and Analysis

Information about the use of raised funds from the non-public offering of A Shares in 2020:

As approved by the “Reply on Approval of Non-public Issuance of Shares by Lanzhou Zhuangyuan Pasture Co., Ltd. (Zheng Jian Xu Ke [2020] No. 1864) (《關於核准蘭州莊園牧場股份有限公司非公開發行股票的批覆》(證監許可(2020)1864號))” issued by the CSRC on 18 August 2020, the Company carried out the offering of 43,000,000 A Shares of RMB1 each through non-public issuance method to specific investors at an issue price of RMB8.78 per share. The total sum of funds raised was RMB377,540,000 and the total net proceeds after deduction of the related issuance expenses of RMB8,661,213.21 (exclusive of value-added taxes) amounted to RMB368,878,786.79. As of 30 November 2020, the Company has received the monetary funds raised through the public offering of A shares. Such proceeds were verified by WUYIGE Certified Public Accountants LLP which accordingly issued its capital verification reports (Da Xin Yan Zi [2020] No. 35-00010). The Company deposited the proceeds in a special account for management purposes.

The funds utilized during the Reporting Year were RMB104,306,458.4, the temporary supplemental liquidities were RMB100,000,000.00 and the interest income of the special account for funds raised after deducting handling charges for the current year was RMB1,761,333.38. As of 31 December 2021, the Company had utilized RMB213,164,776.0 out of the funds raised from the A Share Listing. The net interest income from the Raised Funds after deduction of handling charges was RMB1,835,768.08. The balance of the Raised Funds deposited in the special account was RMB57,537,623.59, and the balance of the Raised Funds unutilized was RMB157,549,779.02.



Management Discussion and Analysis

Table of actual use of raised funds from the non-public offering of A Shares in 2020

Unit: RMB'000

Total raised funds	368,879	Total raised funds invested during the period	104,306							
Total raised funds which changed purpose during the reporting period		Total raised funds invested accumulatively	213,165							
Total accumulatively raised funds which changed purpose										
The proportion of total accumulatively raised funds which changed purpose										
Committed investment projects and use of excessive raised funds	Whether the project has been changed (including partial changes)	Total committed investment of raised funds	Total investment after adjustment ⁽¹⁾	The amount invested during the period	Accumulated amount invested as of the end of the period ⁽²⁾	Investment progress as of the end of the period (%) (3)=(2)/(1)	The date when the project reaches a predetermined usable state	The benefit realized during the period	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project
Committed investment projects										
Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District		328,879	328,879	104,306	173,165	52.65%	December 2021	7,546	N/A	No
Repayment of bank loan		40,000	40,000		40,000	100.00%	N/A	N/A	N/A	No
Sub-total of committed investment projects		368,879	368,879	104,306	213,165	57.79%		7,546		
Use of excessive raised funds										
No										
Repayment of bank loan (if any)										
Supplemental liquidities (if any)										
Sub-total of use of excessive raised funds										
Tota		368,879	368,879	104,306	213,165	57.79%		7,546		

Note: The balance is expected to be fully utilized by the end of 2023.

Management Discussion and Analysis

Human Resources

We had 1,401 employees in Mainland China and Hong Kong as at 31 December 2021 (31 December 2020: 1,268 employees). During the Reporting Period, total staff costs, including the portion accounted for in the profit and loss statement and capitalised to assets but excluding independent non-executive directors' fees, were approximately RMB94.2 million (year ended 31 December 2020: approximately RMB71.1 million).

Our remuneration policies aim to attract, retain and incentivize talents to ensure competency of our team in implementing our business strategies and to maximize shareholder value. We will regularly review our remuneration policies and employee benefits with reference to market practices and performance of individual employees.

For its employees in the PRC, the Group has participated in defined contribution benefit plans and social insurance plans organised by the relevant local governmental authorities.

The Restricted Shares Incentive Scheme for 2019 (draft) was considered and approved at the meeting of the Board held by the Company on 11 March 2019; the general meeting was held on 23 May 2019 to consider and approve the Restricted Shares Incentive Scheme for 2019 (draft); the meeting of the Board was held on 21 June 2019 to consider and approve "first granting 3,341,000 restricted shares to the 84 incentive targets after adjustments"; "Application Materials for Completion of Registration of Equity Incentive Grant" was submitted to Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited on 27 June 2019; the registration of restricted shares grant was completed on 12 July 2019. The Resolution on the Repurchase and Cancellation of All Restricted Shares in the First Release of Locked Period under the 2019 Restricted Shares Incentive Scheme was considered and approved at the Board meeting and general meeting convened by the Company on 15 January 2021 and 18 March 2021 respectively due to the Company's performance assessment failed to meet the releasing conditions in the First Release of Locked Period under the Restricted Shares Incentive Scheme, allowing the Company to repurchase and cancel a total of 874,728 Restricted Shares held by 77 Incentive Participants involved, and also allowing the Company to repurchase and cancel all of the 424,840 Restricted Shares granted but restrictions not yet released from the 7 Incentive Participants who have resigned. The procedures for the repurchase and cancellation of Restricted Shares were completed on 16 June 2021.

Corporate Social Responsibility

We believe that social responsibility is the foundation for the development of an enterprise. We will continue to give back to the society mainly by taking part in consolidating and expanding the achievements of poverty alleviation and comprehensively promoting rural revitalisation and social welfare activities, so as to achieve mutual development and advancement with the society.



Management Discussion and Analysis

As a national leading agriculture industrialisation enterprise, we remain committed to responding positively to China's policy of consolidating and expanding the achievements of poverty eradication and rural revitalisation, unswervingly implementing the new development concept of the Party and the State, adhering to the general principle of pursuing progress while ensuring stability, insisting on the people-oriented development ideology, keeping moving towards the common prosperity, and firmly supporting the efforts to consolidate and expand the achievements of poverty alleviation and rural revitalisation. On the one hand, the Company ensures sound business operations and achieves growth in sales revenue and profit, while on the other hand, the Company actively undertakes more social responsibilities, and makes contributions to rural revitalisation to consolidate and expand the achievements of poverty alleviation and rural revitalisation through the industrial chain.

In 2021, the Company mainly performed its work in the following two aspects:

(I) Driving through industry

1. The Company entered into a logistics distribution agreement with Yuzhong Guangmao Trade (榆中廣茂商貿), a cooperative in the region where the Company is located, under which revenue of six households was increased and logistics transportation payment amounted to RMB3,573,200 in 2021.
2. With the unique advantage of the development of dairy farming industry, the Company, under the "company + base + farmers" order purchase mode, purchased 128,156 tons of whole-plant corn from the surrounding towns of the ranch site at purchase price of RMB76,051,800. Such purchase has led to increase of the planting area by approximately 32,039 mu, involving approximately 1,300 farmers.
3. Ranches of the Company have boosted revenues of 329 farmers by leasing the land of farmers residing in the region where the ranches are located. In 2021, the Company has paid aggregate land rent of RMB2,533,600 with respect to such lease, which boosting revenue of 329 peasant households.
4. The Company employed peasants to increase their revenue. In 2021, the Company paid total salaries of RMB62,159,300 to approximately 1,100 peasants who were employed by the Company.

(II) Social welfare

1. Amid the resurgence of COVID-19 in 2021, the Company placed equal emphasis on the prevention and control of the epidemic and production and operation, and did its utmost to ensure the safe supply of "milk bottles" for consumers. At the same time, the Company gave full play to its own advantages in logistics and distribution system and its capacity to guarantee supply of dairy products. The Company utilised more than 200 vehicles for logistics and distribution. The Company also donated more than 2,000 cases of its products valuing RMB204,700 to nucleic acid testing sites in Lanzhou City and highway intersections in various cities and prefectures in the province.



Management Discussion and Analysis

2. In April 2021, the Company donated products valuing RMB1,400 to 10 households of ethnic minority compatriots in difficulty in Shengou Village, Xiaokangying Township, Yuzhong County.
3. On 27 April 2021, the Company donated products valuing RMB7,500 to 81 volunteers at a donation ceremony held by the Bureau of Industry and Information Technology of Yuzhong County, Gansu Province and Qiyun Beilu Road Community of Yuzhong County under the theme of “spreading civilisations and promoting volunteer spirit”.

OUTLOOK

Upholding the corporate mission of “Offering Excellent Quality and Creating a Brand of the Times “, the Company strives to build a famous food brand in the western China and develop itself into a first-class Chinese dairy enterprise characterised by the modern corporate culture that all employees believe in. We adapt to the quality management requirements of “safe and fresh” products under the balanced development strategy of “coordination between market development and supply capacity”. On the basis of a safe and controllable production, transportation and sales system that integrates dairy farming, procurement of raw milk, processing of dairy product, and transportation and sales of product, we actively develop markets within a reasonable distribution radius with the production base as the centre.

With the vigorous development of China’s economy and the continuous improvement of people’s quality of life, consumers’ demand for quality life, healthcare and health nurturing is increasing rapidly. In particular, the implementation of the Healthy China strategy put forward in the report of the 19th National Congress of the Communist Party of China has promoted food safety and the development of healthcare industry to an unprecedented new height, indicating that the dairy industry will still be in a period of steady growth for a long time to come.

As a basic livelihood product, dairy products are strongly supported by national policies. In the post-epidemic era, consumers are increasingly demanding healthy and nutritious food, and they are paying more attention to the nutritional ingredients of food and the health of processing methods. Dairy products have attracted more consumers by virtue of their unique health and nutrition attributes, resulting in further increase in the market penetration rate of dairy products. The overall consumption scale has shown a sustained growth trend.

1. We will continue to take the production of quality dairy products as the goal on the basis of a complete set of production facilities and processes such as large-scale concentrated farming, concentrated unified milking, specialized storage, transportation and processing of fresh milk and further improve the level of dairy farming through production demonstration and technology radiation. We will strengthen the cooperation with external professional dairy farming institutions with large farming scale, rich farming experience and high product quality to form balanced, complementary and diversified supply sources of fresh and raw milk while strengthening the construction of our own milk source base. We will continue to ensure the effective connection of safe and reliable milk source with dairy product processing link to achieve the security and controllability of product quality during the whole process.



Management Discussion and Analysis

2. We will continue to strengthen the study on the consumption behaviors of dairy products consumers within the region, perfect the formula of products and optimization configuration of processes and equipments on a consumer-oriented basis, make the products to own targeted and characteristic advantages, and establish a system of consumption analysis to trigger research and development in order to satisfy consumption demands under different scenarios and maintain the loyalty of consumers to the brand with upgrading products.
3. We will further establish and improve the production safety responsibility system at various levels and in various departments, strengthen the production safety training for the management and employees of the Company to improve the quality of production safety management, enhance the awareness of production safety. We will further improve the production safety system to build a production safety defense line.
4. We will further deepen and penetrate sales channels, increase the sinking efforts of sales channels, actively expand the markets of third-tier cities and rural areas and vigorously promote the in-depth development of channels, so as to consolidate and increase market share and enhance market occupancy rate.
5. The Company will continue to conduct various forms of on-the-job trainings, improve work skills, enhance work efficiency and tamp the construction of the middle-level team. The Company will strengthen the recruitment of professional talents with market qualifications or excellent skills and give full development space and positive incentive policies to ensure the stability of the talent team and the echelon construction of the talent reserve and enhance the core competitiveness of the Company.



Directors, Supervisors and Senior Management

DIRECTORS

Mr. Yao Gexian (姚革顯), aged 53, Chinese nationality (without foreign permanent residency), a CPC member, was born in 1968. Mr. Yao Gexian was appointed as a non-independent Director, the chairman of the Board, a member of the nomination committee of the Company and the chairman of the strategy committee of the Company, respectively, on 29 June 2021. He graduated from the Beijing Agricultural and Industrial Cooperative Company Workers University (北京市農工商聯合總公司職工大學) majoring in financial accounting and China Central Radio and TV University (中央廣播電視大學) majoring in finance, holds a bachelor degree and is a Chinese senior accountant. He has successively served as section officer of Gansu Nongken Group Limited Liability Company* (甘肅省農墾集團有限責任公司), assistant general manager of Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業(集團)股份有限公司), deputy director of the Finance Department, deputy director of the Securities Department, deputy director of the Capital Operation Department, director of the Enterprise Management Department of Gansu Nongken Group Limited Liability Company and director of Finance Department of Gansu Nongken Group Limited Liability Company.

Mr. Ma Hongfu (馬紅富), aged 56, Chinese nationality (without foreign permanent residency), was born in 1966. Mr. Ma Hongfu was appointed as a non-independent Director, the general manager of the Company and a member of the remuneration and appraisal committee of the Company, respectively, on 29 June 2021, and was appointed as vice chairman of the Company on 5 August 2021. Mr. Ma obtained a degree of Executive Master of Business Administration (EMBA) from Tsinghua University (清華大學). He successively served as the executive director and general manager, chairman of the board and general manager of Lanzhou Zhuangyuan Dairy Company Limited, and the chairman of the board and general manager of Lanzhou Zhuangyuan Pasture Co., Ltd. Mr. Ma served as the general manager of the Company from April 2011 to December 2017 and was appointed as the general manager of the Company again on 10 March 2020. He was appointed to the Board on 6 April 2011.

Mr. Ma Hongfu currently is a deputy to the 13th People's Congress of Gansu Province, a member of the Agriculture and Rural Affairs Committee, a deputy to the 16th People's Congress of Lanzhou City, the president of the Dairy Association of Gansu Province (甘肅乳品協會) and deputy president of the Food Industry Association of Gansu Province (甘肅省食品工業協會). In August 1994, he was honoured as "Youth Spark Leader of the National Countryside (全國農村青年星火帶頭人)" by The Central Committee of the Communist Young League (共青團中央) and State Science and Technology Commission (國家科委). He was awarded the "Outstanding Entrepreneur (優秀企業家)" by Gansu People's Government (甘肅省政府) in October 2002. He was also awarded the "Labour Model of Lanzhou (蘭州市勞動模範)" in August 2004. In June 2017, he was accredited as "Long Shang New Talent" (隴商新銳人物) by eight departments, such as the propaganda department of the Gansu provincial party committee.



Directors, Supervisors and Senior Management

Mr. Zhang Yu (張宇), aged 43, Chinese nationality (without foreign permanent residency), a CPC member, was born in 1978. Mr. Zhang Yu was appointed as a non-independent Director on 29 June 2021. He graduated from the Network Education College of Lanzhou University (蘭州大學網絡教育學院) majoring in human resource management, holds a bachelor degree and is an intermediate economist (human resource management). He has successively served as manager and deputy general manager of the Planning Department of Gansu Xingfu Express Travel Agency (甘肅幸福快車旅行社), staff and director of the Enterprise Management Department of Gansu Yasheng Industrial (Group) Co., Ltd, and deputy director of the General Office, Organization Department of the Party Committee, and Human Resources Department of Gansu Nongken Group Limited Liability Company, senior host officer of the General Office of Gansu Nongken Group Limited Liability Company and the deputy director of the Party Committee Office of Gansu Nongken Group Limited Liability Company.

Mr. Yang Yi (楊毅), aged 35, Chinese nationality (without foreign permanent residency), a CPC member, was born in 1986. Mr. Yang Yi was appointed as a non-independent Director, deputy general manager and financial director on 29 June 2021. He graduated from Gansu Agricultural University (甘肅農業大學) with a bachelor's degree in education, and served as the corporate accountant of Gansu Nongken Group Limited Liability Company and the secretary of the Party Committee of Gansu Nongken Group Limited Liability Company. Mr. Yang Yi was appraised as the “Advanced Individual of Financial reporting for 2011” and the “Advanced Individual of Financial reporting for 2012” by the Gansu SASAC, and the “Outstanding Individual for 2016 Accounting Work Performance in Gansu Province” by the Gansu Provincial Department of Finance.

Mr. Lian Enzhong (連恩中), aged 56, Chinese nationality (without foreign permanent residency), a CPC member, was born in 1966. Mr. Lian Enzhong was appointed as a non-independent Director on 29 June 2021. He graduated from Gansu Agricultural University in 2000 with a major in economics and management. He has successively served as director of Human Resources Department of Gansu Tianrun Potato Industry (甘肅天潤薯業), deputy general manager of Gansu Dayou Agricultural Technology Co., Ltd. (甘肅大有農業科技有限公司), director of Communications Office and deputy director of Human Resources Department of Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業(集團)股份有限公司), deputy investigator of the Organization Department of the Party Committee and Communications Office of Gansu Nongken Group Limited Liability Company, deputy director of the Organization Department of the Party Committee (Human Resources Department) of Gansu Nongken Group Limited Liability Company. He is currently the director of the Human Resources Department of Gansu Nongken Group Limited Liability Company.

Ms. Zhang Qianyu (張驀予), aged 41, Chinese nationality (without foreign permanent residency), was born in 1980. Ms. Zhang Qianyu was appointed as a non-independent Director on 29 June 2021. Ms. Zhang Qianyu is also currently the secretary of the Board and a joint company secretary of the Company. She holds a bachelor degree and is a member of the Chinese Institute of Certified Public Accountants (CICPA) and an associate member of The Institute of Chartered Accountants in England and Wales (ACA ICAEW). Ms. Zhang obtained her bachelor degree in Accounting from Taiyuan University of Technology (太原理工大學) in July 2003. She has successively served as a business manager of the investment banking department of Xi'an Branch of GF Securities Co., Ltd. and the general manager of the investment banking department of Lanzhou Branch of China CITIC Bank Corporation Limited. Ms. Zhang has been an executive Director, secretary of the Board and joint company secretary of the Company from 26 March 2018, 2 January 2019 and 2 January 2019, respectively.



Directors, Supervisors and Senior Management

Independent Directors

Mr. Wang Haipeng (王海鵬), aged 52, Chinese nationality (without foreign permanent residency), was born in 1969. Mr. Wang Haipeng was appointed as an independent Director, the chairman of each of the audit committee and the remuneration and appraisal committee of the Company and a member of the nomination committee of the Company, respectively, on 29 June 2021. He holds a bachelor degree and is a member of the Chinese Institute of Certified Public Accountants, an asset appraiser and an economist. He has successively served as planner of State-owned Huaxing Electronic Machinery Factory (國營華興電子機器廠), project manager of Lanzhou Accounting Firm (蘭州市會計師事務所), business director of Lanzhou Hengtong Accounting Co., Ltd. (蘭州恒通會計師事務所), deputy director of Gansu Guanghe Assets Appraisal Co., Ltd. (甘肅廣合資產評估事務所). He is currently the deputy director of Gansu Guanghe Certified Public Accountants Co., Ltd. (甘肅廣合會計師事務所), the head of Gansu Branch of China Enterprise Appraisals Co., Ltd., and the head of Gansu Branch of Beijing China Enterprise Huajianyou Engineering Management Co., Ltd.

Mr. Zhang Yubao (張玉寶), aged 42, Chinese nationality (without foreign permanent residency), a CPC member, was born in 1980 and is a PhD holder. Mr. Zhang Yubao was appointed as an independent Director and a member of each of the audit committee, remuneration and appraisal committee and strategy committee of the Company, respectively, on 26 August 2021. He has served as an assistant engineer and engineer at the Cold and Arid Regions Environmental and Engineering Research Institute of the Chinese Academy of Sciences* (中國科學院寒區旱區環境與工程研究所), and senior engineer and stationmaster at the Northwest Institute of Eco-Environment and Resources of Chinese Academy of Sciences* (中國科學院西北生態環境資源研究院). He is currently a chief senior engineer at the Northwest Institute of Eco-Environment and Resources of Chinese Academy of Sciences* (中國科學院西北生態環境資源研究院).

Mr. Zhang Yubao was awarded the “Patent Award of Gansu Province” (甘肅省專利獎) by the Gansu Provincial People’s Government* (甘肅省人民政府), won the Golden Bridge Award of the Sixth China Technology Market Association* (第六屆中國技術市場協會金橋獎), the Second “Vibrant Golden City” Lanzhou Talent Innovation and Entrepreneurship Award (第二屆「活力金城」蘭州市人才創新創業獎), the “Western Talent with Outstanding Contribution” Program of the Northwest Institute of Research* for 2020 (西北研究院2020年「西部突出貢獻人才」計劃), “Excellent Young Talent Award 2019” of Lanzhou Branch of the Chinese Academy of Sciences* (中科院蘭州分院2019年度「優秀青年人才獎」), and “Excellent Postdoctoral Fellow 2015” (2015年度優秀博士後) and “Outstanding Individual 2015” (2015年度「先進個人」) granted by the Cold and Arid Regions Environmental and Engineering Research Institute of the Chinese Academy of Sciences* (中國科學院寒區旱區環境與工程研究所).



Directors, Supervisors and Senior Management

From 2017 to 2021, Mr. Zhang Yubao successively published *Simultaneous Detection of Three Lily Viruses Using Triplex IC-RT-PCR*, *The Occurrence and Distribution of Viruses Infecting Lanzhou Lily In Northwest, China*, *A Study of Viral Coat Protein Accumulation in Lily Chloroplasts From Mixed Virus Infections of Lily Mottle Virus and Cucumber Mosaic Virus*, *Rapid Visual Detection of Japanese Hornwort Mosaic Virus Infecting Angelica Sinensis By Reverse Transcription LoopMediated Isothermal Amplification*, *Development of Immunocapture Reverse Transcription LoopMediated Isothermal Amplification Assays to Detect Both Lily Symptomless Virus And Cucumber Mosaic Virus*. From 2016 to 2020, he successively obtained invention patents respectively titled “A two-way colloidal gold immunochromatography rapid test card for lily symptomless virus, lily mottle virus and cucumber mosaic virus and its preparation method”, “A preparation method for semi-quantitative detection colloidal gold card of lily complex virus”, “A method for simultaneous detection of three kinds of lily viruses by triple immunocapture RT-PCR”, “A quantitative detection kit for PR1 gene of Lanzhou lily and its detection method”, and “A method for synchronously detecting lily symptomless virus and lily mottle virus by double composite immunocapture RTPCR”.

Mr. Sun Jian (孫健), aged 57, Chinese nationality (without foreign permanent residency), was born in 1965. Mr. Sun Jian was appointed as an independent Director, the chairman of the nomination committee of the Company, a member of each of the audit committee and the strategy committee of the Company, respectively, on 29 June 2021. He graduated from the Faculty of Law of Fudan University (復旦大學) with a bachelor degree in law. He is a senior lawyer and an M&A trader of the China Mergers and Acquisitions Association (中國併購公會). He was a senior partner of Gansu Tianhe Law Firm (甘肅天合律師事務所) and is currently a senior partner of Shanghai Huiye Law Office (上海市匯業律師事務所) and the director of the Lanzhou branch. He has provided legal services for Jiugang Hongxing (酒鋼宏興), Gansu Engineering Consulting (三毛派神), GEPIC Energy (西北化工), Greatwall Electrical (長城電工), Haimo Technologies (海默科技) and other companies in the restructuring, share issuance and listing, refinancing and major asset restructuring, and has served as the chief coordinating lawyer of the acquirer for the completion of Honglou Group (紅樓集團)'s acquisition of Lishang Guochao (蘭州民百), Shengda Group (盛達集團)'s acquisition of Weida Medical Equipment (威達醫械), Shanghai Real Estate Group (上海房地集團)'s acquisition of China Enterprise (中華企業) and Greenland Holdings (金豐投資), and Ronghua Group (榮華集團)'s acquisition of Ronghua Industry (榮華實業) and other listed companies. He participated in the 23rd Independent Director Training of The Shanghai Stock Exchange in 2012 and obtained the qualifications of independent directors. Since March 2018, Mr. Sun served as an independent director of Dayu Jieshui Group Company Limited (大禹節水集團股份有限公司), a company listed on The Shenzhen Stock Exchange (stock code: 300021).



Directors, Supervisors and Senior Management

Supervisors

Mr. Wang Fengming (王鳳鳴), aged 57, Chinese nationality (without foreign permanent residency), was born in 1965. Mr. Wang Fengming was appointed as a Shareholders representative Supervisor on 29 June 2021. He graduated from Shihezi Agricultural College (石河子農學院) majoring in agricultural and animal husbandry economic management, holds a bachelor degree and is a senior accountant and agricultural economist. He successively served as the corporate accountant of the Accounting and Finance Department of Gansu Nongken Corporation (甘肅省農墾總公司), the deputy director of the Finance Department of Gansu Nongken Corporation, the director of the Audit Department of Gansu Nongken Group Limited Liability Company and the supervisor of Gansu Yasheng Industrial (Group) Co., Ltd.

Mr. Wang Fengming was awarded the first prize of “Independent Audit Preparation and Economic Analysis of Final Financial Accounts of Nongken Enterprises (農墾企業財務決算獨立匯審編制及經濟分析)” for 1 time, second prize of “Independent Audit Preparation and Economic Analysis for Compilation of Final Financial Accounts of Enterprises (企業財務決算彙編獨立會審編制及經濟分析)” issued by the Finance Department of Gansu for 2 times and third prize for 1 time, first prize of “Independent Audit Preparation and Economic Analysis of Final Financial Accounts of Nongken Enterprises (農墾企業財務決算獨立匯審編制及經濟分析)” issued by the Ministry of Agriculture for 1 time and second prize for 1 time. From 1996 to 1999, Mr. Wang Fengming successively published “Practices for Strengthening Financial Management by Gansu Nongken 《甘肅農墾加強財務管理的做法》” and “Exploration of Final Accounts and Profit Accounting After Restructuring of Nongken Enterprises 《農墾企業改制後決算匯總報表與利潤核算的探索》” on “Chinese Agricultural Accounting 《中國農業會計》”.

Ms. Du Wei (杜魏), aged 43, was appointed to the Supervisory Committee on 6 April 2011. Ms. Du has obtained the college diploma majoring in Electronic Technology and Micro-computer Application by Lanzhou University (蘭州大學) in July 2001, and was engaged in a self-learning programme of Lanzhou University majoring in Computer Science Application and graduated in June 2004. Ms. Du is also qualified as Second Level Corporate Human Resource Manager (二級企業人力資源管理師) by the Occupational Skill Testing Centre of Human Resource and Social Security Department (人力資源和社會保障部職業技能鑒定中心) in December 2013. Ms. Du joined our Company in March 2008 and used to serve as the person-in-charge in our human resource department. Ms. Du is currently the manager of our human resource department responsible for management of human resource of our Company.

Mr. Wang Xuefeng (王學峰), aged 54, Chinese nationality (without foreign permanent residency), a CPC member, was born in 1967. Mr. Wang Xuefeng was appointed as an independent Supervisor on 29 June 2021. He holds a bachelor’s degree and has served as a workshop technician, party secretary, factory secretary, and acting secretary of the Youth League Committee of Gansu Pump Factory (甘肅水泵廠), deputy director of the office of Lanzhou Jinda Group Co., Ltd. (蘭州金達集團股份有限公司), salesperson and office director of Lanzhou Bateer Food Co., Ltd. (蘭州巴特兒食品有限責任公司), office director and assistant general manager of Lanzhou Jiufang Catering and Entertainment Co., Ltd. (蘭州九方餐飲娛樂有限責任公司), manager of the Administration Department of Lanzhou Zhuangyuan Pasture Co., Ltd. He is currently the administrative director of Lanzhou Zhuangyuan Pasture Co., Ltd.



Directors, Supervisors and Senior Management

Senior Management

Mr. Yang Yi (楊毅), aged 35, Chinese nationality (without foreign permanent residency), was born in 1986. Mr. Yang Yi was appointed as a non-independent Director, deputy general manager and financial director on 29 June 2021. He graduated from Gansu Agricultural University (甘肅農業大學) with a bachelor's degree in education, and served as the corporate accountant of Gansu Nongken Group Limited Liability Company and the secretary of the Party Committee of Gansu Nongken Group Limited Liability Company. Mr. Yang Yi was appraised as the “Advanced Individual of Financial reporting for 2011” and the “Advanced Individual of Financial reporting for 2012” by the Gansu SASAC, and the “Outstanding Individual for 2016 Accounting Work Performance in Gansu Province” by the Gansu Provincial Department of Finance.

Ms. Zhang Qianyu (張騫予), aged 41, Chinese nationality (without foreign permanent residency), was born in 1980. Ms. Zhang Qianyu was appointed as a non-independent Director on 29 June 2021. Ms. Zhang Qianyu is also currently the secretary of the Board and a joint company secretary of the Company. She holds a bachelor degree and is a member of the Chinese Institute of Certified Public Accountants (CICPA) and an associate member of The Institute of Chartered Accountants in England and Wales (ACA ICAEW). Ms. Zhang obtained her bachelor degree in Accounting from Taiyuan University of Technology (太原理工大學) in July 2003. She has successively served as a business manager of the investment banking department of Xi'an Branch of GF Securities Co., Ltd. and the general manager of the investment banking department of Lanzhou Branch of China CITIC Bank Corporation Limited. Ms. Zhang has been an executive Director, secretary of the Board and joint company secretary of the Company from 26 March 2018, 2 January 2019 and 2 January 2019, respectively.

Mr. Wang Guofu (王國福), Chinese nationality (without foreign permanent residency), was born in 1968. Mr. Wang completed his master courses majoring in Business Management in Lanzhou University (蘭州大學) and has accountant qualification. He successively served as accountant in Gansu Import and Export of Agricultural Byproducts Company (甘肅省農副產品進出口公司), financial manager and subsequently the financial director of Lanzhou Yongtai Food Co., Ltd. (蘭州永泰食品有限責任公司), and deputy general manager, board secretary, vice chairman of the board, and financial director of Lanzhou Zhuangyuan Pasture Co., Ltd. (蘭州莊園牧場股份有限公司), principally responsible for the overall financial management of Lanzhou Zhuangyuan Pasture Co., Ltd. (蘭州莊園牧場股份有限公司). He currently serves as the deputy general manager of Lanzhou Zhuangyuan Pasture Co., Ltd. (蘭州莊園牧場股份有限公司).



Supervisory Committee's Report

The supervisory committee of the Company (the "Supervisory Committee") has executed its duties earnestly, safeguarded the rights and interests of the Company and the Shareholders, complied with the principle of good faith and carried out its work in a diligent and proactive manner pursuant to the provisions of the Company Law of People's Republic of China, other relevant laws and regulations and the articles of association of the Company.

During the Reporting Year, the Supervisory Committee reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the articles of association of the Company (the "Articles of Association"), and in the interests of the Shareholders.

During the Reporting Year, the Supervisory Committee convened 11 meetings.

The Supervisory Committee has reviewed earnestly and approved the audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming AGM. We are of the opinion that the Board, chief executive of the Company and other Senior Management have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the articles of association of the Company. Up till now, none of the Directors, chief executive of the Company nor Senior Management has been found to have been in breach of any laws or regulations or the articles of association of the Company in material respects and damaged the interests of the Company or the Shareholders. The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2021 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Supervisory Committee

Wang Fengming

Lanzhou, the PRC, 30 March 2022



Corporate Governance Report

The Company is committed to achieving sound corporate governance in order to protect shareholders' interests and enhance investors' confidence, thus paving the way for the Company's development. The Company has complied with the code provisions set out in the Corporate Governance Code ("CG Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the Reporting Year except the deviation mentioned in the below section headed "**CHAIRMAN AND CHIEF EXECUTIVE**". In addition, the Board is of the view that the balanced composition of non-independent and independent Directors on the Board and the various committees of the Board (primarily comprising independent Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority. The Company will continue to commit itself to enhancing its corporate governance standard, promoting sustainable development of the Company and adding value.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions. Having made specific enquiry of all Directors and the supervisors of the Company (the "Supervisors"), all the Directors and Supervisors confirm that they have complied with the required standards of the Model Code during the year ended 31 December 2021, save and except as follows:

As disclosed in the overseas regulatory announcement of the Company dated 12 March 2021, Mr. Ma Hongfu ("Mr. Ma"), a Director, pledged (the "Share Pledge") 30,000,000 of his A shares to Gansu Jinkong Investment Co. Ltd. (甘肅金控投資有限公司, "Gansu Jinkong") for the purpose of third party financing guarantee.

The Board is aware that as at the date of the Share Pledge (i.e. 2 March 2021), the Directors were under the Company's black-out period under Provision A.3(a)(i) of Appendix 10 to the Listing Rules. In addition, it is noted that the Share Pledge was not done under exceptional circumstances. Hence, the Board considers that Mr. Ma, albeit inadvertently, did not comply with the dealing prohibition as the Share Pledge occurred during the black-out period.

The Company has taken, amongst others, the following remedial actions to improve its internal control system to ensure compliance of the Model Code by the Company and its directors and supervisors and prevent similar incidents in the future:

- (1) reminding all directors and supervisors of their obligations in relation to dealings in securities as set out in the securities dealing code adopted by the Company (following the Model Code);
- (2) recommending all directors and supervisors to circulate a set of comprehensive training materials;
- (3) circulating the template of a notification letter which would be required to be submitted by the director and supervisor to the Company at least 5 working days before any proposed dealing of the securities of the Company; and
- (4) planning to organise training sessions in the near future for all directors and senior management of the Company.

Corporate Governance Report

BOARD OF DIRECTORS AND MANAGEMENT

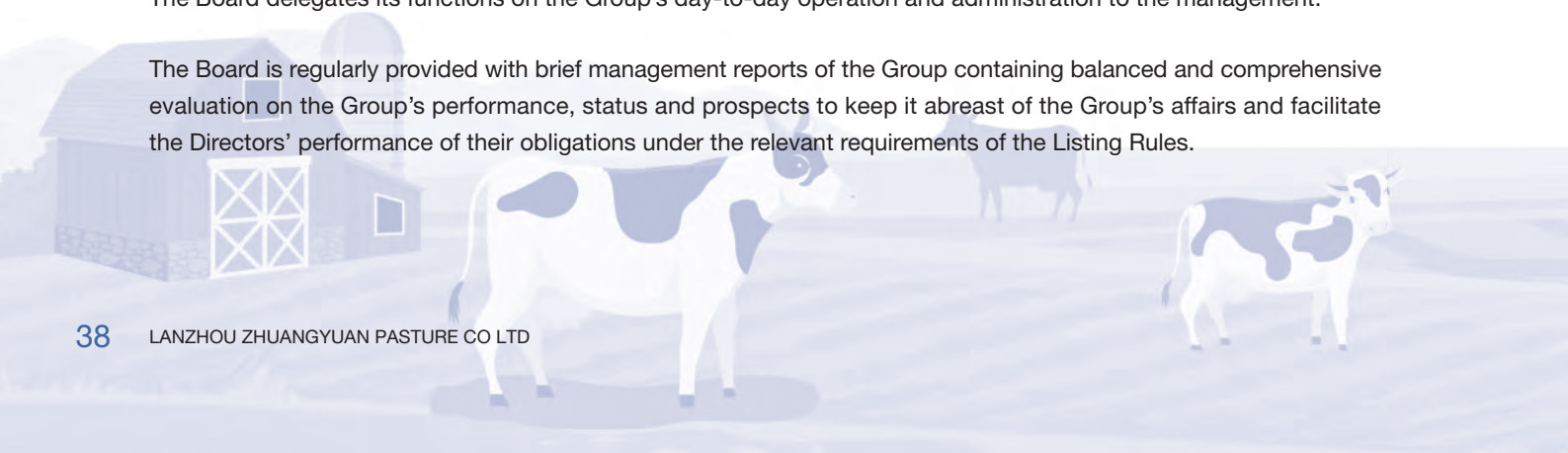
The Board is responsible and has general power for the management and conduct of the Group's business. As of the date of this report, the Board consists of nine Directors, comprising six non-independent Directors, namely Mr. Yao Gexian, Mr. Ma Hongfu, Mr. Zhang Yu, Mr. Yang Yi, Mr. Lian Enzhong and Ms. Zhang Qianyu, and three independent Directors, namely Mr. Wang Haipeng, Mr. Zhang Yubao and Mr. Sun Jian. Biographical details of the Directors are set out in the "Directors, Supervisors and Senior Management" section on pages 30 to 33 of this annual report. Save as disclosed above, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship), with any other Director.

The Board is responsible for establishing the Group's strategic goals, leading the Group's development and achieving established strategic goals. The principal duties of the Board are to manage and decide on the Company's strategic plans, management structures, investment and financing, financial control, human resources, and so forth. Significant matters of the Group which require approval by the Board include the followings:

- developing the Company's development plans;
- developing the Company's management and business strategies;
- approving financial statements;
- developing and approving the internal control and risk management systems;
- developing and reviewing the Company's corporate governance policies and practices;
- developing, reviewing and monitoring the code of conduct and compliance manual for employees and Directors;
- reviewing and monitoring training and continuous professional development of Directors and senior management of the Company (the "Senior Management");
- reviewing the Company's compliance with the CG Code under the Listing Rules and disclosure as set out in the Corporate Governance Reports included in annual reports of the Company; and
- reviewing and monitoring the Company's policies and practices regarding compliance with laws and regulations.

The Board delegates its functions on the Group's day-to-day operation and administration to the management.

The Board is regularly provided with brief management reports of the Group containing balanced and comprehensive evaluation on the Group's performance, status and prospects to keep it abreast of the Group's affairs and facilitate the Directors' performance of their obligations under the relevant requirements of the Listing Rules.



Corporate Governance Report

We are committed to ensuring high standards of corporate governance at all times and in all aspects of our operations. The Board believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole. The Board strives to adhere to the principles of corporate governance and has further strengthened and improved its internal controls in order to undertake sound corporate governance code provisions and practices to meet the relevant statutory and commercial standards by focusing on internal control, fair disclosure and accountability to all shareholders during the Reporting Year.

Save as disclosed in the section headed “**CHAIRMAN AND CHIEF EXECUTIVE**”, the Company has complied with all applicable CG Code.

CORPORATE GOVERNANCE FUNCTIONS

During the Reporting Year, the Board as a whole has performed the following corporate governance duties:

- (a) developed and reviewed the Company's policies and practices on corporate governance;
- (b) reviewed and monitored the training and continuous professional development of the Directors and Senior Management;
- (c) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) developed, reviewed and monitored the code of conduct and compliance manual (if any) applicable to employees and the Directors;
- (e) reviewed the Company's compliance according to the CG Code and disclosure in the Corporate Governance Report; and
- (f) performed such other corporate governance duties and functions set out in Appendix 14 to the Listing Rules (as amended from time to time) for which the Board is responsible.



Corporate Governance Report

TRAINING AND DEVELOPMENT OF DIRECTORS

For the year ended 31 December 2021, the Directors took part in various continuous training with respect to Directors' duties through regularly receiving latest information and updates in relation to the Listing Rules and related regulations, participating in relevant training programmes or through regularly taking note of industrial updates, attending relevant seminars or perusing reading materials, magazines and updated information in relation to business and industrial development. The following table sets out a summary of the types of training our Directors received:

Directors	Reading materials updating on new rules and regulations
Non-Independent Directors	
Mr. Yao Gexian (<i>appointed on 29 June 2021</i>)	✓
Mr. Lian Enzhong (<i>appointed on 29 June 2021</i>)	✓
Mr. Zhang Yu (<i>appointed on 29 June 2021</i>)	✓
Mr. Yang Yi (<i>appointed on 29 June 2021</i>)	✓
Mr. Ma Hongfu	✓
Mr. Wang Guofu (<i>retired on 29 June 2021</i>)	✓
Ms. Zhang Qianyu	✓
Director	
Mr. Yap Kean Chong (<i>retired on 29 June 2021</i>)	✓
Independent Directors	
Ms. Liu Zhijun (<i>retired on 29 June 2021</i>)	✓
Mr. Zhao Xinmin (<i>retired on 29 June 2021</i>)	✓
Mr. Wong Cho Hang Stanley (<i>retired on 29 June 2021</i>)	✓
Mr. Wang Haipeng (<i>appointed on 29 June 2021</i>)	✓
Mr. Xie Zhongkui (<i>appointed on 29 June 2021, resigned with effect from 26 August 2021</i>)	✓
Mr. Zhang Yubao (<i>appointed on 26 August 2021</i>)	✓
Mr. Sun Jian (<i>appointed on 29 June 2021</i>)	✓

Note: The Company has received from each of the Directors the confirmations on taking continuous professional training.



Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE

According to code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Ma Hongfu concurrently held the position of the chairman of the Board and the general manager of the Company, a position equivalent to a chief executive in the PRC, until 29 June 2021. This deviates from code provision C.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

The Board believes the vesting of the roles of both the chairman of the Board and the general manager of the Company in the same person can help to maintain the continuity of the policies and the stability of the operations of the Company.

The Company has been in compliance with code provision C.2.1 of the CG Code since Mr. Ma Hongfu ceased to act as the chairman of the Board and Mr. Yao Gexian was appointed as the chairman of the Board on 29 June 2021.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received from each independent non-executive Director a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all independent non-executive Directors are independent persons pursuant to the requirements as set out in the Listing Rules.

APPOINTMENT OF DIRECTORS

The principal terms of service contracts for each of the non-independent Directors and independent Directors include (a) term of a director being three years, and (b) such contracts being subject to termination in accordance with their respective terms.

None of the Directors and the Supervisors had entered into a service contract with the Company or its subsidiaries which is terminable by the Company within one year without payment of compensation (other than statutory compensation).



Corporate Governance Report

BOARD MEETINGS

The Board meets regularly. During the Reporting Year, 16 Board meetings were held.

Name of Directors	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Non-Independent Directors	
Mr. Yao Gexian (<i>appointed on 29 June 2021</i>)	8/16
Mr. Lian Enzhong (<i>appointed on 29 June 2021</i>)	8/16
Mr. Zhang Yu (<i>appointed on 29 June 2021</i>)	8/16
Mr. Yang Yi (<i>appointed on 29 June 2021</i>)	8/16
Mr. Ma Hongfu	16/16
Mr. Wang Guofu ^{Note 1} (<i>retired on 29 June 2021</i>)	8/16
Ms. Zhang Qianyu	16/16
Mr. Yap Kean Chong ^{Note 2} (<i>retired on 29 June 2021</i>)	8/16
Independent Directors	
Ms. Liu Zhijun ^{Note 3} (<i>retired on 29 June 2021</i>)	8/16
Mr. Zhao Xinmin ^{Note 3} (<i>retired on 29 June 2021</i>)	8/16
Mr. Wong Cho Hang Stanley ^{Note 3} (<i>retired on 29 June 2021</i>)	8/16
Mr. Wang Haipeng (<i>appointed on 29 June 2021</i>)	8/16
Mr. Xie Zhongkui (<i>appointed on 29 June 2021, resigned with effect from 26 August 2021</i>)	2/16
Mr. Zhang Yubao (<i>appointed on 26 August 2021</i>)	6/16
Mr. Sun Jian (<i>appointed on 29 June 2021</i>)	8/16

Note 1: Mr. Wang Guofu has retired as an executive Director of the Company with effect from 29 June 2021 so as to devote more time to his personal business commitment.

Note 2: Mr. Yap Kean Chong has retired as a non-executive Director of the Company with effect from 29 June 2021 so as to devote more time to his personal business commitment.

Note 3: Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley have retired as independent non-executive Directors of the Company with effect from 29 June 2021 so as to devote more time to their personal business commitment respectively.



Corporate Governance Report

The Board is responsible for leading and managing the Company. It is primarily responsible for formulating the general strategies and policies of the Company, setting performance and management objectives, assessing operational performance and monitoring the performance of the management. The Board delegates part of its management and administrative functions to the management to manage and operate the Company. The management is responsible for implementing strategies and policies as determined by the Board, and performing their duties within the framework as determined by the Board and specified in any written procedures and directions. Among others, the following matters were considered and approved at Board meetings during the Reporting Year:

- to consider and approve acquisition and merger proposals;
- to consider and approve proposals to optimize liquidity of the Group;
- to consider and approve capital expenditures;
- to consider and approve internal control policies;
- to consider and approve the announcement of financial results; and
- to consider and approve other disclosures specifically required by or matters as specifically mentioned under the Listing Rules.



Corporate Governance Report

During the Reporting Year, the Company convened one annual general meeting on 29 June 2021 and two extraordinary general meetings on 18 March 2021 and 26 August 2021, respectively.

Name of Directors	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Executive Directors	
Mr. Ma Hongfu	3/3
Mr. Wang Guofu <i>Note 1 (retired on 29 June 2021)</i>	1/3
Ms. Zhang Qianyu	3/3
Mr. Yao Gexian <i>(appointed on 29 June 2021)</i>	1/3
Mr. Lian Enzhong <i>(appointed on 29 June 2021)</i>	1/3
Mr. Zhang Yu <i>(appointed on 29 June 2021)</i>	1/3
Mr. Yang Yi <i>(appointed on 29 June 2021)</i>	1/3
Non-executive Director	
Mr. Yap Kean Chong <i>Note 2 (retired on 29 June 2021)</i>	2/3
Independent Non-executive Directors	
Ms. Liu Zhijun <i>Note 3 (retired on 29 June 2021)</i>	2/3
Mr. Zhao Xinmin <i>Note 3 (retired on 29 June 2021)</i>	2/3
Mr. Wong Cho Hang Stanley <i>Note 3 (retired on 29 June 2021)</i>	2/3
Mr. Wang Haipeng <i>(appointed on 29 June 2021)</i>	1/3
Mr. Xie Zhongkui <i>(appointed on 29 June 2021, resigned with effect from 26 August 2021)</i>	1/3
Mr. Zhang Yubao <i>(appointed on 26 August 2021)</i>	0/3
Mr. Sun Jian <i>(appointed on 29 June 2021)</i>	1/3

Note 1: Mr. Wang Guofu has retired as an executive Director of the Company with effect from 29 June 2021 so as to devote more time to his personal business commitment.

Note 2: Mr. Yap Kean Chong has retired as a non-executive Director of the Company with effect from 29 June 2021 so as to devote more time to his personal business commitment.

Note 3: Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley have retired as independent non-executive Directors of the Company with effect from 29 June 2021 so as to devote more time to their personal business commitment respectively.



Corporate Governance Report

BOARD COMMITTEES

In order to assist the Board in discharging its duties and promote its effective operation, the Board has established four committees, namely the audit committee, nomination committee, remuneration and appraisal committee and strategy committee. Each committee has its terms of reference and is responsible for making recommendations to the Board. All of the committees are allocated with resources sufficient for the performance of their respective duties.

AUDIT COMMITTEE

As at 31 December 2021, the audit committee of the Company (the “Audit Committee”) comprises three independent Directors, namely Mr. Wang Haipeng, Mr. Zhang Yubao and Mr. Sun Jian. The chairman of the Audit Committee is Mr. Wang Haipeng. Details of the terms of reference of the Audit Committee are set out on the Company’s website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but are not limited to the followings:

- (1) suggest engagement or change of external audit organisation;
- (2) supervise on internal audit agency and its implementation;
- (3) take charge of communication between internal auditor and external auditor;
- (4) audit on our Company’s financial information and its disclosures;
- (5) supervise on our Company’s risk management and internal control systems and audit on significant connected transactions; and
- (6) other issues as authorised by the Board.

During the Reporting Year, the Audit Committee has, inter alia, reviewed the consolidated financial statements of the Group for the year ended 31 December 2020, for the three months ended 31 March 2021, for the six months ended 30 June 2021 and for the nine months ended 30 September 2021 respectively, including the accounting principles and practices adopted by the Group, the report prepared by the external auditor covering major findings in the course of the audit, the selection and appointment of the external auditor and the risk management and internal control systems of the Group.

Subsequent to the end of the Reporting Year, the Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2021.



Corporate Governance Report

During the Reporting Year, five meetings of the Audit Committee were held.

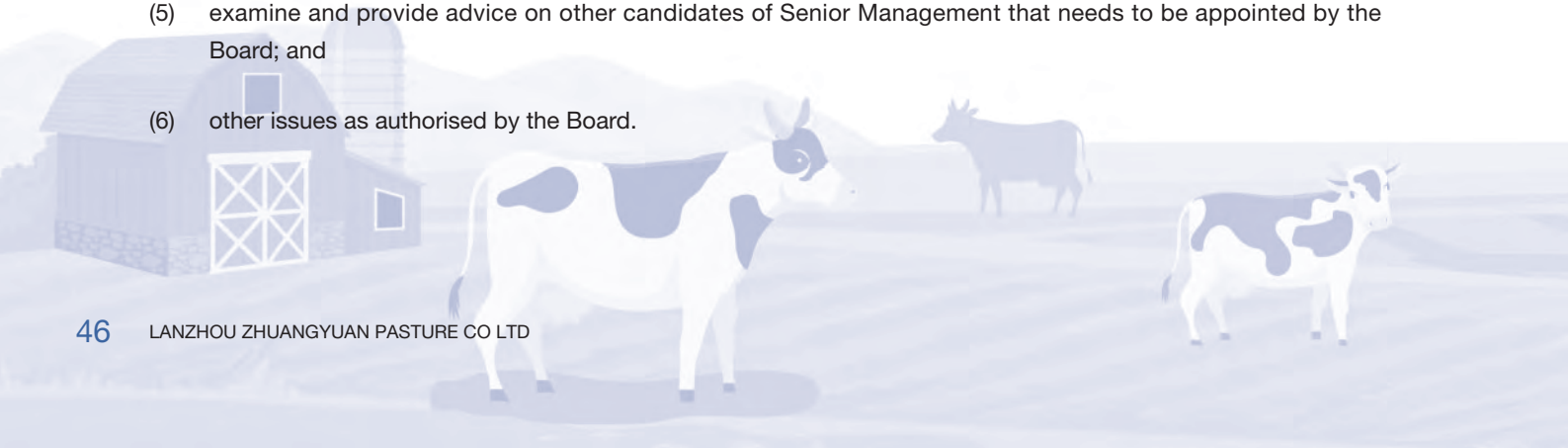
Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Ms. Liu Zhijun (<i>retired on 29 June 2021</i>)	3/5
Mr. Zhao Xinmin (<i>retired on 29 June 2021</i>)	3/5
Mr. Wong Cho Hang Stanley (<i>retired on 29 June 2021</i>)	3/5
Mr. Wang Haipeng (<i>appointed on 29 June 2021</i>)	2/5
Mr. Xie Zhongkui (<i>appointed on 29 June 2021, resigned with effect from 26 August 2021</i>)	0/5
Mr. Zhang Yubao (<i>appointed on 26 August 2021</i>)	2/5
Mr. Sun Jian (<i>appointed on 29 June 2021</i>)	2/5

Note: Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley have retired as independent non-executive Directors of the Company with effect from 29 June 2021 so as to devote more time to their personal business commitment respectively.

NOMINATION COMMITTEE

As at 31 December 2021, the nomination committee of the Company (the “Nomination Committee”) consists of one non-independent Director, namely Mr. Yao Gexian, and two independent Directors, namely Mr. Wang Haipeng and Mr. Sun Jian. The chairman of the Nomination Committee is Mr. Sun Jian. Details of the terms of reference of the Nomination Committee are set out on the Company’s website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but are not limited to the followings:

- (1) provide advice on the Board’s scale and composition according to our Company’s operation condition, asset size and shareholding structure;
- (2) research on selecting standards and procedure of Directors and Senior Management and provide advice to the Board accordingly;
- (3) search for suitable candidates as qualified Directors and Senior Management;
- (4) examine and provide advice on candidates as Directors and Senior Management;
- (5) examine and provide advice on other candidates of Senior Management that needs to be appointed by the Board; and
- (6) other issues as authorised by the Board.



Corporate Governance Report

During the Reporting Year, two meetings of the Nomination Committee were held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Mr. Zhao Xinmin (<i>retired on 29 June 2021</i>)	1/2
Mr. Ma Hongfu (<i>ceased to be a member of the Nomination Committee on 29 June 2021</i>)	1/2
Mr. Wong Cho Hang Stanley (<i>retired on 29 June 2021</i>)	1/2
Mr. Sun Jian (<i>appointed on 29 June 2021</i>)	1/2
Mr. Yao Gexian (<i>appointed on 29 June 2021</i>)	1/2
Mr. Wang Haipeng (<i>appointed on 29 June 2021</i>)	1/2

Note: Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley have retired as independent non-executive Directors of the Company with effect from 29 June 2021 so as to devote more time to their personal business commitment respectively.

Nomination Policy

The Board has adopted the nomination policy (the “Nomination Policy”) which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

- (1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;
- (2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;
- (3) reviewing the profiles of the shortlisted candidates and interview them; and
- (4) making recommendations to the Board on the selected candidates.

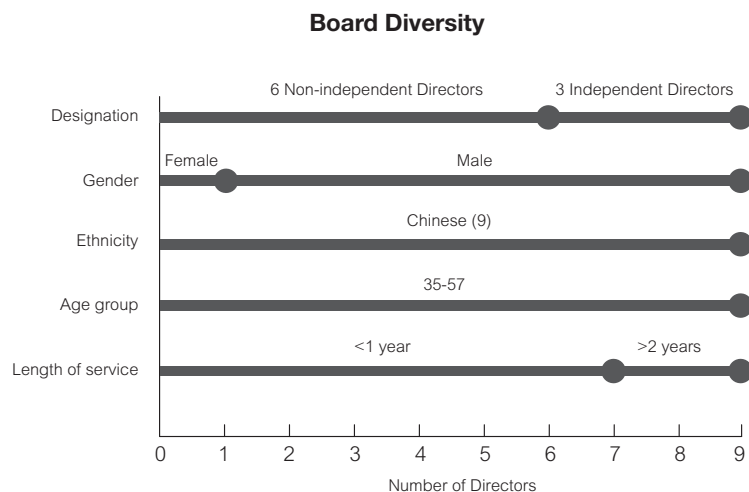
The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors’ resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Corporate Governance Report

The nomination committee will also give consideration to the board diversity policy adopted by the Board (“Board Diversity Policy”) when identifying suitably qualified candidates to become the members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the same and to monitor the progress on achieving these objectives.

In designing the Board’s composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, or professional experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will disclose annually, in the corporate governance report, on the Board’s composition under diversified perspectives (including gender, age, cultural and educational background, or professional experience), and monitor the implementation of this policy. The Nomination Committee will also review the diversity policy, as appropriate, to ensure the effectiveness of the diversity policy. The Nomination Committee will discuss any revisions which may be required, and recommend any such revisions to the Board for consideration and approval.

As at 31 December 2021, the Board’s composition under major diversity perspectives was summarised as follows:



Corporate Governance Report

REMUNERATION AND APPRAISAL COMMITTEE

As at 31 December 2021, the remuneration and appraisal committee of the Company (the “Remuneration and Appraisal Committee”) consists of one non-independent Director, namely Mr. Ma Hongfu, and two independent Directors, namely Mr. Wang Haipeng and Mr. Zhang Yubao. The chairman of the Remuneration and Appraisal Committee is Mr. Wang Haipeng. Details of the terms of reference of the Remuneration and Appraisal Committee are set out on the Company’s website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but are not limited to the followings:

- (1) draft remuneration plan according to the Directors and Senior Management’s position scope, duties, significance and remuneration level in other similar companies and similar positions;
- (2) remuneration plan includes but not limited to performance evaluation standards, procedures, and major evaluation system and major plan of incentives and punishment;
- (3) review performance of the duties of the Directors and Senior Management and undertake annual evaluation;
- (4) supervise on implementation of our Company’s remuneration plan; and
- (5) other issues as authorised by the Board.

During the Reporting Year, one meeting of the Remuneration and Appraisal Committee was held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Ms. Liu Zhijun (<i>retired on 29 June 2021</i>)	N/A
Mr. Wang Guofu (<i>retired on 29 June 2021</i>)	N/A
Mr. Zhao Xinmin (<i>retired on 29 June 2021</i>)	N/A
Mr. Wang Haipeng (<i>appointed on 29 June 2021</i>)	1/1
Mr. Ma Hongfu (<i>appointed on 29 June 2021</i>)	1/1
Mr. Xie Zhongkui (<i>appointed on 29 June 2021, resigned with effect from 26 August 2021</i>)	1/1
Mr. Zhang Yubao (<i>appointed on 26 August 2021</i>)	N/A

Note: Mr. Wang Guofu has retired as an executive Director of the Company with effect from 29 June 2021 so as to devote more time to his personal business commitment. Ms. Liu Zhijun and Mr. Zhao Xinmin have retired as independent non-executive Directors of the Company with effect from 29 June 2021 so as to devote more time to their personal business commitment respectively.

The emoluments payable to executive Directors are determined with reference to their experiences and duties with the Company and the fees payable to non-executive Directors are determined with reference to the estimated time spent by them on the Company’s matters. The Remuneration and Appraisal Committee makes recommendations to the Board on the remuneration packages of Directors and Senior Management, which are ultimately determined by the Board.

Corporate Governance Report

SENIOR MANAGEMENT EMOLUMENTS

For the year ended 31 December 2021, the emoluments of the Senior Management are within the following band:

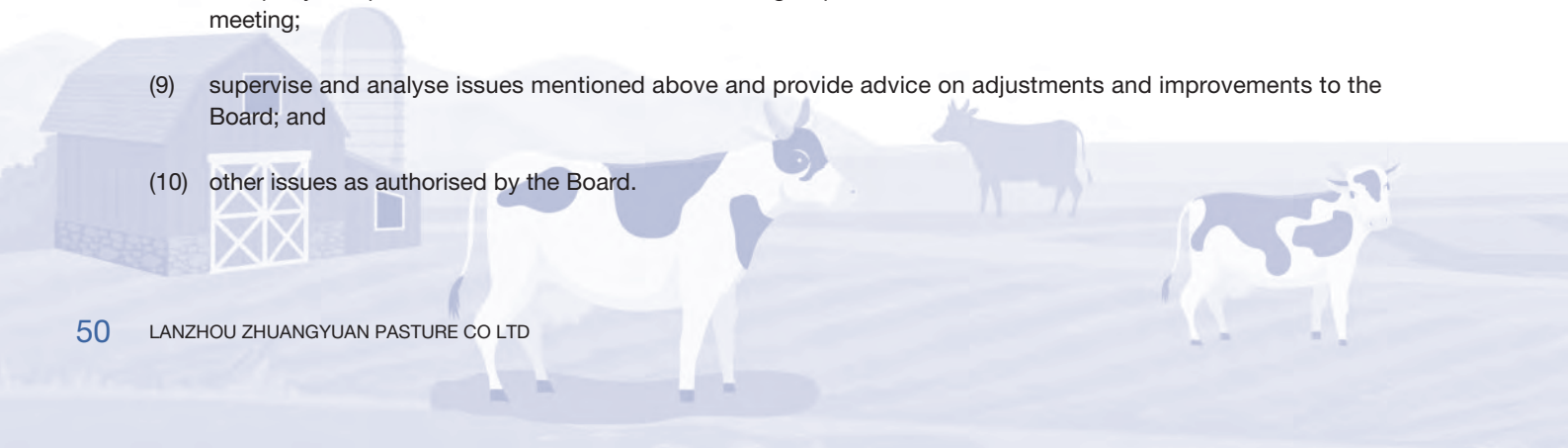
	Number of Senior Management
HK\$Nil – HK\$500,000	1
HK\$500,001 – HK\$1,000,000	0

Pursuant to Appendix 16 of the Listing Rules, the emoluments of the employees who are Directors and who are amongst the five highest paid individuals are set out in Notes XIV. Other Significant Events to the Financial Statements.

STRATEGY COMMITTEE

As at 31 December 2021, the strategy committee of the Company (the “Strategy Committee”) consists of one non-independent Director, namely Mr. Yao Gexian, and two independent non-executive Directors, namely Mr. Zhang Yubao and Mr. Sun Jian. The chairman of the Strategy Committee is Mr. Yao Gexian. The primary duties of the Strategy Committee include, but are not limited to, the followings:

- (1) organise and research on our Company’s long-term development strategy and offer advice to the Board;
- (2) organise and research on effects of adjustment of the country’s macroeconomic policy and structure on our Company;
- (3) track actions of major similar companies worldwide;
- (4) provide advice on our Company’s structure organisation and development strategy according to our needs;
- (5) research and provide advice on significant financing plan that needs to be approved by the Board according to our articles of association;
- (6) research and provide advice on significant projects of capital operation and asset management that needs to be approved by the Board according to our articles of association;
- (7) research and provide advice on other significant issues that may affect the long-term development of our Company;
- (8) examine and demonstrate long-term plan, significant projects or strategic suggestions provided by our Company’s departments before the Board’s meeting to provide advice for formal examination in the Board meeting;
- (9) supervise and analyse issues mentioned above and provide advice on adjustments and improvements to the Board; and
- (10) other issues as authorised by the Board.



Corporate Governance Report

During the Reporting Year, one meeting of the Strategy Committee was held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Mr. Ma Hongfu (<i>ceased to be a member of the Strategy Committee on 29 June 2021</i>)	N/A
Mr. Zhao Xinmin (<i>retired on 29 June 2021</i>)	N/A
Mr. Yao Gexian (<i>appointed on 29 June 2021</i>)	1/1
Mr. Xie Zhongkui (<i>appointed on 29 June 2021, resigned with effect from 26 August 2021</i>)	N/A
Mr. Zhang Yubao (<i>appointed on 26 August 2021</i>)	1/1
Mr. Sun Jian (<i>appointed on 29 June 2021</i>)	1/1

Note: Mr. Zhao Xinmin has retired as an independent non-executive Director of the Company with effect from 29 June 2021 so as to devote more time to his personal business commitment.

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Board, Directors and certain members of the Senior Management against liability for compensation arising from their corporate activities. Purchase of liability insurance can enhance the Company's ability to reduce exposure to risks. The insurance coverage is reviewed by the Company on an annual basis. Save as disclosed, no permitted indemnity provision (whether made by the Company or otherwise) is in force for the benefit of one or more Directors.

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing financial statements that give a true and fair view of the financial position, financial performance and cash flow of the Group.

The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to any events or conditions that may affect the business of the Group or cast doubts on its ability to continue as going concern.

The Board and the Audit Committee have reviewed the resources for financial reporting function to ensure the adequacy of resources, qualifications and experience of staff for the Group's accounting and financial reporting function, their training programmes.

Please also refer to the auditor's report in this annual report for further details.



Corporate Governance Report

AUDITORS AND THEIR REMUNERATIONS

During the Reporting Year, the fees received/receivable by the Company's auditor, WUYIGE Certified Public Accountants LLP ("DAXIN"), is set out as follows:

Nature of Services	Fee paid/payable (RMB'000)
Audit Service	1,600
Non-audit Services*	30

JOINT COMPANY SECRETARIES

Ms. Zhang Qianyu and Ms. Ho Wing Yan are our joint company secretaries as at the date of this report.

The Company has engaged in a service contract with an external service provider, Ms. Ho Wing Yan, who was appointed as one of the joint company secretaries of the Company. Ms. Zhang Qianyu, the executive Director and the other joint company secretary of the Company, is the primary corporate contact person of the Company with Ms. Ho Wing Yan.

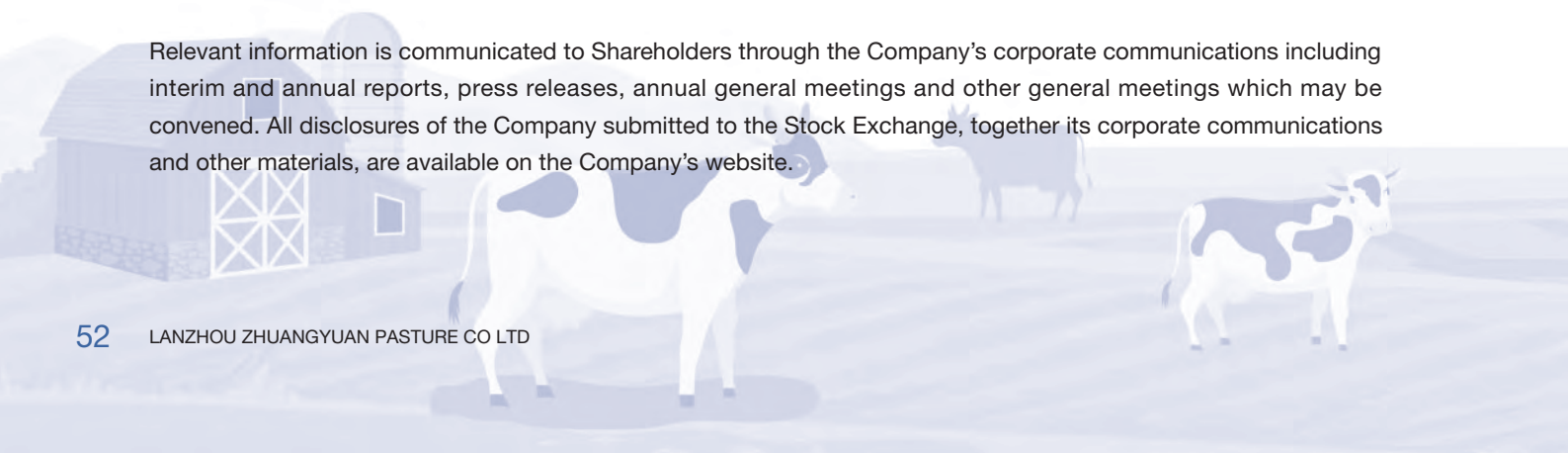
The Company has appointed the joint company secretaries who are responsible for providing secretarial services to the Board of the Company and ensuring that the operation of the Company is in compliance with Hong Kong listed companies' regulatory requirements as well as enhancing its corporate governance standards. Minutes of Board meetings and meetings of all specialized committees under the Board are recorded by the company secretaries in sufficient detail on the matters considered by all Directors and decisions reached, including any concerns raised by the Directors or any dissenting views expressed. Draft minutes of Board meetings and meetings of all specialized committees under the Board are provided to relevant Directors for their comments and the final version of the same is given to the relevant Directors for their records within a reasonable time.

During the Reporting Year, the Company has provided Ms. Zhang Qianyu and Ms. Ho Wing Yan with sufficient resources to receive not less than 15 hours of relevant professional training for every financial year as required by Rule 3.29 of the Listing Rules.

SHAREHOLDERS' COMMUNICATION POLICY AND RIGHTS

Shareholders are provided with information of the Company for their evaluation on the Company's overall results and informed exercise of their rights to proactively establish close relations with the Company.

Relevant information is communicated to Shareholders through the Company's corporate communications including interim and annual reports, press releases, annual general meetings and other general meetings which may be convened. All disclosures of the Company submitted to the Stock Exchange, together its corporate communications and other materials, are available on the Company's website.



Corporate Governance Report

Convening extraordinary general meetings

Pursuant to the Articles of Association, the Board shall convene an extraordinary general meeting or class meeting within two months where any Shareholder holding, severally or jointly, 10% or more of the Company's issued shares carrying voting rights requests in writing for the convening of an extraordinary general meeting or class meeting. The Shareholders holding, severally or jointly, 10% or more of voting shares at such proposed meeting may request the Board to convene an extraordinary general meeting or class meeting by signing and submitting one or several written requests with the same format and contents and specifying the agenda of the meeting. An extraordinary general meeting or class meeting shall be convened by the Board as soon as practicable upon receipt of the aforesaid written request. The aforesaid shareholding shall be calculated on the basis of the date on which the relevant Shareholders submit the written request. The procedures for convening such meeting should follow those for convening a general meeting or class meeting of Shareholders by the Board as closely as practicable. All reasonable expenses incurred by convening and holding the aforesaid meeting by Shareholders due to the failure of the Board to hold such meeting in response to the aforesaid request shall be borne by the Company. Such expenses shall be deducted from the amounts due by the Company to the Director(s) who have defaulted their duties.

Procedures for putting forward proposals at a general meeting

In overseeing and monitoring the business operation of the Company, the Shareholders have the right to put forward proposals and raise inquiries. Shareholders individually or together holding 3% or more of the Company's voting Shares have the right to put up ad hoc proposals in writing to the Company ten days before the holding of the general meeting, and the Company shall include such ad-hoc proposals into the agenda for such general meeting. The contents of the proposals to be raised shall be within the scope of duties of the general meetings and the business scope of the Company. It shall have a clear topic and specific matters to be resolved on, and shall be in compliance with relevant requirements of the laws and administrative regulations of the Company.

Procedures of Making Enquiry to the Board

Shareholders may make direct enquiry to the Company's share registrar as regards their shareholdings. Shareholders and public investors may at any time make enquiry for information of the Company by writing to the head office of the Company in Hong Kong by way of post, facsimile or email at the contact number(s) and email address(es) as provided on the website of the Company, provided that such information is open to public.

The Board undertakes that it listens to and takes note of Shareholders' opinion, and Shareholders are welcome to raise questions or concerns as to the management and governance of the Group. They may at any time send their questions or concerns to the company secretary by post at Suite 2703, 27/F., Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong, which will be forwarded to the Board.



Corporate Governance Report

Dividend Distribution Plan

The Company has adopted the dividend distribution plan for shareholders of the Company within the next three years (2020-2022) (the “Dividend Distribution Plan”) on 18 January 2020 and be implemented on 1 January 2020 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. Details of the Dividend Distribution Plan are set out in the circular of the Company dated 31 December 2019. The Company takes priority to distributing dividends in cash, shares or a combination of cash and shares and shares its profits with the Shareholders. The dividend distribution decision of the Company will depend on, among others, the current earning scale, cash flows, development status and requirement for funds and other factors as the Board may deem relevant. The Dividend Distribution Plan will be reviewed at least once every three years.

Constitutional Documents of the Company

Save as the amendments to the Articles of Association as detailed in the Company’s circular dated 9 August 2021 and the Company’s announcements dated 9 August 2021 and 26 August 2021 and as approved by our Shareholders at the general meeting held on 26 August 2021, there has been no amendment to the constitutional documents of the Company.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group’s internal control, assessment and management of risks. The internal control systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against any material misstatement or loss.

The Board is responsible for maintaining and reviewing the effectiveness of the Group’s internal control and particularly the adequacy of resources, qualifications and experience of staff of the Group’s accounting and financial reporting function, and their training programs and budget. A year-end review of the effectiveness of the Group’s risk management and internal control systems is conducted annually, and self-assessment and comprehensive risk assessment surveys are also conducted during the review. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest.



Corporate Governance Report

The process to identify, evaluate and manage risks of the Group are carried out on a regular and on-going basis. These processes are summarised as follows:

Risk identification

- Identify risks that may potentially affect the Group's business and operations.

Risk assessment

- Assess the impact and consequence of the identified risks on the business and the likelihood of their occurrence.

Response to findings of risk assessment

- Prioritise the risks by comparing the results of the risk assessment; and
- Determine the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk monitoring and reporting

- Perform ongoing and regular monitoring of the risk and ensure that appropriate internal control processes are in place;
- Enhance the risk management strategies and internal control processes in case of any significant change of situation; and
- Report the results and effectiveness of risk management and internal control to the Board regularly.

The Board, through the Audit Committee, keeps regularly apprised of significant risks that may have impact on the Group's performance. The Board considers that the Group's internal control is adequate and effective.

For the handling and dissemination of inside information, an inside information handling policy is in place to enable the Group to handle inside information and, where required, communicate with the Group's stakeholders in a timely manner.



Directors' Report

The Board herein presents to the Shareholders its report for the Reporting year.

The Directors' Report must contain a business review required under Paragraph 1 of Schedule 5 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Companies Ordinance") that consists of:

- (A) a fair review of the company's business;**
- (B) a description of the principal risks and uncertainties facing the company;**
- (C) particulars of important events affecting the company that have occurred since the end of the financial year; and**
- (D) an indication of likely future development in the company's business.**

The Board would present the business review section according to the Accounting Bulletin 5 (AB5): Guidance for The Preparation and Presentation of a Business Review under the Companies Ordinance.

(A) FAIR REVIEW OF THE COMPANY'S BUSINESS

Paragraph 31 of AB5 states that in order to satisfy the minimum requirements for a fair review of the reporting entity's business, the review should include as a minimum:

- (1) a description of the business and the external environment in which the reporting entity operates, as context for the directors' discussion and analysis;*
- (2) an analysis of the performance of the reporting entity for the year under review and the financial position of the reporting entity as at the end of that period using financial KPIs which complement or supplement the financial statements;*
- (3) a discussion of the reporting entity's environmental policies and performance and the reporting entity's compliance with the relevant laws and regulations that have a significant impact on the entity; and*
- (4) an account of the reporting entity's key relationships with its employees, customers and suppliers and others that have a significant impact on the entity and on which the entity's success depends.*



Directors' Report

(1) BUSINESS AND THE EXTERNAL ENVIRONMENT (PARAGRAPH 32-35 OF AB5)

Overview

We are one of the leading dairy companies in Gansu, Shaanxi and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We own and operate eight dairy farms, with raw milk self-sufficiency rate of exceeds 60% as at 31 December 2021. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

During the Reporting Period, the Company was generally stable and orderly in terms of pasture breeding, production and processing, and product sales. Thanks to its measures such as greater control over channels, more flexible sales policies, better pasture construction, more efficient pasture management, and diversified operation efforts, the Company recorded operating revenue of RMB1,021 million, representing an increase of 38.06% compared with the corresponding period last year, and net profit attributable of RMB53.5331 million, representing an increase of 412.11% compared with the corresponding period last year.

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition situation. We reduced the average selling price due to the impact of COVID-19 on an interim basis. At the same time, the Company undertook certain dairy products processing business on an OEM basis during the Reporting Period, and as a result, the average selling price of our liquid milk products decreased from RMB8,607 per tonne in 2020 to RMB7,931 per tonne in 2021.

While focusing on the Cold Chain Liquid Milk Product market, we also leveraged on our strong brand recognition in the regional market to continue to strengthen the sales of our popular UHT milk and modified milk products, thereby maintaining our diversified product offerings. Going forward, we intend to continue our efforts in the sales of our UHT milk and modified milk products that are popular among local consumers to maintain our diversified product offerings.



Directors' Report

Our business model

Our business consists of dairy farming, manufacturing and sales of dairy products. We currently own three milk production plants, one being in Gansu, one being in Qinghai and one being in Shaanxi. Our dairy farms are strategically located in Gansu, Qinghai and Shaanxi, a region that has favourable climate and geographical conditions for dairy cattle raising. We own and operate eight dairy farms.

Our products and brands

We offer a broad range of dairy products tailored to the needs and taste preferences of different consumer groups. Our principal products sold to retail consumers, mainly through distributors and sales agents, include (i) liquid milk products, which comprise pasteurised milk (i.e. fresh milk), sterilized milk, modified milk and yogurt, and (ii) milk beverages. We place strong emphasis on our product development to continuously develop new products that meet the evolving tastes and preference of our consumers, which differentiates us from our competitors in the region.

(2) ANALYSIS OF THE PERFORMANCE AND THE FINANCIAL POSITION (PARAGRAPH 36-43 OF AB5)

Further discussion and analysis of the performance for 2021 and the financial position as at the end of 2021 using financial KPIs which complement or supplement the financial statements can be found in the Financial Overview of the Management Discussion and Analysis section set out on this annual report. This discussion forms part of this Directors' Report.



Directors' Report

(3) ENVIRONMENTAL POLICIES AND PERFORMANCE AND COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS (PARAGRAPH 44-45 OF AB5)

Environmental matters

We are subject to extensive PRC national and local environmental laws and regulations concerning, among others, emissions to the air, discharges to land, sewage disposal, solid waste, the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and the remediation of environmental pollution relating to our properties and operations. Such environmental laws and regulations levy fees for the discharge of waste substances above prescribed levels and impose fines for serious violations. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. We have implemented various measures in respect of our production plants and dairy farms to eliminate damage to the environment caused by waste water, waste gas, biowaste, solid wastes and noise from our production. Our PRC legal adviser has confirmed that we have obtained all necessary environmental permits and that our operations are currently conducted in accordance with the PRC environmental protection laws and regulations in all material respects.

Health and safety matters

We are also subject to PRC laws and regulations regarding labour, safety and work related incidents. To maintain a safe working environment and increase awareness in occupational health and safety, we have implemented production safety management policies supplemented by a production safety responsibility assessment system, which identifies applicable occupational safety laws and regulations for self-evaluation by different personnel. We complied with all applicable PRC workplace safety regulatory requirements in all material aspects and were not subject to any penalties or disputes relating to health and safety matters that have a material and adverse effect on our financial conditions or business operations.



Directors' Report

(4) KEY RELATIONSHIPS WITH STAKEHOLDERS OTHER THAN MEMBERS (PARAGRAPH 46-48 OF AB5)

Relationship with third party raw milk suppliers

Raw milk purchased from third party suppliers mainly comes from dairy farms in Gansu. Gansu is a traditional pastoral area in China with plenty supply of raw milk. The years of business relationship with the Group ranged from 1 to 2 years.

In order to alleviate risks for conduct of suppliers, we select our suppliers based on their production environment, number of milkable cows, quality as well as price. We generally source raw milk from large-medium-sized standardised and large-scale dairy farms to ensure quality and safety. Before we make our selection, we also engage in verification of the suppliers' information including area of the dairy farms, milk tank capacity, inspection certificate of the fresh raw milk and business licence. We conduct regular inspection on our suppliers' dairy farms and facilities and we regularly monitor the conditions of our suppliers' facilities, hygiene conditions, quality of raw milk and storage and transportation equipment.

Our Company has established long-standing relationships primarily with large-scale dairy farms in Ningxia, Gansu, Inner Mongolia and Shaanxi, which allows us to secure steady supply of fresh raw milk at reasonable prices. We had entered into raw milk supply agreements with 14 external raw milk suppliers during the Reporting Year. Under our arrangements with the dairy farms, we do not substantially reduce the purchase prices when raw milk is low in demand and in return, the dairy farms do not substantially raise the purchase prices when raw milk is high in demand, nor do they reduce the amount of their supply. To address potential fluctuations of raw milk price, the purchase price of raw milk is usually set under the terms of the purchase agreements with our suppliers, which can be adjusted as agreed between both parties with regard to the prevailing market conditions. There is no requirement on minimum purchase amount of raw milk in our purchase agreements. We typically settle payments for raw milk with our suppliers monthly, although in some cases we may be required to make prepayments. Our purchase agreements usually have a term of one year.

During the Reporting Year, the Group did not have any significant disputes with our major suppliers.



Directors' Report

Relationship with distributors

Our major customers include distributors, sales agents, and direct sales (retail chains, supermarkets and local schools). For our targeted markets outside of Lanzhou, Xining and Xian, we generally sell our dairy products through third-party distributors (經銷商). By adopting this distribution model, we are able to expand our business quickly by saving additional management resources and attention, including administrative, selling, and marketing expenses. Moreover, it generally takes less time to explore market opportunities and build local sales and marketing teams in new regions under the distributorship model when compared with the sales agent or direct sales model. We believe that the use of distributors is generally in line with the industry practice in China.

As our principal products sold to retail consumers, mainly through distributors and sales agents, the quality of distributors is important. In order to alleviate quality risks of distributors, our distributors are primarily self-employed individuals and trading companies. We select our third party distributors based on a number of criteria, including but not limited to delivery capabilities, distribution network coverage, relationship with sales channels, possession of relevant licences and their resource deployment for target markets. For example, we generally require new distributors to have a stable place of business, a wide network of sales points and more than two years' working relationship with targeted sales channels. We require our distributors to possess qualifications and licences required for their operation under our distribution agreement.

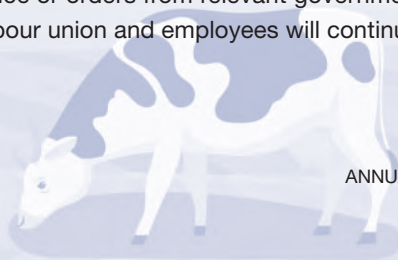
During the Reporting Year, the Group did not have any material disputes with our major customers.

Relationship with employees

According to the PRC Labour Law (中華人民共和國勞動法) and the Labour Contract Law of PRC (中華人民共和國勞動合同法), we are required to enter into labour contracts with individual workers we hired. The wages we paid to our employees and workers cannot be lower than the local minimum wage standards specified by the government from time to time. We are also required to make severance payments to an employee when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the existing contract. To secure the need for production operations and increase management efficiency, we have entered into a labour outsourcing service agreement with a local human resources company.

Furthermore, in accordance with relevant national and local social welfare laws and regulations in the PRC, we are required to pay in respect of our employees in the PRC various social security funds including basic pension insurance, unemployment insurance, occupational injury insurance, medical insurance, maternity insurance and housing provident fund. Our PRC legal adviser has advised us that contributions to these social security funds have been made as required by applicable PRC laws and regulations during the Reporting Year.

In order to advance the skills and knowledge of our employees as well as to explore new potentials from our workforce, we provide regular training to various department heads, design training programmes for our staff and offer targeted training to certain of our key employees. We did not experience any material labour dispute with our employees, received any relevant complaints, notice or orders from relevant government authorities or third parties. We believe that our senior management, labour union and employees will continue to maintain good relationships with each other.



Directors' Report

(B) PRINCIPAL RISKS AND UNCERTAINTIES (PARAGRAPH 49-52 OF AB5)

The major risks we face in our business are:

- Actual or perceived contamination in our dairy products could adversely and materially affect our business and reputation
- Our results of operations are subject to biological asset fair value adjustments, which can be highly volatile and are subject to a number of assumptions
- Failure to manage our distribution network may materially and adversely affect our business
- Raw milk supply, quality and price fluctuation may materially and adversely affect our business
- Quality control system failures may materially and adversely affect our business
- Our operations could be adversely affected if we no longer benefit from favourable government policies in the dairy industry and policies to promote the economic development in Northwestern China
- Disruption of operations at our dairy farms and production plants could materially and adversely affect our business
- Our business and future expansion depend on the quality and health conditions of our dairy cows, as well as the quality of raw milk and yield of the cows
- The outbreak of any major disease among our cows or at neighbouring farms could materially and adversely affect our business

Further discussion and analysis of the ability of the Company to fund its current and future operations and stated strategies under paragraph 51-52 of AB5 can be found in the Financial Overview – Indebtedness of the Management Discussion and Analysis section set out on this annual report. This discussion forms part of this Directors' Report.



Directors' Report

(C) IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF 2021 (PARAGRAPH 53-54 OF AB5)

Save as disclosed herein, subsequent to 31 December 2021, there had been no significant change in our business environment, principal business, pricing policy and costs structure.

On 17 December 2021, the Board of the Company considered and approved a resolution at the 7th meeting of the fourth session of the Board of Directors, pursuant to which it is agreed to carry out the planning, argumentation and preliminary preparations for the H Share repurchase and delisting plan, and it is preliminarily agreed that all H Shares will be repurchased and cancelled through a voluntary offer. In order to complete the H Share repurchase and delisting plan, the Board of the Company agreed that the total cost that the Company needs to pay overseas is estimated to be approximately HK\$390.00 million, including the indicative aggregate consideration for the H Share repurchase offer in the aggregate amount of approximately HK\$382.57 million, representing a minimum offer price of HK\$10.89 per H Share, i.e. the offer price would not be lower than HK\$10.89 per H Share if the H Share repurchase offer was made. At the 12th meeting of the fourth session of the Board of Directors held on 25 April 2022, the Board of the Company agreed to publish an announcement on the same day in accordance with Rule 3.5 of the Code on Takeovers and Mergers, in relation to (among others) a conditional cash offer made by Elstone Securities on behalf of the Company to repurchase all the issued H shares at the price of HK\$10.89 per H share, and the proposed voluntary withdrawal of listing of H shares of the Company from The Stock Exchange of Hong Kong Limited.

On 30 March 2022, the Company considered and approved a resolution at the 11th meeting of the fourth session of the Board of Directors, pursuant to which it is proposed to distribute a cash dividend of RMB0.47 (tax inclusive, the actual distribution amount may vary slightly due to rounding) for every 10 shares with the total share capital of 232,381,032 shares at the end of 2021 as the base, the total proposed cash dividend will be RMB10,921,908.50. This proposal on profit distribution is still subject to be considered at the general meeting.

(D) LIKELY FUTURE DEVELOPMENT IN THE COMPANY'S BUSINESS (PARAGRAPH 55-57 OF AB5)

Extensive sales and distribution regional network in Gansu, Qinghai and Shaanxi

We utilise multiple sales and distribution channels for our dairy products to maximise our reach to consumers. We have actively responded to market development through the establishment of different sales channels. We have expanded our sales and distribution network by engaging additional distributors, especially in second and third-tier cities in Gansu, Shaanxi and Qinghai. Our sales and distribution network covers most of the local markets in Gansu, Shaanxi and Qinghai.

Strong market-oriented product development

We manufacture, promote, distribute and sell a broad range of dairy products tailored to the needs and preferences of different consumer groups in our principal markets. Our broad product portfolio enables us to meet the different demands and taste preferences of consumers. We are dedicated to introducing new products to further improve our product range and offering so that we can keep up with changes in consumer preference and capture new market trends. Innovative product offerings differentiate us from our competitors.

Directors' Report

We constantly evaluate our products and seek to adapt to changing market conditions. Our marketing team performs market research and analysis to identify the latest consumer preferences. Our product development team then follows up by conducting a feasibility analysis and updating our existing products. We have devoted resources to adjust our product portfolio, upgrade our product lines, and add new products or line extensions to respond to market needs and target a wider group of consumers.

Short and longer term funding needs

Through the successful listing on 31 October 2017 as A Share Company in Shenzhen Stock Exchange, the Company has adequate cash to fund the liquidity needs of short and medium term. The Company can also raise excessive funds through the secondary market after being recognized as listed company when required.

On 5 December 2019, at the twenty-ninth meeting of the third session of the Board of the Company, the Board considered and approved, among others, the relevant resolutions on the proposed non-public issuance of A Shares. The proposed non-public issuance of A Shares has been approved by the Shareholders at the extraordinary general meeting and the class meetings of the Company held on 17 January 2020. For details, please refer to the announcement of the Company dated 5 December 2019 and the circular of the Company dated 31 December 2019.

On 3 April 2020, at the thirty-sixth meeting of the third session of the Board, the Board considered and approved, among others, the relevant resolutions on the proposed adjustments to the non-public issuance of A Shares. The proposed adjustments to the non-public issuance of A Shares has been approved by the Shareholders at the extraordinary general meeting and the class meetings of the Company held on 25 May 2020. For details, please refer to the announcements of the Company dated 3 April 2020 and 6 April 2020 and the circular of the Company dated 6 April 2020.

43,000,000 A Shares were issued on 25 December 2020 upon the completion of the non-public issuance of A Shares.

Risk warning in respect of forward-looking statements

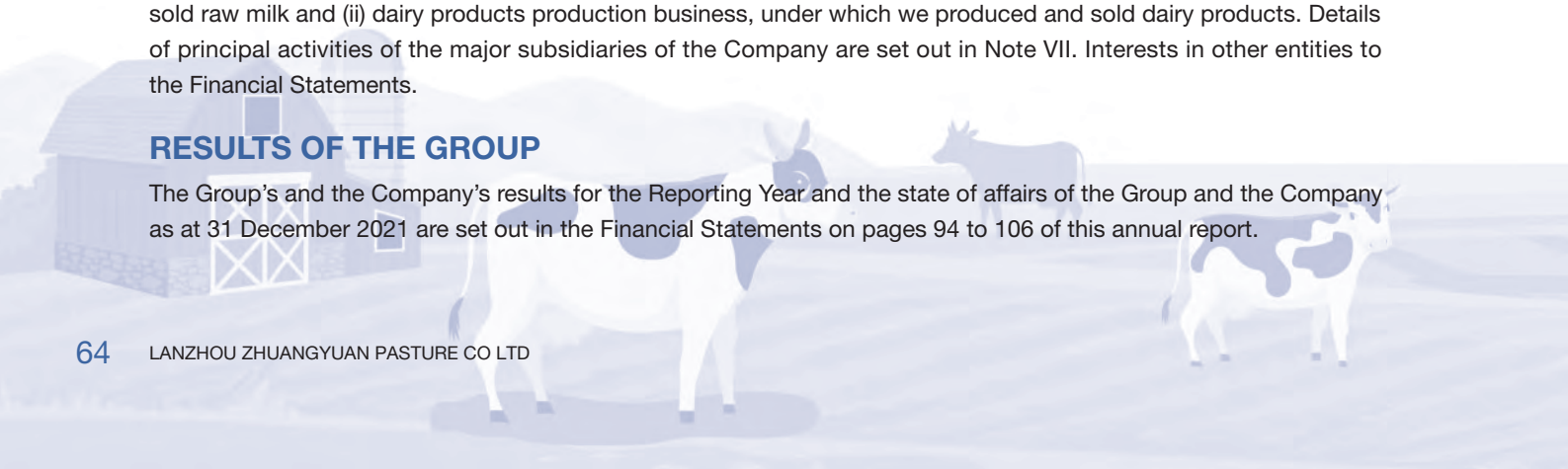
The forward-looking statements set out in this annual report such as future plans involve uncertainties and do not constitute the Company's substantial commitment to investors. Investors are advised to be aware of investment risks.

PRINCIPAL ACTIVITIES

The Group principally operates two business segments: (i) dairy farming business, under which we produced and sold raw milk and (ii) dairy products production business, under which we produced and sold dairy products. Details of principal activities of the major subsidiaries of the Company are set out in Note VII. Interests in other entities to the Financial Statements.

RESULTS OF THE GROUP

The Group's and the Company's results for the Reporting Year and the state of affairs of the Group and the Company as at 31 December 2021 are set out in the Financial Statements on pages 94 to 106 of this annual report.



Directors' Report

DIVIDEND

The Board has resolved to recommend the payment of final dividend of RMB4.70 cents per share (including tax) for the year ended 31 December 2021 (for the year ended 31 December 2020: RMB2.00 cents per share). The total dividend amounted to approximately RMB10.9 million.

The proposed final dividend is subject to the consideration and approval of the Shareholders at the forthcoming annual general meeting (the "AGM") of the Company. The Company will publish announcement, circular and notice of general meeting regarding the AGM in accordance with the Listing Rules and the articles of association of the Company. It is expected that the final dividend will be distributed within 2 months upon the approval of the Shareholders at the AGM.

The final dividend will be denominated and declared in RMB. The holders of A Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the dividend at the AGM.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organisations or groups, will be deemed as shares held by non-resident enterprise shareholders. Therefore, enterprise income tax will be withheld from dividends payable to such shareholders. If holders of H Shares intend to change its shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant shareholders based on the register of members for H Shares as at the record date of the proposed final dividend.

In accordance with the "Circular on Certain Issues Concerning the Policies of Individual Income Tax" (Cai Shui Zi 1994 No.020) (《關於個人所得稅若干政策問題的通知》(財稅字1994020號)) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, temporarily, exempted from the individual income tax for dividend or bonuses received from foreign invested enterprises. In accordance with the "Letter of the State Administration of Taxation concerning Taxation Issues of Dividends Received by Foreign Individuals Holding Shares of Companies Listed in China" (Guo Shui Han Fa 1994 No. 440) (《外籍個人持有中國境內上市公司股票所取得的股息有關稅收問題的函》(國稅函發1994440號)) as promulgated by the State Administration of Taxation on 26 July 1994, dividends (capital bonuses) received by foreign individuals holding B shares or overseas shares (including H Shares) from Chinese enterprises issuing such B shares or overseas shares are temporarily exempted from individual income tax. Accordingly, in the payment of final dividend, the Company will not withhold and pay the PRC individual income tax on behalf of individual Shareholders whose names appear on the register of members of H Shares of the Company.

Directors' Report

FINANCIAL SUMMARY

A summary of the published financial performance and of the assets and liabilities of the Group for the last five reporting years, is set out on page 242 of this annual report.

SHARE CAPITAL

As at 31 December 2021, there was a total issued share capital of 232,381,032 Shares which include:

	Number of Shares	Approximate percentages of share capital (%)
H Shares	35,130,000	15.12
A Shares	197,251,032	84.88
Total	232,381,032	100.00

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 18 March 2021, the Company convened the first extraordinary general meeting in 2021, at which the Proposal on the Repurchase and Cancellation of All Restricted Shares in the First Release of Locked Period under the 2019 Restricted Shares Incentive Scheme was considered and approved, allowing the Company to repurchase and cancel a total of 874,728 Restricted Shares held by 77 Incentive Participants involved in the First Release of Locked Period due to the Company's performance assessment failed to meet the requirements under the Restricted Shares Incentive Scheme, and allowing the Company to repurchase and cancel 424,840 Restricted Shares granted but restrictions not yet released from the 7 Incentive Participants who have resigned.



Directors' Report

During the Reporting Year, 1,299,568 A Shares were repurchased on the Shenzhen Stock Exchange and subsequently cancelled by the Company. The summary details of the repurchases are as follows:

Month	Number of A Shares repurchased	Price per A Share		Total price paid (RMB)
		Highest (RMB)	Lowest (RMB)	
June 2021	1,299,568	6.84	6.84	9,044,993.28
Total	1,299,568			9,044,993.28

The total amount of RMB9,044,993.28 of the repurchase was paid wholly out of self-owned funds and 1,299,568 repurchased A Shares were cancelled during the Reporting Year.

Save as disclosed herein, during the Reporting Year, there was no purchase, redemption or sale by the Company, or any of its subsidiaries, of any listed securities of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of associations and related laws which oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

CAPITAL RESERVE, SURPLUS RESERVE AND RETAINED EARNINGS

Details of the movements in the reserves of the Company during the Reporting Year are set out in Notes (XXXIII) on page 192, (XXXV) on page 193 and (XXXVI) on page 193 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the aggregate amount of reserves available for distribution to equity Shareholders amounted to approximately RMB10.92 million (31 December 2020: approximately RMB4.67 million).

FIXED ASSETS AND CONSTRUCTION IN PROGRESS

Details of the changes in the fixed assets and construction in progress of the Group during the Reporting Year are set out in Notes (VIII) on page 164 and (IX) on page 166 to the Financial Statements.



Directors' Report

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

1. On 13 February 2018, according to the Notice on the Closing and Relocation of Livestock Farms in the Livestock and Poultry Prohibited Area (《關於畜禽禁養區內養殖場關閉搬遷的通告》) issued by the People's Government of Litong District of Wuzhong City, Ningxia Zhuangyuan Pasture Co., Ltd. a wholly-owned subsidiary of the Company, was listed as the livestock farms planned to be closed and relocated, and the Company responded positively to the government's work arrangement and carried out the closure work. The Company has been actively negotiating compensation matters with the Litong District People's Government, but has not yet signed a compensation agreement with the People's Government of Litong District. The Company filed a lawsuit with the Intermediate People's Court of Wuzhong City and requested the People's Court to order the People's Government of Litong District of Wuzhong City to fulfil statutory obligations in accordance with the requirements of Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》) and make compensation for the loss caused by the closure and relocation of the Company's farms. Ningxia Manor received the administrative judgment issued by Wuzhong Intermediate People's Court of Ningxia Hui Autonomous Region in early August 2020 ((2020) Ning 03 Xing Chu No. 6). Wuzhong Intermediate People's Court of Ningxia Hui Autonomous Region held that, because the request for administrative compensation claimed by the plaintiff Ningxia Zhuangyuan Pasture Co., Ltd. (寧夏莊園牧場有限公司) is still subject to investigation and discretion by the people's government of Litong District, Wuzhong in order to determine the scope, standard and amount of compensation, the people's government of Litong District, Wuzhong City should handle the application for compensation for the closure and relocation submitted by the plaintiff Ningxia Zhuangyuan Pasture Co., Ltd. (寧夏莊園牧場有限公司). As of the date of this report, the parties are still in negotiation in respect of the specific amount of compensation.



Directors' Report

- On 25 July 2017, according to the notice on the Plan for Delineation of the Prohibited Area and Restricted Area of Livestock and Poultry in Xining City (Trial) (Ningzhengban 2017 No. 143) (《西寧市畜禽養殖禁養區限養區劃定方案(試行)》) issued by the General Office of the People's Government of Xining City, Qinghai Shengyuan Plateau Pasture Co., Ltd. a subsidiary of the Company, was included in the scope of the prohibited area. The Company respected environmental protection work arrangements and responded actively to close the relevant farm. The Company has requested the People's Government of Huangyuan County of Xining City to compensate for the relocation losses but has not yet received any response. Therefore, the Company submitted an administrative complaint to the Intermediate People's Court of Xining City in Qinghai Province in accordance with the requirements of Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》), requesting the People's Government of Huangyuan County of Xining City to make compensation. Qinghai Shengyuan had received the Administrative Judgment ((2020) Qing 01 Xing Chu No. 16) served by the Intermediate People's Court of Xining City, Qinghai Province at beginning of September 2020. The Intermediate People's Court of Xining City, Qinghai Province held that the request for administrative compensation raised by the plaintiff Qinghai Shengyuan Pasture Co., Ltd. (青海聖源牧場有限公司) was still subject to investigation and assessment by the people's government of the defendant Huangyuan County People's Government of Xining City to determine the scope, standard and amount of compensation, therefore, the defendant Huangyuan County People's Government of Xining City should handle the application for compensation for the closure and relocation submitted by the plaintiff Qinghai Shengyuan Ranch Co., Ltd.. After the judgment was made in the first instance, on 30 November 2020, the People's Government of Huangyuan County sent the Reply Letter from the People's Government of Huangyuan County on the Closing and Relocation of Qinghai Shengyuan Pasture Co., Ltd. (Yuan Zheng Han 2020 No. 27) to the Qinghai Shengyuan Pasture Co., Ltd., and decided to grant land transfer fees of RMB498,000.00 to 80 households in Chihan Village, Dahua Town in 2019 and 2020 after the closure of the pasture of Shengyuan Pasture. In accordance with the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》) and the Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》), the plaintiff Qinghai Shengyuan Pasture suffered from economic losses due to policy relocation, and the defendant Huangyuan County People's Government of Xining City should compensate Qinghai Shengyuan Pasture according to the laws. However, the defendant Huangyuan County People's Government of Xining City did not make substantive compensation plans or opinions on the losses incurred by the plaintiff Qinghai Shengyuan Pasture due to policy relocation, and its reply neither conformed to the objective fact that the plaintiff Qinghai Shengyuan Pasture suffered from huge economic losses due to policy relocation, nor conformed to the legal provisions. In order to safeguard the legitimate rights and interests of the Company and all shareholders, Qinghai Shengyuan Pasture submitted an administrative complaint to Xining Intermediate People's Court of Qinghai Province on 18 February 2021. Qinghai Shengyuan Pasture received a court summons issued by Xining Intermediate People's Court of Qinghai Province on 2 July 2021 on the administrative compensation case of Qinghai Shengyuan Pasture suing Huangyuan County People's Government of Xining City. The summons informed that Qinghai Shengyuan Pasture sued Huangyuan County People's Government of Xining City for administrative compensation, and a court hearing will be on 21 July 2021. After that, Qinghai Shengyuan Pasture received the notice of temporary change of hearing date from Xining Intermediate People's Court on 20 July 2021, and the trial date for the case in which Qinghai Shengyuan Ranch sued Huangyuan County People's Government of Xining for administrative compensation was changed to 3 August 2021. The above-mentioned case was heard normally on 3 August 2021.

Directors' Report

Qinghai Shengyuan Pasture received the Administrative Judgement ([2021] Qing 01 Xingchu No. 27) issued by the Xining City Intermediate People's Court of Qinghai Province on 16 November 2021. The main points of view of the Xining City Intermediate People's Court of Qinghai Province as set out in the "Opinions of our Court" section of the judgement are as follows: (1) the litigation claim lodged by Qinghai Shengyuan Pasture for revoking the Reply Letter from the People's Government of Huangyuan County on the Closing and Relocation of Qinghai Shengyuan Pasture Co., Ltd. issued by the defendant, the People's Government of Huangyuan County of Xining City, on 30 November 2020 (the "Reply Letter") is established due to the lack of primary evidence for the Reply Letter and the fact that the defendant did not issue a comprehensive and complete response on the application for compensation made by the plaintiff, Qinghai Shengyuan Pasture, which was a significant irregularity, despite the fact that the defendant fulfilled its responsibilities with respect to the application for compensation made by the plaintiff by way of a reply letter pursuant to the Effective Judgement ([2020] Qing 01 Xingchu No. 16) by the Xining City Intermediate People's Court. (2) The Xining City Intermediate People's Court has taken into account that the closing and relocation plan of the government concerned did not specify the specific compensation scope and standards for reference. Moreover, during the trial at the Xining City Intermediate People's Court, the plaintiff and the defendant were still willing to resolve the dispute on their own by way of negotiation, and from the perspective of resolving the dispute in substance, reducing the burden of litigation on both parties and saving national judicial and administrative resources, the defendant, the People's Government of Huangyuan County of Xining City, should make a new decision on compensation based on the principle of making prompt and comprehensive compensation. Based on the above points of view, the Xining City Intermediate People's Court made the following judgement in accordance with the requirements of Article 70 (1) and (6) of the Administrative Procedure Law of the People's Republic of China and Article 91 of the Interpretation of the Supreme People's Court on the Application of the Administrative Procedure Law of the People's Republic of China: (1) to revoke the Reply Letter from the People's Government of Huangyuan County on the Closing and Relocation of Qinghai Shengyuan Pasture Co., Ltd. issued by the defendant, the People's Government of Huangyuan County of Xining City, on 30 November 2020; (2) to order the defendant, the People's Government of Huangyuan County of Xining City, to make a new decision on compensation for the plaintiff, Qinghai Shengyuan Pasture Co., Ltd., within 60 days from the date on which the judgement takes effect.



Directors' Report

For the dispute between Qinghai Shengyuan Pasture and the People's Government of Huangyuan County of Xining City regarding the administrative compensation, as Qinghai Shengyuan Pasture was not satisfied with the Administrative Judgement ([2021] Qing 01 Xingchu No. 27) by the Xining City Intermediate People's Court of Qinghai Province, Qinghai Shengyuan Pasture submitted an administrative appeal to the Higher People's Court of Qinghai Province on 2 December 2021 to safeguard the legitimate rights and interests of the Company and all shareholders. Qinghai Shengyuan Pasture received the Administrative Judgement ([2021] Qingxingzhong No. 110) issued by the Higher People's Court of Qinghai Province on 25 February 2022. The main points of view of the Higher People's Court of Qinghai Province as set out in the "Opinions of our Court" section of the judgement are as follows: despite the fact that the appellee, the People's Government of Huangyuan County of Xining City, issued a reply letter concerning the appeal pursuant to the effective judgement by the Xining City Intermediate People's Court, which involved paying the appellant, Qinghai Shengyuan Pasture, the relevant land transfer fees after the closure, it did not define and clarify the scope of the economic loss suffered by the appellant resulting from the closure or relocation of Qinghai Shengyuan Pasture due to being designated as a no-breeding area for policy reasons, the basis for compensation and the amount of compensation, etc., neither from the perspective of the format or the substance of the reply letter. At the same time, it has also been taken into account the fact that the relocation of the farms (communities) on both sides of the Huangshui River by the People's Government of Xining City is mainly to guide the relocation of farms to the new site, to strive for the key support of the national, provincial and municipal projects, or to encourage the conversion of production, and to provide relevant policy support, but no specific compensation methods and standards for monetary compensation are specified. The appellee, the People's Government of Huangyuan County of Xining City, still has the "discretion" to deal with the compensation rights and interests of the appellant, Qinghai Shengyuan Pasture. It was not inappropriate for the court of first instance, the Xining City Intermediate People's Court, to rule that the appellee, the People's Government of Huangyuan County of Xining City, shall make a new decision on compensation within a time limit based on the above. The appellee, the People's Government of Huangyuan County of Xining City, should further investigate the fact of the loss suffered by the appellant, Qinghai Shengyuan Pasture, determine the compensation method and scope as soon as possible, and clarify the basis for and the amount of compensation, so that the legitimate rights and interests of the appellant, Qinghai Shengyuan Pasture, are safeguarded. Based on the above, the court of first instance, the Xining City Intermediate People's Court, found the fact clearly and applied the law properly, which should be upheld in accordance with the law. The appeal filed by the appellant, Qinghai Shengyuan Pasture, cannot be established. Based on the above points of view, the Higher People's Court of Qinghai Province made the following judgement in accordance with the requirements of Article 89 (1) (1) of the Administrative Procedure Law of the People's Republic of China: the appeal was dismissed and the original judgement was upheld.



Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the largest customer and supplier of the Group accounted for approximately 3.84% and approximately 14.55% of the Group's total revenue and raw materials purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for approximately 10.07% and approximately 35.22% of the Group's total revenue and raw materials purchases, respectively.

None of our Directors or any of their associates or any Shareholders (which to the best knowledge of our Directors owned more than 5% of the Company's issued share capital) had a material interest in our five largest customers and suppliers.

DIRECTORS AND SUPERVISORS

The Directors during the financial year and up to the date of this annual report were:

Executive Directors

Mr. Yao Gexian (*appointed on 29 June 2021*)
Mr. Lian Enzhong (*appointed on 29 June 2021*)
Mr. Zhang Yu (*appointed on 29 June 2021*)
Mr. Yang Yi (*appointed on 29 June 2021*)
Mr. Ma Hongfu
Mr. Wang Guofu ^{Note 1} (*retired on 29 June 2021*)
Ms. Zhang Qianyu

Non-Executive Director

Mr. Yap Kean Chong ^{Note 2} (*retired on 29 June 2021*)

Independent Directors

Ms. Liu Zhijun ^{Note 3} (*retired on 29 June 2021*)
Mr. Zhao Xinmin ^{Note 3} (*retired on 29 June 2021*)
Mr. Wong Cho Hang Stanley ^{Note 3} (*retired on 29 June 2021*)
Mr. Wang Haipeng (*appointed on 29 June 2021*)
Mr. Xie Zhongkui ^{Note 6} (*appointed on 29 June 2021, resigned with effect from 26 August 2021*)
Mr. Zhang Yubao (*appointed on 26 August 2021*)
Mr. Sun Jian (*appointed on 29 June 2021*)



Directors' Report

The Supervisors during the financial year and up to the date of this annual report were:

Supervisors

Ms. Du Wei

Mr. Wei Lin (*retired on 29 June 2021*)

Mr. Sun Chuang (*retired on 29 June 2021*)

Mr. Wang Fengming (*appointed on 29 June 2021*)

Mr. Wang Xuefeng (*appointed on 29 June 2021*)

Note 1: Mr. Wang Guofu has retired as an executive Director of the Company with effect from 29 June 2021 so as to devote more time to his personal business commitment.

Note 2: Mr. Yap Kean Chong has retired as a non-executive Director of the Company with effect from 29 June 2021 so as to devote more time to his personal business commitment.

Note 3: Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley have retired as independent non-executive Directors of the Company with effect from 29 June 2021 so as to devote more time to their personal business commitment respectively.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all its independent non-executive Directors independent.

None of the Directors or the Supervisors has entered into a service contract with the Company or its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

UPDATES ON DIRECTORS' INFORMATION

There has been no change to the information of the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

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 Reporting Year and up to the date of this annual report.

PERMITTED INDEMNITY PROVISION

During the Reporting Year and up to the date of this annual report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors of the Company or its associated companies. The permitted indemnity provisions are provided for in the Articles of Association in respect of potential liability and costs associated with legal proceedings that may be brought against such Directors.

Directors' Report

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group, none of the Directors, Supervisors and controlling shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Group during the Reporting Year and up to the date of this annual report.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Ma Hongfu, Lanzhou Zhuangyuan Investment Co., Ltd.* (蘭州莊園投資有限公司) (“Zhuangyuan Investment”) and Shanghai Fuhun Business Consulting Co., Ltd.* (上海福菡商務諮詢有限公司) (“Shanghai Fuhun”) (the Controlling Shareholders) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 23 September 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the period for the year ended 31 December 2021.

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

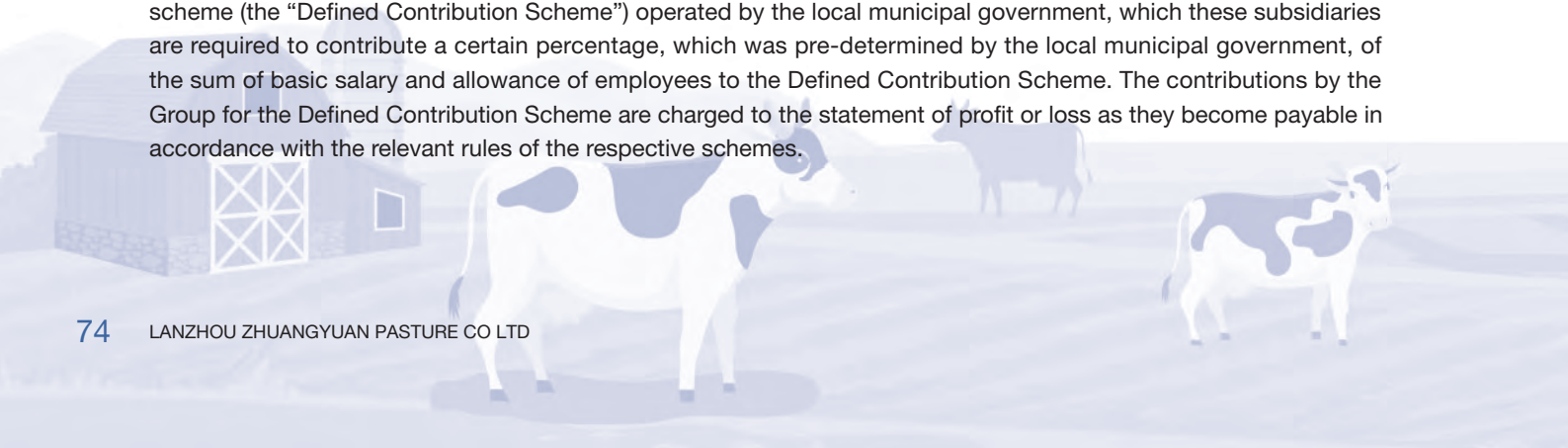
The interests in shares of the Company held by the Directors and Supervisors during the Reporting Year is disclosed in the section headed “DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE’S INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES” below. Save as disclosed in the paragraph headed “Restricted Share Incentive Scheme”, at no time during the Reporting Year, the Directors or Supervisors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or had exercised, any rights to subscribe for shares (warrants or debentures, if applicable) of the Company or any of its associated corporation required to be disclosed pursuant to the Securities and Futures Ordinance.

Other than as disclosed herein, at no time during the Reporting Year was the Company, its subsidiaries or holding companies or fellow subsidiaries a party to any arrangements to enable the Directors or Supervisors to acquire benefits by means of acquisitions of shares in, or debt securities (including debentures) of the Company or any other body corporate.

EMOLUMENT POLICY

The Nomination Committee and the Remuneration and Appraisal Committee were set up for, among others, reviewing and making recommendations on remuneration policy and scheme for Directors, Supervisors, Senior Management and employees, taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

The employees of the Group which operates in Mainland China are required to participate in a central pension scheme (the “Defined Contribution Scheme”) operated by the local municipal government, which these subsidiaries are required to contribute a certain percentage, which was pre-determined by the local municipal government, of the sum of basic salary and allowance of employees to the Defined Contribution Scheme. The contributions by the Group for the Defined Contribution Scheme are charged to the statement of profit or loss as they become payable in accordance with the relevant rules of the respective schemes.



Directors' Report

The Group's contributions to the Defined Contribution Scheme vest fully and immediately with the employees. Accordingly, (i) for each of the two years ended 31 December 2020 and 31 December 2021, there was no forfeiture of contributions under the Defined Contribution Scheme; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Defined Contribution Scheme as at 31 December 2020 and 31 December 2021.

For each of the two years ended 31 December 2020 and 31 December 2021, the Group did not have any defined benefit plan.

EQUITY-LINKED AGREEMENTS

Save as disclosed herein, no other equity-linked agreements were entered into during the Reporting Year or subsisted at the end of the Reporting Year.

SHARE OPTION SCHEME

There was no share option scheme (pursuant to Chapter 17 of the Listing Rules) adopted for the Company during the Reporting Year.

RESTRICTED SHARE INCENTIVE SCHEME

On 28 September 2018, the Board passed a resolution in respect of the proposed adoption of the 2018 Restricted Share Incentive Scheme (the "2018 Incentive Scheme") and the respective grants, and also the approval of the draft of the 2018 Incentive Scheme and the draft proposal in respect of the grants. On 11 March 2019, the Board passed a resolution in respect of the proposed adoption of the amendment of the 2018 Incentive Scheme (i.e. the "2019 Incentive Scheme") and the respective grants, and also the approval of the draft of the 2019 Incentive Scheme and the draft proposal in respect of the grants. The 2019 Incentive Scheme became effective upon the approval at the extraordinary general meeting and class meetings of the Company held on 23 May 2019.

On 21 June 2019, the Board approved the first grant of 3,340,600 A Shares (the "Restricted Shares") to 84 participants of the Group after adjustments under the 2019 Incentive Scheme (the "First Grant"). "Application Materials for Completion of Registration of Equity Incentive Grant" was submitted to Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited on 27 June 2019 and the registration of the First Grant was completed on 12 July 2019. Among the 3,340,600 A Shares granted under the First Grant, 1,530,400 A Shares were granted to the Directors or the chief executive officers of the Company and certain subsidiaries of the Company and hence a connected person of the Company. The grant of Restricted Shares to such persons constitutes non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules.

The purpose of the 2019 Incentive Scheme is:

1. To establish and improve the long-term incentives mechanism of the Company, fully motivate the Directors, senior and middle management and core technical (business) personnel of the Company, effectively combine the interests of the shareholders, the Company and members of core teams and promote the sustainable, stable and rapid development of the Company; and
2. To attract and retain excellent management, business and technical talent to meet the huge demands for core business (technical) talent and management talent of the Company and establish the Company's advantages in human resources, thus further promoting the innovation of the Company and injecting new vitality into the sustainable and rapid development of the Company.



Directors' Report

Details of the grant of Restricted Shares to connected persons under the First Grant are as follows:

Name of the participants	Titles	Number of Restricted Shares granted	Approximate percentage of total issued A Shares	Approximate percentage in the issued share capital of the Company	Considerations received from the participants (Note)
Wang Guofu	Then executive Director, deputy chairman and financial controller of the Company	483,000	0.31%	0.25%	RMB3,361,680
Chen Yuhai	Then executive Director and the general manager of the Company	375,000	0.24%	0.20%	RMB2,610,000
Zhang Qianyu	Executive Director, secretary to the Board, and joint company secretary of the Company	108,000	0.07%	0.06%	RMB751,680
Ding Jianping	Chairman of a subsidiary of the Company	458,000	0.29%	0.24%	RMB3,187,680
Zhao Qinghua	Executive director of a subsidiary of the Company	106,400	0.07%	0.06%	RMB740,544
Total		1,530,400	0.98%	0.80%	RMB10,651,584

Note: The grant price per Restricted Share is RMB6.96.

For details, please refer to the announcements of the Company dated 28 September 2018, 11 March 2019 and 21 June 2019 and the circular of the Company dated 23 April 2019.



Directors' Report

On 18 March 2021, the Company convened the first extraordinary general meeting in 2021, at which the Proposal on the Repurchase and Cancellation of All Restricted Shares in the First Release of Locked Period under the 2019 Restricted Shares Incentive Scheme was considered and approved, allowing the Company to repurchase and cancel a total of 874,728 Restricted Shares held by 77 Incentive Participants involved in the First Release of Locked Period due to the Company's performance assessment failed to meet the requirements under the Restricted Shares Incentive Scheme, and allowing the Company to repurchase and cancel 424,840 Restricted Shares granted but restrictions not yet released from the 7 Incentive Participants who have resigned.

During the Reporting Year, 1,299,568 A Shares were repurchased on the Shenzhen Stock Exchange and subsequently cancelled by the Company.

For details, please refer to the circular of the Company dated 3 March 2021.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in Note (XI) on page 214 to the Financial Statements constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

For the Reporting Year, the Group entered into various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules. All the continuing connected transactions during the Reporting Year that need to be disclosed herein are in compliance with the Listing Rules. The actual monetary value of the continuing connected transactions of the Group for the Reporting Year is set out below:

Connected Person	Nature of Transactions	Actual monetary value for the year ended 31 December 2021 RMB'000
<i>The Master Purchase Agreement</i>		
Gansu Nongken Tianmu Dairy Company Limited* (甘肅農墾天牧乳業有限公司)	Purchase of products	132,462
<i>The Silage Purchase Agreement</i>		
Gansu Nongken Jinchang Farm Company Limited* (甘肅農墾金昌農場有限公司)	Purchase of products	25,619
Total		158,081



Directors' Report

Continuing Connected Transaction – Master Purchase Agreement

On 9 February 2021, the Company (for itself and on behalf of its subsidiaries) entered into a master purchase agreement (the “Master Purchase Agreement”) with Gansu Nongken Tianmu Dairy Company Limited* (甘肅農墾天牧乳業有限公司) (“Tianmu Dairy”, a limited company established under the laws of the PRC and is a fellow subsidiary of the holding company of Gansu Nongken Asset Operation Company Limited* (甘肅省農墾資產經營有限公司) (“Gansu Nongken Asset”), a substantial shareholder of the Company) in relation to the possible purchase of raw milk from Tianmu Dairy for the period from 9 February 2021 to 31 December 2021.

The annual cap for the price payable by the Group to Tianmu Dairy for purchase of raw milk under the Master Purchase Agreement for the year ending 31 December 2021 is RMB200,000,000. In determining the annual purchase cap under the Master Purchase Agreement, the Directors have considered generally: (a) the historical amount of the purchase of raw milk which only started in September 2020; (b) the prevailing market price of raw milk which is estimated to be approximately RMB4,700 per tonne and expected to increase at approximately 1.7% from the average purchase price of raw milk from external suppliers of approximately RMB4,623 per tonne for the year ended 31 December 2020; and (c) the anticipated market demand of the Group on raw milk during the term of the Master Purchase Agreement for the year ending 31 December 2021, taking into account the increased demand of the Group due to (i) the two new customers engaged by the Group in October and November 2020 and another two new customers that are under negotiations with the Group which together, are expected to generate a sales volume of approximately 41,700 tonnes of dairy products for the year ending 31 December 2021; and (ii) the completion of the reconstruction and expansion project of 600 tons of liquid milk per day which commenced operation in May 2020 and are expected to generate a sales volume and production volume of dairy products of approximately 122,500 tonnes for the year ending 31 December 2021.

The entering into the Master Purchase Agreement will contribute to the business of the Group by providing a stable source of quality raw milk required in the production process and operations of the Group. As a result of the increase in production, the Group's revenue and net profit is expected to increase.

The Company considers that the entering into of the Master Purchase Agreement will allow the Group to secure a stable source of quality raw milk so as to achieve the increase in production capacity brought by the expansion of its production facilities for the processing of 600 tonnes of liquid milk per day in Sanjiaocheng Village, Sanjiaocheng Town, Yuzhong County, Lanzhou, Gansu in 2018.



Directors' Report

As Tianmu Dairy is a fellow subsidiary of Gansu Nongken Asset, a substantial shareholder of the Company, Tianmu Dairy is regarded as an associate of a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual purchase cap under the Master Purchase Agreement exceeds 5%, the continuing connected transactions contemplated under the Master Purchase Agreement are subject to the reporting, announcement and the Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

The Master Purchase Agreement has been approved by the Shareholders of the Company (the "Shareholders") at the extraordinary general meeting of the Company held on 18 March 2021.

Details of the entering into the Master Purchase Agreement are set out in the announcement of the Company dated 15 January 2021 and 9 February 2021, and the circular of the Company dated 3 March 2021.

Continuing Connected Transaction – Silage Purchase Agreement

On 19 August 2021, the Company entered into a silage purchase agreement (the "Silage Purchase Agreement") with Gansu Nongken Jinchang Farm Company Limited* (甘肅農墾金昌農場有限公司) ("Nongken Jinchang", a limited liability company established under the laws of the PRC) in relation to the possible purchase of silage from Nongken Jinchang for the period from 25 August 2021 to 31 December 2021.

The annual cap for the price payable by the Group to Nongken Jinchang for purchase of silage under the Silage Purchase Agreement for the year ending 31 December 2021 is RMB30,000,000. In determining the annual purchase cap under the Silage Purchase Agreement, the Directors have considered generally: (a) the historical amount of the purchase of silage from the Group's other suppliers; (b) the prevailing market price of silage; and (c) the anticipated market demand of the Group on silage during the term of the Silage Purchase Agreement for the year ending 31 December 2021. Such quantity is expected to be approximately 45,000 tonne to 50,000 tonne.

Since the completion of the expansion project for processing 600 tons of liquid milk per day of the Company pursuant to the Company's announcement dated 15 May 2020, the production capacity of the Group's milk products has increased and the demand for silage, which is one of the Group's main raw materials (i.e. feeds for its dairy cows) used in the Group's production, has increased accordingly. In addition, pursuant to one of the overall arrangements made by Gansu Nongken Group which intended to consolidate the operations of dairy farms for higher efficiency, transportation distance of corn silage and alfalfa and other forage grass should be shortened, effectively reducing the breeding cost, improve the large-scale breeding efficiency, and promote the high-quality development of green and circular agricultural industry. The transactions contemplated under the Silage Purchase Agreement will contribute to the business of the Group by providing a stable and relatively nearby source of silage required in the production process and operations of the Group.



Directors' Report

Nongken Jinchang is a wholly owned subsidiary of Gansu Nongken Group Limited Liability Company* (甘肅省農墾集團有限責任公司, "Gansu Nongken Group"). Gansu Nongken Group is the controlling Shareholder (as defined under the Listing Rules) and is interested in 68,826,365 A Shares, representing approximately 34.89% and 29.62% of (i) the total issued A Shares; and (ii) the total issued A Shares and H Shares, respectively. Accordingly, Nongken Jinchang is an associate of a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Silage Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the annual purchase cap under the Silage Purchase Agreement exceeds 0.1% but less than 5%, the continuing connected transactions contemplated under the Silage Purchase Agreement are subject to the reporting, announcement and annual review requirements but exempted from circular (including independent financial advice) and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Details of the entering into the Silage Purchase Agreement are set out in the announcement of the Company dated 19 August 2021.

The Company's auditor was engaged to report on the non-exempt continuing connected transaction and has issued a letter to the Board setting out the confirmation required under Rule 14A.56 of the Listing Rules and a copy of which has been provided by the Company to the Stock Exchange.

All independent Directors had reviewed the non-exempt continuing connected transaction and confirmed that the non-exempt continuing connected transaction for the Reporting Year was: (i) in the ordinary and usual course of the Company's business; (ii) on normal commercial terms or better to the Company; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Continuing Connected Transaction – Raw Milk Purchase Agreement

On 18 January 2022, the Company (for itself and on behalf of its subsidiaries) entered into a raw milk purchase agreement (the "Raw Milk Purchase Agreement") with Tianmu Dairy in relation to the possible purchase of raw milk from Tianmu Dairy for the period from 18 January 2022 to 31 December 2022.

The annual cap for the price payable by the Group to Tianmu Dairy for purchase of raw milk under the Raw Milk Purchase Agreement for the year ending 31 December 2022 is RMB200,000,000. In determining the annual purchase cap under the Raw Milk Purchase Agreement, the Directors have considered generally: (a) the historical amount of the purchase of raw milk; (b) the prevailing market price of the raw milk; and (c) the anticipated market demand of the Group on the raw milk during the term of the Raw Milk Purchase Agreement for the year ending 31 December 2022.



Directors' Report

As a substantial Shareholder, Gansu Nongken Asset has accorded priority to fulfill the demand for quality raw milk from the Group. Since the completion of the expansion project for processing 600 tons of liquid milk per day of the Company pursuant to the Company's announcement dated 15 May 2020, the production capacity of the Group's milk products has increased and the demand for raw milk has increased accordingly. Nonetheless, the Group's main source of raw milk has not provided sufficient supply. As such, taking into account the Group's future business plans, the Group aims to procure raw milk from Tianmu Dairy, which is a relatively larger and more experienced raw milk supplier. As a result, the supply of raw milk will be more stable and the quality will be more assured.

As Tianmu Dairy is a fellow subsidiary of Gansu Nongken Asset, a substantial shareholder of the Company, Tianmu Dairy is regarded as an associate of a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Raw Milk Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual purchase cap under the Raw Milk Purchase Agreement exceeds 5%, the continuing connected transactions contemplated under the Raw Milk Purchase Agreement are subject to the reporting, announcement and the Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

The Raw Milk Purchase Agreement has been approved by the Shareholders at the extraordinary general meeting of the Company held on 25 February 2022.

Details of the entering into the Raw Milk Purchase Agreement are set out in the announcement of the Company dated 18 January 2022, and the circular of the Company dated 10 February 2022.

Continuing Connected Transaction — Silage and Wheatgrass Purchase Agreements

On 18 January 2022, the Company (for itself and on behalf of its subsidiaries) entered into a set of silage and wheatgrass purchase agreements (the "Silage and Wheatgrass Purchase Agreements") with Nongken Jinchang in relation to the possible purchase of silage and wheatgrass from Nongken Jinchang for the period from 18 January 2022 to 31 December 2022.

The annual cap for the price payable by the Group to Nongken Jinchang for purchase of silage and wheatgrass under the Silage and Wheatgrass Purchase Agreements for the year ending 31 December 2022 is RMB30,000,000. In determining the annual purchase cap under the Silage and Wheatgrass Purchase Agreements, the Directors have considered generally: (a) the historical amount of the purchase of silage and wheatgrass from Nongken Jinchang and the Group's other suppliers; (b) the prevailing market price of the silage and wheatgrass; and (c) the anticipated market demand of the Group on silage and wheatgrass during the term of the Silage and Wheatgrass Purchase Agreements for the year ending 31 December 2022. Such quantity is expected to be approximately 40,000 tonne to 42,000 tonne (in respect of silage) and approximately 800 tonne (in respect of wheatgrass).



Directors' Report

Gansu Nongken Group and its subsidiaries have abundant agricultural resources. In particular, the procurement of silage and wheatgrass from Nongken Jinchang, a subsidiary of Gansu Nongken Group, fulfills the Group's demand for silage and wheatgrass, which is one of the main raw materials for the Group's production. Procuring from Nongken Jinchang would provide a stable source of silage and wheatgrass for the Group.

Nongken Jinchang is a wholly owned subsidiary of Gansu Nongken Group. Gansu Nongken Group is the controlling Shareholder (as defined under the Listing Rules) and is interested in 68,826,365 A Shares, representing approximately 34.89% and 29.62% of (i) the total issued A Shares; and (ii) the total issued A Shares and H Shares, respectively. Accordingly, Nongken Jinchang is an associate of a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Silage and Wheatgrass Purchase Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the annual purchase cap under the Silage and Wheatgrass Purchase Agreements exceeds 0.1% but less than 5%, the continuing connected transactions contemplated under the Silage and Wheatgrass Purchase Agreements are subject to the reporting, announcement and annual review requirements but exempted from circular (including independent financial advice) and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

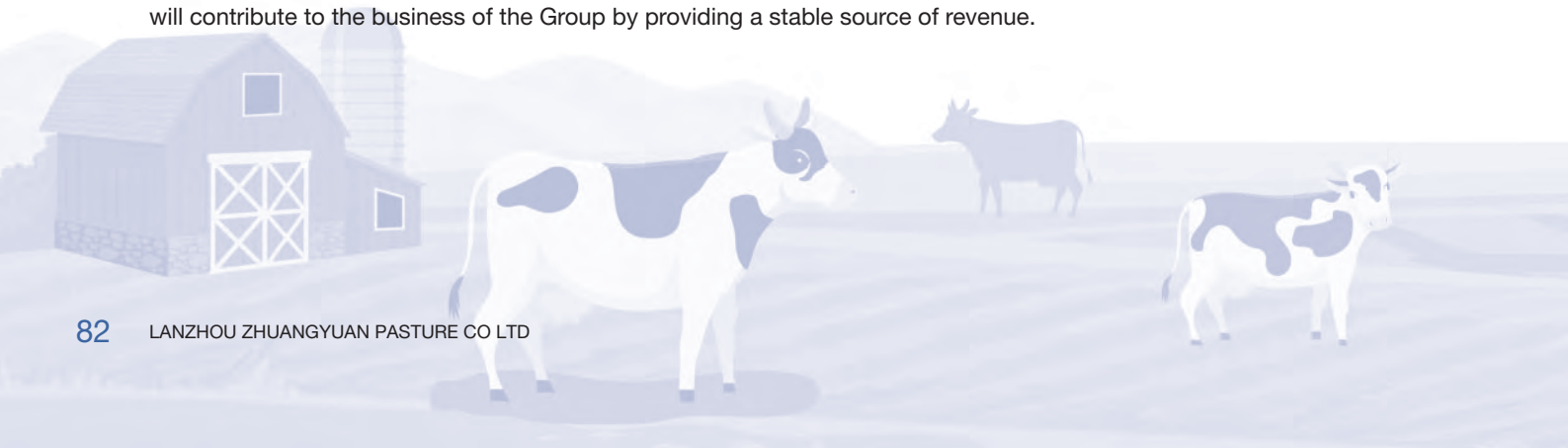
Details of the entering into the Silage and Wheatgrass Purchase Agreements are set out in the announcement of the Company dated 18 January 2022.

Continuing Connected Transaction – Dairy Products Sales Agreement

On 18 January 2022, the Company (for itself and on behalf of its subsidiaries) entered into a dairy products sales agreement (the "Dairy Products Sales Agreement") with Gansu Nongken Group in relation to the possible sales of dairy products from the Group to Gansu Nongken Group for the period from 18 January 2022 to 31 December 2022.

The annual cap for the price payable by Gansu Nongken Group to the Group for purchase of dairy products under the Dairy Products Sales Agreement for the year ending 31 December 2022 is RMB5,000,000. In determining the annual cap under the Dairy Products Sales Agreement, the Directors have considered generally: (a) the historical amount of sales of dairy products to the Group's other customers; (b) the prevailing market price of dairy products; and (c) the anticipated market supply of dairy products during the term of the Dairy Products Sales Agreement for the year ending 31 December 2022.

Gansu Nongken Group requires dairy products including but not limited to pasteurized milk, sterilized milk, modified milk and fermented milk for daily consumption by its employees and customers and the Group's dairy products represent a near source of quality supply. The transactions contemplated under the Dairy Products Sales Agreement will contribute to the business of the Group by providing a stable source of revenue.



Directors' Report

Gansu Nongken Group is the controlling Shareholder (as defined under the Listing Rules) and is interested in 68,826,365 A Shares, representing approximately 34.89% and 29.62% of (i) the total issued A Shares; and (ii) the total issued A Shares and H Shares, respectively. Accordingly, Gansu Nongken Group is a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Dairy Products Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the annual purchase cap under the Dairy Products Sales Agreement exceeds 0.1% but less than 5%, the continuing connected transactions contemplated under the Dairy Products Sales Agreement are subject to the reporting, announcement and annual review requirements but exempted from circular (including independent financial advice) and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Details of the entering into the Dairy Products Sales Agreement are set out in the announcement of the Company dated 18 January 2022.

DIRECTORS' AND SUPERVISORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

For the year ended 31 December 2021, if any, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or fellow subsidiaries or its parent company was a party, and in which a Director or Supervisor or an entity connected with any of them had a material interest, whether directly or indirectly subsisted at the end of the Reporting Year or at any time during the Reporting Year.

Save as disclosed in the paragraph headed "Restricted Share Incentive Scheme", as at 31 December 2021, no contract of significance had been entered into between the Company, or any of its subsidiaries, and the controlling shareholders of the Company or any of its subsidiaries.



Directors' Report

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, the interests and short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Long position in the Shares

Name	Nature of Interest	Total number of Shares held	Approximate percentage of total issued A Shares	Approximate percentage in the issued share capital of the Company
Mr. Ma Hongfu	Beneficial owner	32,197,400	16.32%	13.86%
	Interest of controlled corporation <i>(Note)</i>	15,000,000	7.60%	6.45%
Ms. Zhang Qianyu	Beneficial owner	75,600	0.04%	0.03%
Mr. Wang Xuefeng	Beneficial owner	18,900	0.01%	0.01%

Note: Mr. Ma Hongfu holds 39.44% equity interests Shanghai Fuhan Business Consulting Co., Ltd. (上海福菡商務諮詢有限公司) ("Shanghai Fuhan"). Under the SFO, he is deemed to be interested in the Shares held by Shanghai Fuhan.

Save as disclosed above, as at 31 December 2021, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.



Directors' Report

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

As at 31 December 2021, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Position in the Shares

Name	Nature of Interest	Total number of Shares held	Approximate percentage of total issued A Shares/H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
A Shares				
Gansu Nongken Group Limited Liability Company* (甘肅省農墾集團有限責任公司) ("Gansu Nongken Group")	Interest of controlled corporation <i>(Note 1)</i>	68,826,365	34.89%	29.62%
Gansu Nongken Asset Operation Company Limited* (甘肅省農墾資產經營有限公司) ("Gansu Nongken Asset")	Beneficial owner	37,931,665	19.23%	16.32%
Lanzhou Zhuangyuan Investment Co., Ltd.* (蘭州莊園投資有限公司) ("Lanzhou Zhuangyuan Investment")	Beneficial owner	30,894,700	15.66%	13.29%
Shanghai Fuhan	Beneficial owner	15,000,000	7.60%	6.45%
H Shares				
Mr. Hu Keliang	Beneficial owner	4,837,500	13.77%	2.08%
Ms. Li Yangling <i>(Note 2)</i>	Interest of spouse	4,837,500	13.77%	2.08%
Mr. Wang Wei	Beneficial owner	1,640,000	4.67%	0.71%
	Interest of controlled corporation <i>(Note 3)</i>	2,296,000	6.54%	0.99%
Ms. Li Qi <i>(Note 4)</i>	Interest of spouse	3,936,000	11.20%	1.69%
Venko Limited	Beneficial owner	2,296,000	6.54%	0.99%
Mr. Ren Qifeng	Interest of controlled corporation <i>(Note 5)</i>	3,523,000	10.03%	1.51%
Ms. Ren Songliu <i>(Note 6)</i>	Interest of spouse	3,523,000	10.03%	1.52%
Technoart Investments Limited	Beneficial owner	3,523,000	10.03%	1.52%
Ms. Zhang Fenmei	Beneficial owner	3,419,000	9.73%	1.47%

Directors' Report

Notes:

- (1) The shares consist of (1) 37,931,665 shares held by Gansu Nongken Asset; and (2) 30,894,700 shares held by Lanzhou Zhuangyuan Investment. The entire issued share capital of Gansu Nongken Asset is beneficially owned by Gansu Nongken Group who is deemed to be interested in the shares held by Gansu Nongken Asset by virtue of the SFO.
- (2) Ms. Li Yanling is the spouse of Mr. Hu Keliang. Therefore, Ms. Li Yanling is deemed to be interested in the shares in which Mr. Hu Keliang is interested by virtue of the SFO.
- (3) The shares are held by Venko Limited. The entire issued share capital of Venko Limited is beneficially owned by Mr. Wang Wei who is deemed to be interested in the shares held by Venko Limited by virtue of the SFO.
- (4) Ms. Li Qi is the spouse of Mr. Wang Wei. Therefore, Ms. Li Qi is deemed to be interested in the shares in which Mr. Wang Wei is interested by virtue of the SFO.
- (5) The shares are held by Technoart Investments Limited ("Technoart Investments"). The entire issued share capital of Technoart Investments is beneficially owned by Mr. Ren Qifeng who is deemed to be interested in the shares held by Technoart Investments by virtue of the SFO.
- (6) Ms. Ren Songliu is the spouse of Mr. Ren Qifeng. Therefore, Ms. Ren Songliu is deemed to be interested in the shares in which Mr. Ren Qifeng is interested by virtue of the SFO.



Directors' Report

Save as disclosed above, as at 31 December 2021, the Company had not been notified by any other persons (other than Directors, Supervisors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float of 25% of the Company's issued share capital as required under the Listing Rules.

AUDITORS

The consolidated financial statements for the year ended 31 December 2017 were audited by KPMG and KPMG Huazhen LLP respectively. The consolidated financial statements for the year ended 31 December 2018 were audited by Ruihua Certified Public Accountants (Special General Partnership). The consolidated financial statements for the year ended 31 December 2019, the year ended 31 December 2020 and the Reporting Year were audited by WUYIGE Certified Public Accountants LLP.

WUYIGE Certified Public Accountants LLP will retire at the AGM and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of WUYIGE Certified Public Accountants LLP as auditors of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

蘭州莊園牧場股份有限公司
Lanzhou Zhuangyuan Pasture Co., Ltd.*
Yao Gexian
Chairman

Lanzhou, the PRC, 30 March 2022



Auditor's Report

To the Shareholders of Lanzhou Zhuangyuan Pasture Co., Ltd.,

I. OPINIONS

We have audited the financial statements of Lanzhou Zhuangyuan Pasture Co., Ltd. (hereinafter referred to as “Zhuangyuan Pasture Company” or “Company”), which comprise the consolidated and parent company balance sheets as at 31 December 2021, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in shareholders' equity for the year of 2021 and relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared in accordance with the provisions of Accounting Standards for Business Enterprises in all material respects and present fairly the consolidated and parent company financial position of Zhuangyuan Pasture Company as at 31 December 2021 and the consolidated and parent company operating results and cash flows for the year of 2021.

II. BASIS OF OUR OPINIONS

We conducted our audit in accordance with the provisions of China Standards on Auditing for Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Zhuangyuan Pasture Company in accordance with the China Code of Ethics for Certified Public Accountants, 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.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We identify that the following matters as the key audit matters which shall be provided in the auditor's report.



(I) Revenue Recognition

1. Description of matters

Please refer to note “III. Significant accounting policies and accounting estimate” (XXIII) and note “V. Notes to consolidated financial statements” (XXXVII) to the financial statements.

The operating revenue of Zhuangyuan Pasture Company was RMB1,021,431,500 in 2021. We identified revenue recognition as a key audit matter as revenue is the main source of profit and is one of the key performance indicators, which gives rise to an inherent risk that the recognition points may be manipulated by the management for the purpose of achieving certain objectives.

2. How the matter was addressed in our audit

We mainly implemented the following audit procedures in the process of auditing key matters:

- (1) understanding and testing the effectiveness of the design and operation of internal controls related to operating revenue;
- (2) obtaining the agreements signed by and between the Company and the customer as well as inspecting key terms, and assessing whether the accounting policies for revenue recognition of Zhuangyuan Pasture Company comply with requirements of Accounting Standards of Business Enterprises and are implemented consistently;
- (3) distinguishing product and sale type, taking samples for inspection, respectively, selecting important samples to inspect the revenue and recognising related supporting documents (including financial documents, sales records, contracts, shipment documents, receipt documents, regular letters of reconciliation and records on signing in) to verify truthfulness and accuracy of revenue recognition;
- (4) sampling and recognising sale and settlement balance of payment for goods to the customer with letters of recognition;
- (5) cut-off test for sales revenue before and after the balance sheet date to evaluate whether the sales revenue is recorded in the proper accounting period.



Auditor's Report

(II) Valuation of Bearer Biological Assets

1. Description of matters

Please refer to accounting policies (XVI) under note III. "SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES" and note (X) under (V) "IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS" and "IX. FAIR VALUE" to the financial statements. As at 31 December 2021, the balance of the bearer biological assets of Zhuangyuan Pasture Company was RMB534,963,500, accounting for 19.04% of the total assets as at 31 December 2021.

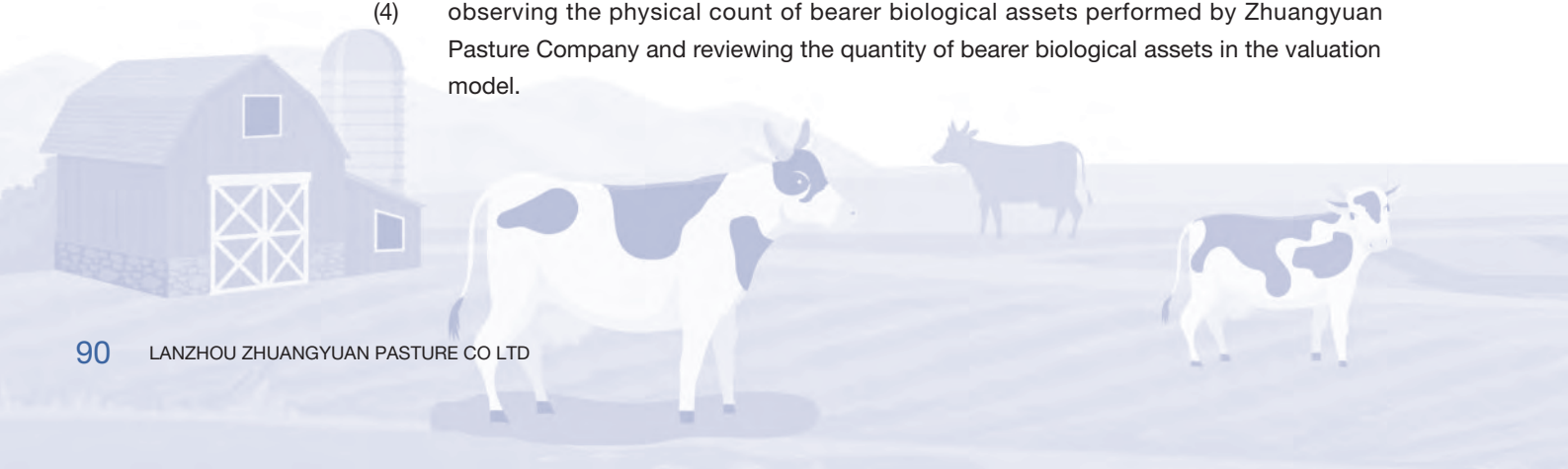
Zhuangyuan Pasture Company's bearer biological assets comprise calves, heifers and milkable cows. Zhuangyuan Pasture Company's bearer biological assets are measured at fair value.

The fair value assessment of bearer biological assets involves the exercise of significant management judgment, particularly in respect of estimated culling and birth rates, future average milk production volumes, future raw milk market prices, breeding costs and the discount rate applied. As this will give rise to an inherent risk that the estimation of fair value may be manipulated by the management for the purpose of achieving certain objectives, we identified the valuation of bearer biological assets as a key audit matter.

2. How the matter was addressed in our audit

We mainly implemented the following audit procedures in the process of auditing key matters:

- (1) understanding and testing the effectiveness of the design and operation of the internal control of Zhuangyuan Pasture Company for recognition of the fair value of the bearer biological assets;
- (2) evaluating the competence, capabilities and objectivity of the external valuers engaged by Zhuangyuan Pasture Company;
- (3) assessing the reasonableness of the key assumptions adopted in the valuation of bearer biological assets, including the estimated culling and birth rates, future average milk production volumes, future market prices for raw milk, breeding costs and discount rate based on the work by external evaluation experts;
- (4) observing the physical count of bearer biological assets performed by Zhuangyuan Pasture Company and reviewing the quantity of bearer biological assets in the valuation model.



IV. OTHER INFORMATION

Zhuangyuan Pasture Company's management (the "Management") is responsible for the other information. The other information comprises all the information included in 2021 annual report of Zhuangyuan Pasture Company, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read other information and, in doing so, consider whether the other information is materially inconsistent with the 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 and we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing Zhuangyuan Pasture Company'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 management intends either to liquidate Zhuangyuan Pasture Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Zhuangyuan Pasture Company's financial reporting process.



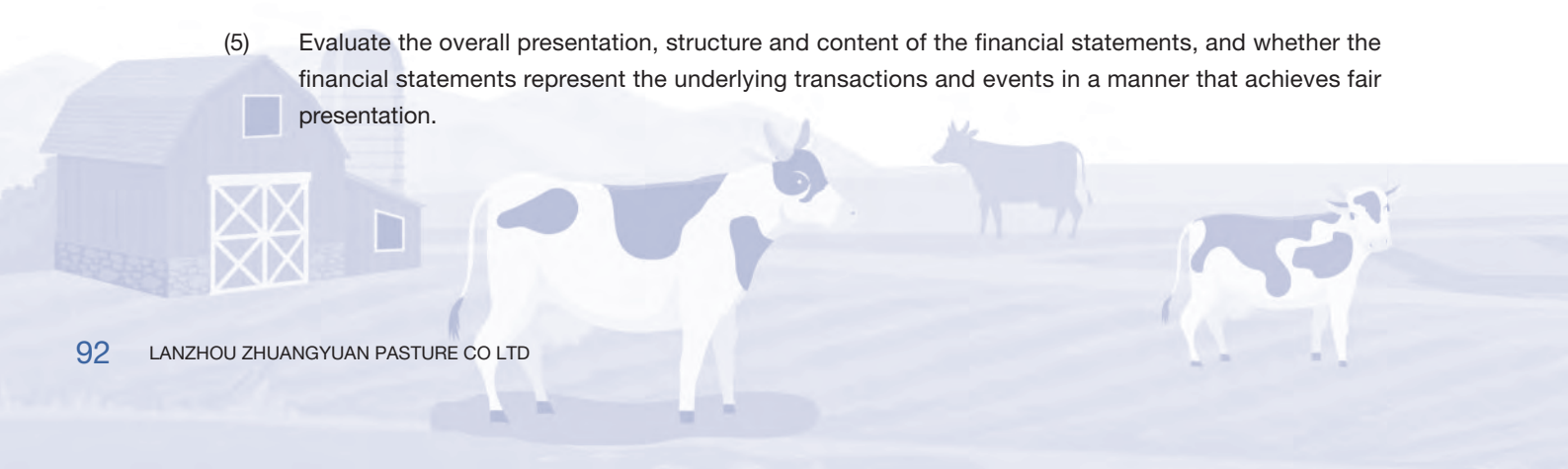
Auditor's Report

VI. CERTIFIED PUBLIC ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Audit 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 financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the 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.
- (2) Understand the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not to express our opinions on the effectiveness of the internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) Conclude on the appropriateness of management's 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 Zhuangyuan Pasture'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 disclosure in the 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 Zhuangyuan Pasture Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Auditor's Report

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

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

WUYIGE Certified Public Accountants LLP

Beijing, PRC

PRC Certified Public Accountant:

Li Zongyi (Engagement Partner)

Certified Public Accountant:

Zhang Yingli

30 March 2022



Consolidated Income Statement

For the year ended 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	2021 RMB'000	2020 RMB'000
I. Operating income	V. (XXXVII)	1,021,432	739,821
Less: Operating cost	V. (XXXVII)	778,504	553,389
Taxes and surcharges	V. (XXXVIII)	9,510	7,745
Selling expenses	V. (XXXIX)	60,732	52,676
Administrative expenses	V. (XL)	101,257	68,815
Research and development expenses	V. (XLI)	9,247	9,103
Financial expenses	V. (XLII)	12,607	23,891
Including: Interest expenses	V. (XLII)	18,693	27,550
Interest income	V. (XLII)	6,587	5,470
Add: Other income	V. (XLIII)	7,082	6,503
Investment income	V. (XLIV)	(3,344)	(12,925)
Including: Investment income from associated enterprises and joint ventures			
Income from derecognition of financial assets at amortised cost	V. (XLIV)	(3,344)	(12,925)
Net exposure to hedging gains			
Gains from changes in fair value	V. (XLV)	9,901	74,263
Impairment losses on Credit	V. (XLVI)	297	(1,513)
Impairment loss on Assets	V. (XLVII)	(591)	(75,838)
Gains from asset disposal	V. (XLVIII)	(575)	313
II. Operating profit		62,345	15,005
Add: Non-operating income	V. (XLIX)	3,623	9,006
Less: Non-operating expenses	V. (L)	10,841	11,650
III. Total profit		55,128	12,361
Less: Income tax expenses	V. (LI)	1,594	1,907
IV. Net profit		53,533	10,453
(I) Classification by operating continuity:			
1. Net profit from continuing operations		53,533	10,453
2. Net profit from discontinued operations			
(II) Classification by ownership:			
1. Net profit attributable to shareholders of the Parent Company		53,533	10,453
2. Non-controlling interests			



Consolidated Income Statement (Continued)

For the year ended 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	2021 RMB'000	2020 RMB'000
V. Other net comprehensive income after tax			
VI. Total comprehensive income		53,533	10,453
(I) Total comprehensive income attributable to the owners of the Parent Company		53,533	10,453
(II) Total comprehensive income attributable to non-controlling interests			
VII. Earnings per share			
(I) Basic earnings per share		0.23	0.05
(II) Diluted earnings per share		0.23	0.05



Consolidated Balance Sheet

As at 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Current assets:			
Cash at bank and on hand	V. (I)	403,689	846,729
Accounts receivable	V. (II)	38,981	41,586
Prepayments	V. (III)	2,752	7,998
Other receivables	V. (IV)	9,130	20,792
Including: Interests receivable			
Dividends receivable			
Inventories	V. (V)	176,459	113,625
Other current assets	V. (VI)	2,428	10,738
Total current assets		633,438	1,041,467
Non-current assets:			
Other equity instruments investment	V. (VII)	44	44
Fixed assets	V. (VIII)	1,466,961	1,179,537
Construction in progress	V. (IX)	1,979	152,093
Productive biological assets	V. (X)	534,964	494,691
Right-of-use assets	V. (XII)	47,079	53,784
Intangible assets	V. (XI)	97,827	97,156
Goodwill	V. (XIII)		
Long-term deferred expenses	V. (XIV)	3,495	4,246
Deferred income tax assets	V. (XV)	2,399	2,502
Other non-current assets	V. (XVI)	22,193	55,037
Total non-current assets		2,176,941	2,039,091
Total assets		2,810,380	3,080,558



Consolidated Balance Sheet (Continued)

As at 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Current liabilities:			
Short-term borrowings	V. (XVII)	214,666	322,337
Bills payable	V. (XVIII)	80,000	431,160
Accounts payable	V. (XIX)	253,385	214,105
Contract liabilities	V. (XX)	18,717	10,669
Employee remuneration payable	V. (XXI)	5,940	6,226
Taxes payable	V. (XXII)	4,606	6,419
Other payables	V. (XXIII)	42,906	52,990
Including: Interests payable			
Dividends payable			
Non-current liabilities due within 1 year	V. (XXIV)	110,349	48,422
Other current liabilities	V. (XXV)	2,429	1,448
Total current liabilities		732,998	1,093,777
Non-current liabilities:			
Long-term borrowings	V. (XXVI)	353,448	311,281
Lease liabilities	V. (XXVII)	40,942	40,483
Estimated liabilities	V. (XXIX)	506	490
Deferred income	V. (XXXI)	36,493	37,059
Deferred income tax liabilities	V. (XV)	5,300	5,633
Total non-current liabilities		436,689	394,947
Total liabilities		1,169,687	1,488,724
Shareholders' equity:			
Share capital	V. (XXXII)	232,381	233,681
Capital reserves	V. (XXXIII)	846,834	854,580
Less: Treasury stocks	V. (XXXIV)	14,206	23,251
Surplus reserves	V. (XXXV)	45,321	43,387
Retained earnings	V. (XXXVI)	530,362	483,437
Total equity attributable to the shareholders of the Parent Company		1,640,693	1,591,834
Total shareholders' equity		1,640,693	1,591,834
Total liabilities and shareholders' equity		2,810,380	3,080,558



Consolidated Cash Flow Statement

For the year ended 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	2021 RMB'000	2020 RMB'000
I. Cash flow from operating activities:			
Cash received from sale of goods and rendering of services		1,145,380	816,686
Tax refund received			914
Cash received in connection with other operating activities	V. (LII)	33,714	43,869
Sub-total of cash inflow from operating activities		1,179,095	861,470
Payment for goods and services		758,255	527,721
Payment to and for employees		95,225	67,528
Payment of various taxes		35,016	30,574
Cash paid for other operating activities	V. (LII)	83,607	94,000
Sub-total of cash outflows from operating activities		972,103	719,823
Net cash flows from operating activities		206,991	141,647
II. Cash flows from investing activities:			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		27,909	21,619
Cash received from other investing activities	V. (LII)	14,106	41,233
Sub-total of cash inflows from investing activities		42,015	62,853
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		374,861	409,796
Sub-total of cash outflows from investing activities		374,861	409,796
Net cash flows from investing activities		(332,846)	(346,943)
III. Cash flows from financing activities:			
Cash received from investments			368,879
Including: Cash received by subsidiaries as minority shareholders' investments			
Cash from borrowings		468,000	551,000
Cash received in connection with other financing activities	V. (LII)	291,820	540,792
Sub-total of cash inflows from financing activities		759,820	1,460,671
Cash paid for repayment of debts		470,640	469,497
Cash paid for dividends, profit distributions or interest payment		26,430	38,037
Including: Dividend and profit paid to minority shareholders by subsidiaries			
Cash paid for other financing activities	V. (LII)	405,544	364,534
Sub-total of cash outflows from financing activities		902,614	872,068
Net cash flows from financing activities		(142,794)	588,603
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		(10)	24
V. Net increase in cash and cash equivalents		(268,658)	383,330
Add: Balance of cash and cash equivalents at the beginning of the period		631,565	248,235
VI. Balance of cash and cash equivalents at the end of the period		362,907	631,565

Consolidated Statement of Changes in Equity

As at 31 December 2021
(Expressed in Renminbi Yuan)

Item	Current period									
	Attributable to shareholders of the parent company									
	Share capital	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Sub-total	Minority shareholders' equity	Total shareholders' equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
I. Balance at the end of the previous year	233,661	854,580	23,251			43,387	483,437	1,591,834		1,591,834
Add: Change in accounting policies										
Prior period error correction										
Business combination under the common control										
Others										
II. Balance at the beginning of the year	233,661	854,580	23,251			43,387	483,437	1,591,834		1,591,834
III. Increase/decrease amount during the period	(1,300)	(7,745)	(9,045)			1,934	46,926	48,859		48,859
(I) Total comprehensive income										
(II) Invested and reduced capitals of owners	(1,300)	(7,745)	(9,045)							
1. Common share contributed by owners	(1,300)	(7,745)	(9,045)							
2. Capital contributed by other equity instrument holders										
3. Amount of share-based payment included in owners' equities										
4. Others										
(III) Appropriation of profits										
1. Withdrawal of surplus reserve										
2. Distributions shareholders										
3. Others										
(IV) Internal carry-over of owners' equity										
1. Paid-in share capital transferred with capital reserves										
2. Paid-in share capital transferred with surplus reserves										
3. Surplus reserve to cover the losses										
4. Balance of defined benefits plan transferred to retained earnings										
5. Other comprehensive income transferred to retained earnings										
6. Others										
(V) Special reserve										
1. Withdraw amount in the period										
2. Utilized amount in the period										
(VI) Others										
IV. Balance at the end of the period	232,361	846,834	14,206			45,321	530,362	1,640,693		1,640,693

Consolidated Statement of Changes in Equity (Continued)

As at 31 December 2021

(Expressed in Renminbi Yuan)

Item	Prior period									
	Attributable to shareholders of the parent company									
	Share capital	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Sub-total	Minority shareholders' equity	Total shareholders' equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
I. Balance at the end of the previous year	190,681	531,119	23,251			43,387	483,471	1,225,407		1,225,407
Add: Change in accounting policies										
Prior period error correction										
Business combination under the common control										
Others										
II. Balance at the beginning of the year	190,681	531,119	23,251			43,387	483,471	1,225,407		1,225,407
III. Increase/decrease amount during the period	43,000	323,460					(34)	366,426		366,426
(I) Total comprehensive income							10,453	10,453		10,453
(II) Invested and reduced capitals of owners	43,000	323,460						366,460		366,460
1. Common share contributed by owners	43,000	325,879						368,879		368,879
2. Capital contributed by other equity instrument holders										
3. Amount of share-based payment included in owners' equities		(2,418)						(2,418)		(2,418)
4. Others										
(III) Appropriation of profits							(10,487)	(10,487)		(10,487)
1. Withdrawal of surplus reserve							(10,487)	(10,487)		(10,487)
2. Distributions to shareholder										
3. Others										
(IV) Internal carry-over of owners' equity										
1. Paid-in share capital transferred with capital reserves										
2. Paid-in share capital transferred with surplus reserves										
3. Surplus reserve to cover the losses										
4. Transferred the balance of defined benefits plan to retained earnings										
5. Transferred other comprehensive income to retained earnings										
6. Others										
(V) Special reserve										
1. Withdraw amount in the period										
2. Utilized amount in the period										
(VI) Others										
IV/ Balance at the end of the period	233,681	854,580	23,251			43,387	483,437	1,591,834		1,591,834

Income Statement of the Parent Company

For the year ended 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	2021 RMB'000	2020 RMB'000
I. Operating revenue	XV. (IV)	690,125	498,214
Less: Operating cost	XV. (IV)	560,906	418,193
Taxes and surcharges		4,624	2,881
Selling expenses		38,431	28,119
Administrative expenses		40,327	26,065
Research and development expenses		6,841	7,930
Financial expenses		14,358	21,393
Including: Interest expenses		17,129	24,910
Interest income		3,131	5,152
Add: Other income		3,620	3,024
Investment income			
Including: Investment income from associated enterprises and joint ventures			
Income from derecognition of financial assets at amortised cost			
Impairment losses on Credit		12	(80)
Impairment loss on Assets		(591)	(30,000)
Gains from asset disposal		(183)	278
II. Operating profit		27,497	(33,144)
Add: Non-operating income		322	7,865
Less: Non-operating expenses		6,920	11,100
III. Total profit		20,899	(36,380)
Less: Income tax expenses		1,560	(1,921)
IV. Net profit		19,339	(34,459)
(I) Net profit from continuing operations		19,339	(34,459)
(I) Net profit from discontinued operations			
V. Other net comprehensive income after tax			
VI. Total comprehensive income		19,339	(34,459)



Balance sheet of the Parent Company

As at 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Current assets:			
Cash at bank and on hand		154,825	468,006
Accounts receivable	XV. (I)	24,591	15,097
Prepayments		861	5,312
Other receivables	XV. (II)	555,687	495,026
Including: Interests receivable			
Dividends receivable			
Inventories		41,774	27,705
Other current assets		1,551	10,731
Total current assets		779,288	1,021,877
Non-current assets:			
Long-term equity investment	XV. (III)	1,002,734	1,002,734
Other equity instruments investment		44	44
Fixed assets		551,799	486,667
Construction in progress		1,800	18,260
Right-of-use assets		1,297	2,669
Intangible assets		58,495	56,460
Long-term deferred expenses		3,495	4,246
Deferred income tax assets		2,272	2,348
Other non-current assets		21,843	20,544
Total non-current assets		1,643,780	1,593,973
Total assets		2,423,068	2,615,849
Current liabilities:			
Short-term borrowings		186,619	282,268
Bills payable		80,000	431,160
Accounts payable		84,400	78,542
Contract liabilities		11,262	8,375
Employee remuneration payable		3,289	3,358
Taxes payable		1,901	3,937
Other payables		264,082	120,867
Including: Interests payable			
Dividends payable			
Non-current liabilities due within 1 year		104,453	43,795
Other current liabilities		1,464	1,108
Total current liabilities		737,469	973,409

Balance sheet of the Parent Company (Continued)

As at 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Non-current liabilities:			
Long-term borrowings		216,449	185,129
Lease liabilities		133	1,879
Estimated liabilities		6	6
Deferred income		13,954	15,036
Deferred income tax liabilities		1,215	1,215
Total non-current liabilities		231,758	203,265
Total liabilities		969,227	1,176,674
Shareholders' equity:			
Share capital		232,381	233,681
Capital reserves		869,346	877,091
Less: Treasury stocks		14,206	23,251
Surplus reserves		45,321	43,387
Retained earnings		320,998	308,266
Total owners' equity		1,453,841	1,439,175
Total liabilities and owners' equity		2,423,068	2,615,849



Cash Flow Statement of the Parent Company

For the year ended 31 December 2021
(Expressed in Renminbi Yuan)

Item	Note	2021 RMB'000	2020 RMB'000
I. Cash flows from operating activities:			
Cash from sale of goods and rendering of services		714,500	557,214
Tax rebates received			914
Cash received in connection with other operating activities		160,620	252,167
Sub-total of cash inflow from operating activities		875,119	810,295
Payment for goods and services		454,036	249,586
Cash paid to and for employees		43,087	29,181
Payment of various taxes		22,655	16,472
Cash paid for other operating activities		177,267	127,846
Sub-total of cash outflows from operating activities		697,045	423,085
Net cash flows from operating activities		178,074	387,211
II. Cash flows from investing activities:			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		86	576
Cash received from other investing activities		14,106	22,333
Sub-total of cash inflows from investing activities		14,193	22,910
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		115,268	67,782
Cash received from other investing activities			498,945
Sub-total of cash outflows from investing activities		115,268	566,727
Net cash flows from investing activities		(101,076)	(543,817)
III. Cash flows from financing activities:			
Cash received from investments			368,879
Cash from borrowings		406,000	385,000
Cash received in connection with other financing activities		215,164	160,792
Sub-total of cash inflows from financing activities		621,164	914,671
Cash paid for repayment of debts		409,440	450,777
Cash paid for dividends, profit distributions or interest payment		25,635	35,398
Cash paid for other financing activities		401,877	212,991
Sub-total of cash outflows from financing activities		836,952	699,166
Net cash flows from financing activities		(215,788)	215,505
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		(10)	24
V. Net increase in cash and cash equivalents		(138,799)	58,923
Add: Balance of cash and cash equivalents at the beginning of the period		252,842	193,920
VI. Balance of cash and cash equivalents at the end of the period		114,043	252,842

Statement of Changes in Equity of the Parent Company

As at 31 December 2021
(Expressed in Renminbi Yuan)

Item	Current period							Total shareholders' equity RMB'000
	Share capital	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
I. Balance at the end of the previous year	233,681	877,091	23,251			43,387	308,266	1,439,175
Add: Change in accounting policies								
Prior period error correction								
Others								
II. Balance at the beginning of the year	233,681	877,091	23,251			43,387	308,266	1,439,175
III. Increase/decrease amount during the period	(1,300)	(7,745)	(9,045)			1,934	12,732	14,666
(I) Total comprehensive income							19,339	19,339
(II) Invested and reduced capitals of owners	(1,300)	(7,745)	(9,045)					
1. Common share contributed by owners	(1,300)	(7,745)	(9,045)					
2. Capital contributed by other equity instrument holders								
3. Amount of share-based payment included in shareholders' equities								
4. Others								
(III) Appropriation of profits						1,934	(6,608)	(4,674)
1. Withdrawal of surplus reserve						1,934	(1,934)	
2. Distributions to shareholders							(4,674)	(4,674)
3. Others								
(IV) Internal carry-over of owners' equity								
1. Paid-in share capital transferred with capital reserves								
2. Paid-in share capital transferred with surplus reserves								
3. Surplus reserve to cover the losses								
4. Balance of defined benefits plan transferred to retained earnings								
5. Other comprehensive income transferred to retained earnings								
6. Others								
(V) Special reserve								
1. Withdraw amount in the period								
2. Utilized amount in the period								
(VI) Others								
IV. Balance at the end of the period	232,381	869,346	14,206			45,321	320,998	1,453,841



Statement of Changes in Equity of the Parent Company (Continued)

As at 31 December 2021

(Expressed in Renminbi Yuan)

Item	Prior period							
	Share capital	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Total shareholders' equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
I. Balance at the end of the previous year	190,681	553,631	23,251			43,387	353,213	1,117,662
Add: Change in accounting policies								
Prior period error correction								
Others								
II. Balance at the beginning of the year	190,681	553,631	23,251			43,387	353,213	1,117,662
III. Increase/decrease amount during the period	43,000	323,460					(44,947)	321,513
(I) Total comprehensive income							(34,459)	(34,459)
(II) Invested and reduced capitals of shareholders	43,000	323,460						366,460
1. Common share contributed by shareholders	43,000	325,879						368,879
2. Capital contributed by other equity instrument holders								
3. Amount of share-based payment included in owners' equities		(2,418)						(2,418)
4. Others								
(III) Appropriation of profits							(10,487)	(10,487)
1. Withdrawal of surplus reserve								
2. Distributions to shareholders							(10,487)	(10,487)
3. Others								
(IV) Internal carry-over of shareholders' equity								
1. Paid-in share capital transferred with capital reserves								
2. Paid-in share capital transferred with surplus reserves								
3. Surplus reserve to cover the losses								
4. Balance of defined benefits plan transferred to retained earnings								
5. Other comprehensive income transferred to retained earnings								
6. Others								
(V) Special reserve								
1. Withdraw amount in the period								
2. Utilized amount in the period								
(VI) Others								
IV. Balance at the end of the period	233,681	877,091	23,251			43,387	308,266	1,439,175



Notes to the Financial Statements

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

I. COMPANY STATUS

Lanzhou Zhuangyuan Pasture Co., Ltd. (hereinafter referred to as “the Company”) was incorporated in Gansu, Lanzhou, PRC on 25 April 2000. On 19 April 2011, the Company was converted into a joint stock company. The registered address is at No.398 Sanjiaocheng Commune, Sanjiaocheng Village, Chengguan Town, Yuzhong County, Lanzhou City, Gansu Province. The operating cycle is from 25 April 2000 to 24 April 2050.

The Company was listed on the Main Board of Hong Kong Stock Exchange on 15 October 2015, and listed on the SME Board of Shenzhen Stock Exchange on 31 October 2017.

On 29 June 2021, the ultimate controller of the Company changed from Mr. Ma Hongfu to the State-owned Assets Supervision and Administration Commission of the Gansu Provincial Government (甘肅省人民政府國有資產監督管理委員會). On 29 July 2021, the legal representative of the Company changed from Mr. Ma Hongfu to Mr. Yao Gexian.

The Company has 11 subsidiaries incorporated into the consolidation scope as of 31 December 2021. For details, please refer to Note VII. “Interests in other entities”.

The Company is primarily engaged in the manufacturing and selling of dairy products and breeding of dairy cows.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared on the going-concern basis in accordance with the requirements of Accounting Standards for Business Enterprises — Basic Standards (promulgated by Decree No. 33 of the Ministry of Finance and Decree No. 76 of the Ministry of Finance) issued by the Ministry of Finance on the basis of actual transactions and events, 42 specific accounting standards, the application guidelines for corporate accounting standards, the interpretation of accounting standards for business enterprises and other relevant regulations issued and revised by the Ministry of Finance on 15 February 2006 (hereinafter collectively referred to as the “Accounting Standards for Business Enterprises”) and No. 15 General Rules for the Preparation of Financial Reports — Rules for the Information Disclosure of Companies Publicly Issuing Securities (revised in 2014) of the China Securities Regulatory Commission and the requirements of Hong Kong Companies Ordinance and the Hong Kong Listing Rules.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Statements on compliance with accounting standards for business enterprises

These financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises or referred to as China Accounting Standards (“CAS”) issued by the Ministry of Finance (“MOF”) present truly and completely the financial position of the Company as at 31 December 2021, and financial performance and cash flows of the Company for the year of 2021. These financial statements, in all material aspects, comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports” as revised by the China Securities Regulatory Commission (“CSRC”) in 2014. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance and Hong Kong Listing Rules.

(II) Accounting period

Accounting year of the Company is the calendar year from 1 January to 31 December.

(III) Operating cycle

The Company takes the period from the acquisition of assets for processing to the ultimate realization of cash or cash equivalents as a normal operating cycle. The operating cycle of the Company is 12 months and the Company regards it as the basis of determining the liquidity of assets and liabilities.

(IV) Functional currency

The Company’s functional currency is Renminbi and these financial statements are presented in Renminbi. Functional currency is determined by the Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Business combination

Business combination refers to the transaction or events of two or more separate enterprises combining into a reporting entity. Business combination is divided into the business combination under the common control and business combination not under the common control.

1. Business combination under the common control

In case the consideration for the long-term equity investments resulted from the business combination under common control is paid by way of cash, transfer of non-cash assets or assumption of debts, the Company will, on the date of combination, recognize the acquiree's share in the carrying amount in the ultimate controlling party's consolidated financial statements being absorbed as initial investment cost of long-term equity investments. In case the acquirer pays the combination consideration by issuing equity instruments, the aggregate nominal value of shares issued will be recognized as share capital. The difference between the initial investment cost of long-term equity investments and the carrying amount of combination consideration (or aggregate nominal value of shares issued) shall be adjusted under capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

The acquiree's direct expenses incurred from business combination shall be included in the current profits and losses when incurred



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Business combination (Continued)

2. Business combination not under the common control

A business combination not under the common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not under the common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

As for business combination not under the common control, the combination costs include the assets paid by the acquirer, the liabilities accrued and assumed, as well as the fair value of the equity security issued for obtaining control right on the acquiree on the purchase date; the intermediary fees, such as auditing, legal service and evaluation and consulting, and other related management fees for the business combination shall be included in the current profits and losses when occurred. The purchaser's transaction expenses of equity securities or debt securities issued as consolidation price shall be counted into the initially recognised amount of equity securities or debt securities. Contingent consideration involved shall be included in the combination costs according to the fair value at the purchase date; if new or further proofs appearing within 12 months after the purchase date show that the contingent consideration needs to be adjusted, the combination goodwill shall be adjusted correspondingly. The purchasing party's combination costs and obtained identifiable net assets during the merger shall be measured according to the fair value on the purchase date. If the combination cost is larger than difference of the fair value share of the acquiree's identifiable net assets obtained on the purchase date during combination, it shall be recognised as goodwill. If the merger cost is lower than the fair value share of the acquiree's identifiable net assets obtained during merging, the measurement of the various identifiable assets of the acquiree obtained, liabilities or fair value with contingent liabilities and the merger costs shall be re-examined firstly, and then if the merger cost is still lower than the fair value share of the acquiree's identifiable net assets obtained during merging, the difference shall be included in the current profits and losses.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Business combination (Continued)

2. Business combination not under the common control (Continued)

If the deductible temporary difference of the purchased party gained by purchasing party fails to be recognised on the purchasing date due to not conforming to the recognition condition of deferred income taxes assets, and new or further information obtained indicates the relevant conditions on the purchase date have existed within 12 months after the purchasing date, and it's predicted that the purchased party can realize the economic benefits brought by deductible temporary differences on the purchasing date, relevant deferred income taxes assets shall be recognised, at the same time, the goodwill shall be reduced; if the goodwill is insufficient for offsetting, the differential section shall be recognised as the current profits and losses. Except for the foregoing conditions, the deferred income tax assets which are related to the business combination will be recognised in the current profits and losses.

The sum of book value of the acquiree's equity investment held prior to the purchase date and the newly-increased investment cost on the purchase date in the individual financial statement shall be regarded as the initial investment cost of such investment. If the acquiree's equity held prior to the purchase date involves the other comprehensive income, the same basis that the acquiree directly disposes relevant asset or liabilities with other relevant comprehensive income to conduct the accounting treatment when handling the investment (namely, except the variable corresponding share incurred due to defined benefit plan net liability or net assets measured again by the acquiree according to the equity method, other shares shall be transferred in current investment income) will be adopted.

In the consolidated financial statements, the equity of the acquiree held before the purchase date is re-measured according to the fair value of the equity on the purchase date, and the difference between the fair value and the book value is included in the current investment income. If the acquiree's equity held prior to the purchase date involves the other comprehensive income, the same basis that the acquiree directly disposes relevant asset or liabilities with other relevant comprehensive income to conduct the accounting treatment (namely, except the variable corresponding share incurred due to defined benefit plan net liability or net assets measured again by the acquiree according to the equity method, other shares shall be transferred in current investment income on the purchasing date) will be adopted.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(VI) Preparation method of the consolidated financial statements

1. Determination principles of consolidated financial statement scope

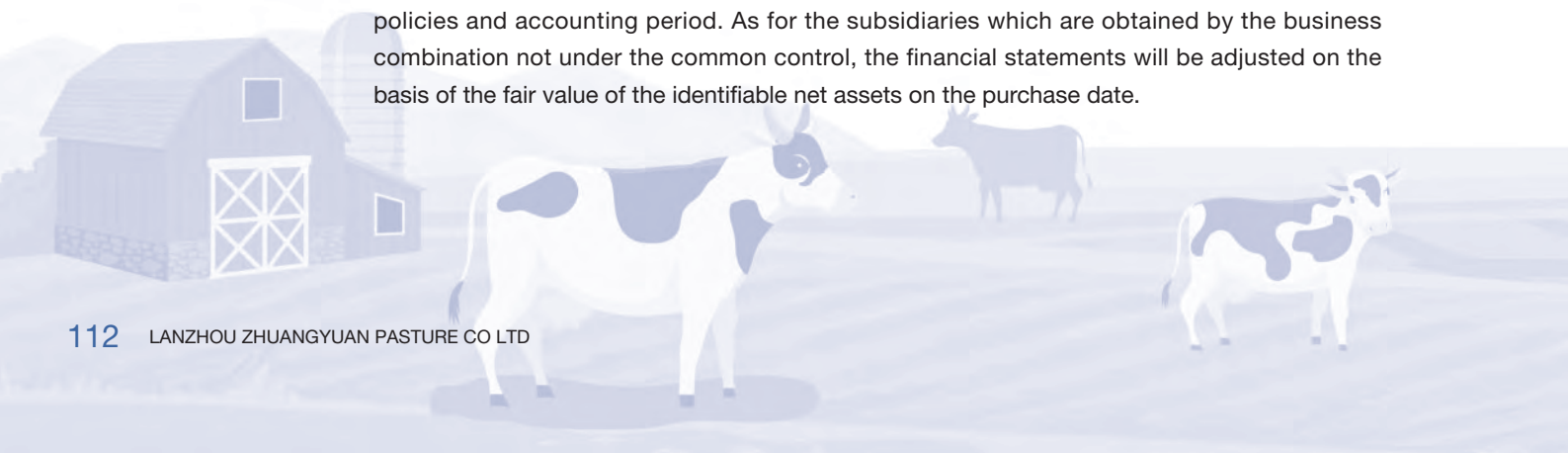
The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. Control exists when the investor has all of the following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation scope shall cover the Company and all subsidiaries. The subsidiary refers to the subject under the control of the Company.

The Company will re-evaluate if the change in the relevant facts and circumstances leading to the change of the relevant elements involved in the above definition of control.

2. Preparation method of the consolidated financial statements

From the date of obtaining actual control right of the subsidiaries' net assets and production operation decision, the Company will commence to include it into the consolidation scope. Similarly, it will terminate to include into the consolidation scope from the date when the Company loses its actual control right. As for the disposal of subsidiaries, the operation results and cash flow before disposal date have been properly included in the consolidated income statement and consolidated cash flow statement. As for subsidiaries disposed in the current period, the opening balance of the consolidated balance sheets will not be adjusted. As for the increased subsidiaries through the business combination not under the common control, its operating results and cash flow after the purchase date have been properly included in the consolidated income statement and consolidated cash flow statement, and the opening balance and contrast balance of the consolidated financial statement shall be not adjusted. As for the increased subsidiary through the business combination under the common control and the merged party under consolidation by merger, the operating results and cash flow from the beginning of the current period of merge to the merge date have been properly included in the consolidated cash flow statement, and the opening balance and contrast balance, and the contrast balance of the consolidated financial statement shall be adjusted simultaneously.

Where the subsidiary and the Company adopts different accounting policies or accounting periods, when preparing the consolidated financial statement, the necessary adjustment shall be made to the subsidiary's financial statements according to this company's accounting policies and accounting period. As for the subsidiaries which are obtained by the business combination not under the common control, the financial statements will be adjusted on the basis of the fair value of the identifiable net assets on the purchase date.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(VI) Preparation method of the consolidated financial statements (Continued)

2. Preparation method of the consolidated financial statements (Continued)

All significant current balances, transactions and unrealized profits of the Company will be offset when the consolidated financial statement is prepared.

Moreover, the subsidiaries' parts which don't belong to the Company in the shareholders' equity and current net profit will be separately presented on the shareholders' equity and net profit as specified in the consolidated financial statement as the profits and losses which belong to the minority shareholders. Meanwhile, the minority shareholders' equity in the current net profit and losses will be presented in the "minority shareholders' profits and losses" under the net profit items in the consolidated income statement. The losses of the subsidiary minority shareholders shared is more than the share of minority shareholders enjoying in the subsidiary's shareholders' equities at the beginning of period, shall write down minority shareholders' equities.

If the control right to original subsidiary has been lost due to the disposal of partial equity investments or other reasons, for the remaining equities, the re-measurement shall be conducted based on the fair value on the date of losing the control right. The sum of the consideration obtained from the disposal of the equity and the fair value of the remaining equity, minus the proportion of the original assets that should be enjoyed by the original subsidiaries from the purchase date, the difference shall be included in the investment income of the current period of loss of control power. Other comprehensive income related to the equity investment of original subsidiary shall adopt the same basis with purchased party directly disposing related assets or liabilities for accounting treatment when losing control right (namely, except the change caused by original subsidiary company's re-measurement of net liabilities or net assets of defined benefit plan, others are transferred to the current investment incomes). Thereafter, the remaining equity rights shall be provided with follow-up measurement according to Accounting Standards for Business Enterprises No. 2— Long-Term Equity Investment or Accounting Standards for Business Enterprises No. 22— -Recognition and Measurement of Financial Instruments. As for details, please refer to Note III (XII) "Long-term equity investments" or the Note III (IX) "Financial instruments".



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(VII) Recognition standard for cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily withdrawn on demand, and short-term (usually due within three months from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(VIII) Translation of foreign currency transactions and financial statements denominated in foreign currency

1. Translation of foreign currency transactions

When the Company receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss, unless they arise from the re-translation of the principal and interest of specific borrowings for the acquisition, and construction or production of qualifying assets. Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of available-for-sale financial assets, which are recognised in other comprehensive income.

(IX) Financial instruments

1. Classification and reclassification of financial instruments

A financial instrument is the contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Classification, recognition and measurement of financial assets

According to business mode of financial asset management and contract cash flow characteristics of financial assets, the Company classified financial assets into: financial assets at amortized cost; financial assets measured at changes in fair value through other comprehensive income; financial assets measured at changes in fair value through profits or losses.

Financial assets shall be measured at the fair value at the initial recognition. For financial assets measured at changes in fair value through profits or losses, the related transaction expenses shall be directly accounted for profits or losses in the current period. For other categories of financial assets, the related transaction expenses thereof shall be recorded in the initial recognition amount. As for accounts receivable or bills receivable produced from promoting products or rendering of service, excluding or taking no account of significant financing components, the Company takes amount of consideration anticipated to be collected as initial recognised amount.

① **Financial assets at amortized cost**

The business mode of the Company to manage the financial assets targets at collecting the contractual cash flow. In addition, the contractual cash flow characteristics of the financial assets are consistent with the basic lending arrangement, that is, the cash flow generated in the specific date is the payment of the interest based on the principal and outstanding principal amount. This kind of financial assets shall be subsequently measured based on the amortized cost and effective interest method, and the gains or losses arising from the amortization, impairment shall be included in current profit and loss.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Classification, recognition and measurement of financial assets (Continued)

② *financial assets measured at changes in fair value through other comprehensive income*

Business mode for managing financial assets of the Company takes contract cash flow collected as target and selling as target and contract cash flow characteristics of such financial assets are consistent with basic lending arrangement. The Company calculates such financial assets measured at changes in fair value through other comprehensive income, but impairment loss or gain, exchange gain or loss and interest income calculated as per actual interest rate method are included in current profits or losses.

Furthermore, the Company designates partial non-tradable equity vehicle investment as financial asset measured at changes in fair value through other comprehensive income. The Company includes related dividend income of such financial assets into current profits and losses with the change in fair value through other comprehensive income. At the time of derecognition of such financial assets, accumulated gain or loss included in other comprehensive income before will be shifted to retained earnings from other comprehensive income but not included in current profits and losses.

③ *Financial assets measured at changes in fair value through profits or losses*

The Company classifies financial assets except for above-mentioned financial assets measured at amortized cost and financial assets measured at changes in fair value through other comprehensive income into financial assets measured at changes in fair value through profits or losses.

3. Classification, recognition and measurement of financial liabilities

The financial liabilities of the Company are classified as financial liabilities measured at changes in fair value through profits or losses and other financial liabilities upon initial recognition. For financial liabilities measured at changes in fair value through profits or losses, relevant transaction expenses shall be included in current profits and losses directly; for other financial liabilities, relevant transaction expenses thereof shall be included in the amount of initial recognition.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

3. Classification, recognition and measurement of financial liabilities (Continued)

① *Financial liabilities measured at changes in fair value through profits or losses*

Financial liabilities measured at changes in fair value through profits or losses include trading financial liabilities (containing derivative instruments of financial liabilities) and financial liabilities measured at changes in fair value through profits or losses at the time of initial recognition.

Trading financial liabilities (including derivative instruments of financial liability) is subject to subsequent measurement at fair value. Except for related to hedge accounting, the change in fair value is included in current profits or losses.

② *Other financial liabilities*

Other financial liabilities except for financial liabilities formed due to transfer of financial assets unqualified for derecognition condition or continuously involved in transferred financial assets and financial guarantee contract are classified into financial liabilities measured at amortized cost and subject to subsequent measurement based on amortized cost. Gains or losses generated from derecognition or amortization are included in current profits and losses.

4. Recognition basis and measurement method of financial assets transfer

The derecognition shall be made for financial assets in case of one of the following conditions: (i) the contractual rights which will charge the financial assets' cash flow will be terminated; (ii) the financial assets have been transferred, and the Company has transferred almost all of the risks and rewards of ownership of financial assets to the transferee; and (iii) the financial assets have been transferred, and although this Company has neither transferred nor reserved almost all the risks and rewards of ownership of financial assets, it has waived the control on the financial assets.

If the enterprise neither transfers nor retains almost all the risks and remunerations of ownership of financial assets, and does not waive the control on the financial assets, it shall comply with the degree of its continued involvement in the transferred financial assets to recognise the related financial assets and recognise relevant liabilities accordingly. The transferred financial assets degree refers to the risk level which is faced by the enterprises due to the financial asset value changes.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

4. Recognition basis and measurement method of financial assets transfer *(Continued)*

If the overall transferring of financial assets can satisfy the conditions of derecognition, the balance difference between the consideration which is caused by transferring the book value of financial assets and the fair value changes which are included in the other comprehensive income shall be included in the current profits and losses.

When the partial transferring of financial assets can satisfy the derecognition conditions, the book value of the transferred financial assets shall be amortized according to the relative fair value between the recognition and failing recognition, moreover, the difference in value between the amortized book value as above and the sum of the consideration caused by the financial assets transferring and the original value which shall be included in fair value changes of other comprehensive income shall be included in the current profits and losses

The Company will recognise whether almost all risks and remunerations about the financial assets ownership will be transferred after selling the financial assets in the recourse right way or transferring the held financial assets endorsement. When almost all risks and remunerations about the financial assets ownership have been transferred to the transferee, the financial assets shall be subject to derecognition; if almost all risks and remunerations about the financial assets ownership have been retained, the financial assets will not be derecognized. Supposing that almost all risks and remunerations about the ownership of the financial assets have not been transferred and retained, the accounting treatment will be whether the enterprise has retained the control of the assets and carry out the accounting treatment according to the above-mentioned principles.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

5. Derecognition of financial liabilities

In case of current obligation of financial liabilities (or partial financial liabilities) being terminated, derecognition of such financial liabilities (or partial financial liabilities) is conducted by the Company. If the Company (borrower) signs an agreement with the lender to replace original financial liabilities with new financial liabilities and contract terms of new financial liabilities are different from those of original financial liabilities, derecognition of original financial liabilities and recognition of new financial liabilities shall be conducted. In case of material alteration of contract terms of original financial liabilities (partial financial liabilities) by the Company, derecognition of original financial liabilities and recognition of new financial liabilities as per modified terms shall be conducted.

In case of derecognition of financial liabilities (or partial financial liabilities), the Company includes the balance between its book value and payment consideration (including non-cash assets transferred out or borne liabilities) into current profits and losses.

6. Offset of financial assets and liabilities

When the Company has the legal right to offset the recognised financial assets and financial liabilities and is entitled to perform the aforesaid legal right at the present, and meanwhile when the Company intends to settle or sell off the financial assets and pay off the financial liabilities by the net amount, the financial assets and financial liabilities shall be presented in the balance sheet with the amount after the mutual offset. Besides, the financial assets and financial liabilities are listed in the balance sheet respectively and are not offset with each other.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

7. Determination methods of fair value of financial assets and liabilities

The fair value refers to the price which is caused by selling the assets or transferring the liabilities during the orderly transaction of the market participants on the measurement date. The fair value of the financial instruments that exist in the active market shall be recognised by the quotation in the active market by the Company. The quotations in the active market refer to the prices, which are easily available from the exchanges, brokers, industry associations, pricing service institutions, etc. at a fixed term, and represent the price of market transactions actually occurring in the fair dealing. If there is no active market for financial instruments, the Company uses the valuation techniques to determine its fair value. The valuation technique includes referring prices adopted by the parties who are familiar with the condition and willing to conduct the transaction in the latest market transaction, the current fair value of other substantially same financial instruments, the discounted cash flow method and the option pricing models, etc. In valuation, the Company adopted applicable valuation techniques supported by sufficient utilizable data and other information in current circumstances, selected input values consistent with asset or liability characteristics considered in relevant asset or liability transactions of market participators and prioritized applying relevant observable input values. Unobservable input values shall not be applied unless relevant observable input values are not accessible or feasible.

8. Equity instrument

Equity instrument refers to the contract which can prove to hold the residual equity in the assets after deducting all liabilities. Issuance (including refunding), repurchase, selling or writing off of instrument by the Company is regarded as handling of changes in equity and transaction expenses related to equity transaction are deducted from the equity. The Company does not recognise the fair value change of equity instruments.

In case of the equity instrument of the Company distributing dividends during the period of existence (including “interest” produced from the tool classified into equity instrument), appropriation of profits processing will be deemed.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) Impairment of financial assets

Financial assets with impairment loss recognised by the Company are financial assets measured with amortized cost, debt instrument investment measured as per fair value whose change is included in debt instrument investments and rental receivables under other comprehensive income, mainly including bill receivable, accounts receivable, other receivables, creditors' investment, other creditors' investment and long-term receivables. Moreover, as for contract assets and financial guarantee contract, it's necessary to calculate and withdraw provision for diminution in value and recognize credit impairment losses pursuant to accounting policies set forth in this part.

1. Recognition method of provision for impairment in value

The Company recognizes credit impairment losses based on expected credit loss, and calculates and withdraws above-mentioned various items.

Credit loss refers to the difference between all contractual cash flows discounted as per the original effective interest rate and receivable from the contract and all cash flows expected to be received by the Company, namely, the present value of a shortage of cash. Wherein, the purchased or underlying financial assets with impairment on credit of the Company shall be discounted as per effective interest rate based on credit adjustment.

The Company evaluates whether credit risk of financial assets has significantly increased after initial recognition on each balance sheet date. In case of credit risk having significantly increased after initial recognition, the Company will measure loss allowance as per the amount equivalent to expected credit loss in the whole period of existence. In case of credit risk failing to significantly increase after initial recognition, the Company will measure loss allowance as per the amount equivalent to expected credit loss in the next 12 months. At the time of evaluating expected credit loss, the Company considers all reasonable and well-founded information, including forward-looking information.

2. Standard for judging whether credit risk has significantly increased after initial recognition

In case that probability of default of one financial asset recognised on the balance sheet date in the expected period of existence is obviously higher than that in the expected period of existence recognised at the moment of initial recognition, it indicates that credit risk of such financial asset significantly increases.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) Impairment of financial assets (Continued)

3. Selection of simplified treatment method

As for receivables and contract assets excluding significant financing components, the Company measures loss allowance as per the amount equivalent to expected credit loss in the whole period of existence.

As for receivables, contract assets and rental receivables including significant financing components, the Company always chooses to measure loss allowance based on the amount equivalent to expected credit loss in the period of existence.

For the financial instrument with a lower credit risk on the balance sheet date, the Company assumes that its credit risks have not increased significantly since the initial recognition, and measures the loss allowance according to the expected credit losses of the future 12 months.

4. Combinatorial method of appraising future credit risk based on combination

The Company appraises the credit risk of the financial asset item of significantly different credit risks, such as: receivables disputed with the opposite side or involving litigation or arbitration; there have been obvious signs showing that the debtor possibly is not able to perform the repayment obligations of receivable amounts, etc.

Except financial assets of separately appraised credit risk, the Company classifies financial assets into different groups based on the account aging characteristic and appraises credit risks based on combination.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories

Inventories of the Company include raw materials, goods in stock, goods in transit, consumable biological assets, etc.

1. Consumable biological assets

Consumable biological assets held by the Company comprise male calves available for sale. Consumable biological assets are measured at their fair values less costs to sell at the end of the year. Any resultant gain or loss arising from changes in fair value less costs to sell is charged to the profit or loss for the period in which the gain or loss arises.

2. Other inventories

Other inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditure incurred in bringing the inventories to their present location and condition. Borrowing costs directly related to the production of qualifying inventories are also included in the cost of inventories (see Note III. (XV). Borrowing costs). In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

Agricultural products generated from the Company's biological assets are raw milk. Agricultural products are initially recognised as inventories at their fair values less costs to sell at the point of harvest, which are determined based on their market prices quoted in the local area. Any gain or loss arising on initial recognition of such fair values (i.e. the difference between the fair values less costs to sell of the agricultural products at the point of generation and the breeding costs) is recognised in the profit or loss in the period of generation. Upon subsequent sales, such amount of the inventories initially recognised at fair value is charged to the cost of sales.

Cost of inventories recognised is calculated using the weighted average method.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories (Continued)

At the balance sheet date, inventories are carried at the lower of cost and net realisable value.

Net realisable value is the estimated selling price of inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The net realisable value of materials held for use in the production is measured based on the net realizable value of the finished goods in which they will be incorporated. The net realisable value of the inventory held to satisfy sales or service contracts is measured based on the contract price, to the extent of the quantities specified in sales contracts, and the excess portion of inventories is measured based on general selling prices.

Any excess of the cost over the net realisable value of each category of inventories is recognised as a provision for obsolete inventories, and is recognised in profit or loss.

The Company maintains a perpetual inventory system.

(XII) Long-term equity investment

The long-term equity investments refer to the long-term equity investments that the Company has control, joint control or significant impacts on the invested entity. The Company does not have long-term equity investments of controlling, common controlling or significant impacts on the invested entity. As for financial assets measured at changes in fair value through profits or losses, if such assets are not transactional, the Company may specify these capitals as financial assets which are measured at changes in fair value through current profits or losses upon initial recognition. Relevant accounting policies please see Note III. (IX) "Financial Instruments".

Under the common control means that the common control of the Company for certain arrangement in accordance with relevant agreements; activities relevant to the arrangement cannot be decided until obtaining the unanimous approval of participants sharing the control right. The significant impact refers to that the Company has the right to participate in the decision-making of financial and business policy of the invested entity, but can't control or commonly control together with other parties the preparation of these policies.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

1. Determination of investment cost

For the long-term equity investments acquired through the business combination under the common control, the shares of merged party's book value of owners' equity in the final controlling party consolidated financial statements obtained on the merger date shall act as the initial investment cost of long-term equity investments. The capital reserves shall be adjusted according to the balance between the initial investment cost of long-term equity investments and cash paid, non-cash assets transferred as well as the book value of debts; if the capital reserves are insufficient to offset, the retained earnings will be adjusted. In the case of issued equity securities treated as consolidation consideration, share of book value of owner's equity of merged party in a combined financial statement of the final controlling party is regarded as initial investment cost of long-term equity investments on the merger date; capital reserve shall be adjusted in accordance with taking total nominal value of issued share as capital stock, and the difference between the initial investment cost of long-term equity investments and total book value of issued shares; if the capital reserves are insufficient to offset, the retained earnings will be adjusted

The long-term equity investments obtained from the business merger under the non-unitary control will be used as the initial investment cost of long-term equity investments according to the combined cost on the purchase date. The combined cost includes the sum of fair value of assets or liabilities of the purchasing party or the equity securities issued.

The audit, legal service and appraisal consultation fees and other intermediary fees as well as other relevant management fees of the merger party or acquirer for business combination will be included in current profit and loss when occurred.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

2. Methods for the subsequent measurement and the profit and loss recognition

The long-term equity investments implementing the joint control (except constituting the joint operator) or significant impact upon the invested entity adopts the equity method for accounting. Besides, the Company's financial statement adopts the long-term equity investments accounted by the cost method and implementing the control upon the investee.

① *Long-term equity investment accounted by cost method*

When the cost method is adopted for the accounting, the long-term equity investments shall be valued according to the initial investment cost and the long-term equity investments cost shall be adjusted by increasing or recovering the investment. The current investment income shall be recognized by the cash dividends or profits announced and issued by the invested entity, except the actual price paid when the investment is obtained or the cash dividends or profits which have been declared but not issued in the consideration.

② *Long-term equity investment accounted by equity method*

When the equity method is used for the accounting, and the initial investment cost of the long-term equity investments is more than the fair value share of the investee's identifiable net assets which shall be enjoyed at the time of the investment, the initial investment cost of the long-term equity investments may not be adjusted. In case that the initial investment cost is less than the attributable share of the fair value of the investee's net identifiable assets, the balance shall be included in current profits and losses and the cost of the long-term equity investments shall be adjusted.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

2. Methods for the subsequent measurement and the profit and loss recognition (Continued)

② Long-term equity investment accounted by equity method (Continued)

Under the equity method, the investment income and other comprehensive income are recognized in accordance with the proportion of the net profit or loss and other comprehensive income of the invested entity attributable to the investor, and adjusting the carrying value of long-term equity investment; it shall be decreased of the carrying value of long term equity investment according to the portion of the declaration of dividend or cash dividends; it shall adjust the carrying value of long-term equity investment and recognize in capital reserve if there is any other changes besides net profit or loss, other comprehensive income and profit distribution of the shareholders' equity. The invested entity's profit or loss shall be adjusted on the basis of the fair value of all identifiable assets of the invested entity at the acquisition date and adjusted to comply with the accounting policies and accounting periods adopted by the investor. All inter-group unrealized profits from the jointly ventures and associates attributable to the Group shall be eliminated to recognize the investment income. If there are differences in the accounting policies and accounting period between the Company and the invested company, the financial statements shall be adjusted according to the Company, and the investment income and other comprehensive income shall be recognized. However, if the unrealized inter-group loss constitutes impairment of the transferred assets, the losses shall not be adjusted.

The Company discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the company's net investment in the investee is reduced to zero, except to the extent that the company has an obligation to assume additional losses. Where net profits are subsequently made by the investee, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

2. Methods for the subsequent measurement and the profit and loss recognition (Continued)

③ Acquisition of the minority equity

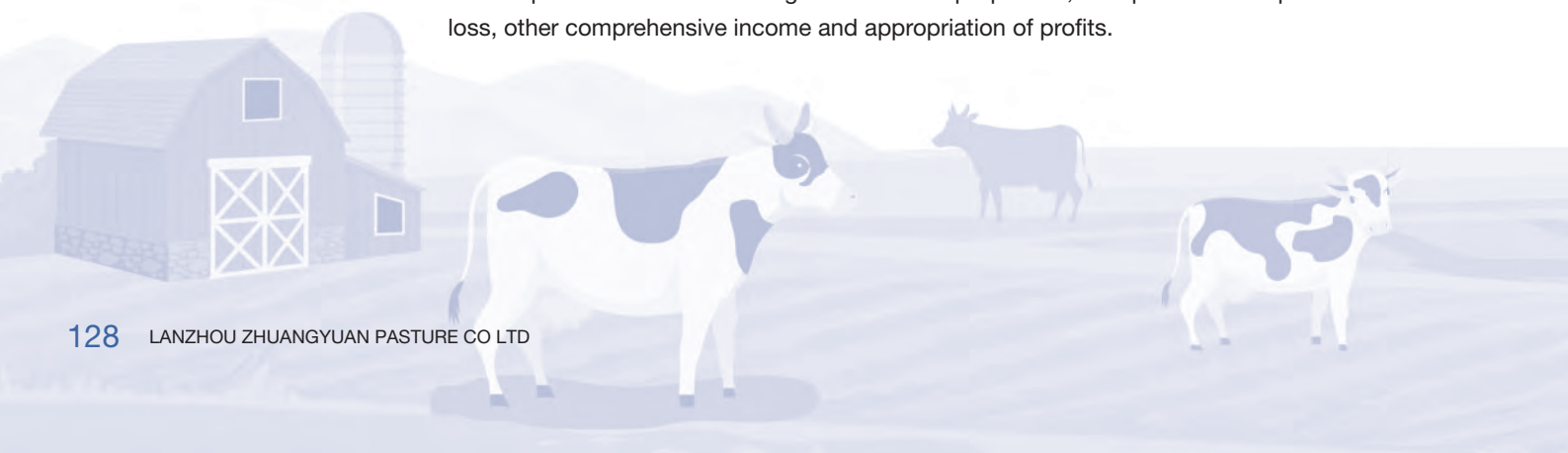
When preparing the consolidated financial statements, the Company shall adjust the capital reserve due to the balance between the newly-increased long-term equity investments from the purchase of the minority holding and the net asset shares enjoyed according to the newly-increased shareholding proportion of the subsidiary continuously calculated from the purchase date (or the merger date); in case that the capital reserve is not sufficient to offset, the Company shall adjust the retained earnings.

④ Disposal of the long-term equity investments

The parent company partially disposes the long-term equity investments of the subsidiaries in the case of not losing the control rights in consolidated financial statement. The balance between disposal price and subsidiaries' net assets enjoyed corresponding to the disposal of long-term equity investments will be included in the shareholders' equities. Supposing that the parent company loses the control right for the subsidiary due to the partial disposal of the long-term equity investments for the subsidiary, the accounting treatment will be made according to the related accounting policies as specified in the Note III. (VI) "Preparation Method for Consolidated Financial Statement".

As for the disposal of the long-term equity investments under other circumstances, the balance between the book value of the disposed equity and the actually-obtained price shall be included in current profit and loss.

For the long-term equity investments accounted by the equity method, if the residual equity after the disposal shall still be accounted by the equity method, upon the disposal, the part of the other comprehensive income that is originally included in the shareholders' equities shall have the accounting treatment on the same basis of the invested entity's directly disposing the relevant assets or liabilities according to the corresponding proportion. However, the other owners' equity which is recognized according to the investee's other owners' equity changes shall be reckoned in the current profit and loss according to the related proportion, except for the net profit and loss, other comprehensive income and appropriation of profits.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

2. Methods for the subsequent measurement and the profit and loss recognition (Continued)

④ Disposal of the long-term equity investments (Continued)

For the long-term equity investments accounted with the cost method, the residual equities after disposal are still accounted for with the cost method. Other comprehensive income recognised due to adopting the equity method to make accounting or adopting the financial instrument recognition and measurement standards to make accounting before obtaining control of invested entity, shall be conducted with the accounting treatment on the same basis of the invested entity's directly disposing the relevant assets or liabilities, and shall be carried down to current profit and loss according to the proportion. Except for the net profit and loss, the other comprehensive income and appropriation of profits, the other owners' equities in the invested entity's net assets which are accounted and recognized in the equity method shall be reckoned in the current profit and loss according to the related proportion.

(XIII) Fixed assets

1. Recognition of fixed assets

Fixed assets represent the tangible assets held by the Company for use in production of goods or for administrative purposes with useful lives over one accounting year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self constructed assets is measured in accordance with the policy set out in Note III. (XIV) "Construction in progress".

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Company in a different pattern, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Company, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred. Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets (Continued)

2. Classification and depreciation of fixed assets

Depreciation of fixed assets is accrued in the service life by adopting the straight-line method from the next month when they reach the expected conditions for use. The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

Asset type	Estimated useful lives (year)	Estimated net residual value rate (%)	Annual depreciation rate (%)
Plant and buildings	30 - 50	3.00	1.94 - 3.23
Machinery and equipment	5 - 10	5.00	9.50 - 19.00
Motor vehicles and transportation equipment	4	5.00	23.75
Other equipment	5	5.00	19.00

3. Impairment test method and provision method of the impairment reserve of fixed assets

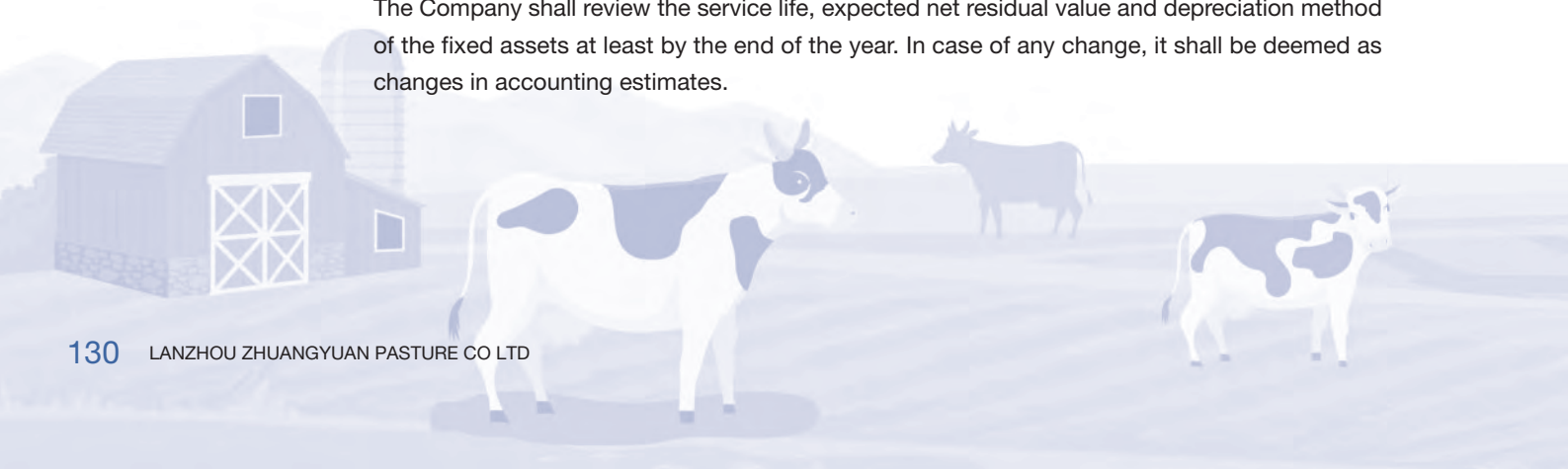
For further details of the impairment test method and the provision method of impairment reserve of fixed asset, please refer to Note III. (XVIII) "Long-term Asset Impairment".

4. Other explanations

The subsequent expenditures related to fixed asset shall be included in fixed asset cost and the book value of the substitution part shall be derecognised if economic benefits related to such fixed asset may flow in and its cost can be reliably measured. Other subsequent expenditures except for the above said shall be included in the current profits and losses once incurred.

When the fixed asset is disposed or cannot be expected to produce economic interests through use or disposal, the recognition of that asset should be ceased. The balance of the amount left after deducting book value and relevant taxes from the disposal income obtained from the sale, transfer, abandonment or damage of the fixed assets shall be included in current profits and losses.

The Company shall review the service life, expected net residual value and depreciation method of the fixed assets at least by the end of the year. In case of any change, it shall be deemed as changes in accounting estimates.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIV) Construction in process

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs, and any other costs directly attributable to bringing the asset to working condition for its intended use.

A self-constructed asset is classified as construction in progress and transferred to fixed asset when it is ready for its intended use. No depreciation is provided against self-constructed assets being classified as construction in progress.

Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note III.(XVIII) Impairment of long-term asset).

(XV) Borrowing costs

Recognition principle of borrowing costs capitalisation

Borrowing costs incurred directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Other borrowing costs are recognised as financial expenses when incurred.

During the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset

To the extent that the Company borrows funds generally and uses them for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the initially recognised amount of the borrowings.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XV) Borrowing costs (Continued)

Recognition principle of borrowing costs capitalisation (Continued)

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction or production that are necessary to prepare the asset for its intended use or sale are in progress, and ceases when the assets become ready for their intended use or sale. Capitalisation of borrowing costs is suspended when the acquisition construction or production activities are interrupted abnormally for a period of more than three months.

(XVI) Biological assets

The bearer biological assets of the Company are calves, heifers and milkable cows, which are raised or grown by the Company for the purposes of producing raw milk.

Bearer biological assets are measured at the end of the year at their fair values less costs to sell. Any resultant gain or loss arising on initial recognition and from changes in fair value less costs to sell is charged to the profit or loss for the period in which the gain or loss arises.

The feeding costs and other related costs such as staff costs, depreciation and amortisation expenses and utilities cost incurred for raising calves and heifers are capitalised until they begin to produce milk and being transferred to the group of milkable cows. Such costs incurred for milkable cows are also capitalised while upon milking, the costs incurred to bring the raw milk are transferred to inventories (see Note III.(XI).Inventories).



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVII) Intangible assets

1. Measurement method of intangible assets

Intangible assets of the Company are initially measured at cost. The actual cost of a purchased intangible asset includes the considerations and relevant expenses paid. The actual cost of an intangible asset contributed by investors is the price contained in the investment contract or agreement. If the price contained in the investment contract or agreements is not a fair value, the fair value of the intangible asset is regarded as the actual cost. The cost of a self-developed intangible asset is the total expenditures incurred in bringing the asset to its intended use.

Subsequent measurement of the Company's intangible assets: intangible assets with finite useful lives are amortized on a straight-line basis over the useful lives of the intangible assets; at the end of each year, the useful lives and amortization policy are reviewed, and adjusted accordingly if there are variance with original estimates; intangible assets with indefinite useful lives are not amortized and the useful lives are reviewed at the end of each year. If there is objective evidence that the useful life of an intangible asset is finite, the intangible asset is amortized using the straight line method according to the estimated useful life.

Asset type	Useful lives	Amortization method
Land Use Right	30 – 50 years	Straight-line method
Computer Software	10 years	Straight-line method

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVII) Intangible assets (Continued)

2. Determination basis of infinite useful life

An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company or it has no definite useful life. The judgment basis of intangible assets with indefinite useful life: derived from the contractual rights or other legal rights but the contract or the law does not specify certain useful life; in light of the conditions of the competitors and the opinions of relevant experts, the specific period that intangible asset generating economic benefits to the Company still can not be determined.

At the end of each year, the useful life shall be reviewed for those intangible assets with indefinite useful life by mainly using the bottom-up method. The relevant department that uses intangible asset will perform the basic review and evaluate whether there are changes in the basis for judgments of the indefinite useful life, etc.

3. Expenditure during the research stage of the internal research and development projects are charged to the current profit or loss as incurred. Expenditure during the development stage are transferred to intangible assets if the conditions for recognition of intangible assets are met.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVIII) Impairment of long-term assets

For fixed assets, construction in progress, intangible assets, long-term equity investments in subsidiaries, joint ventures and associated enterprises and other noncurrent or nonfinancial assets, the Company judges the existence of depreciation on the balance sheet date. If there are signs of impairment, the recoverable amount shall be estimated and impairment test shall be carried out. As for intangible assets with indefinite goodwill and service life and the intangible assets which have not yet reached the serviceable condition, impairment test shall be conducted every year no matter whether there are signs of impairment.

If the impairment test result indicates that the recoverable amount of assets is lower than the book value thereof, impairment reserve shall be withdrawn according to the difference and it will be included in impairment losses. The recoverable amount shall be the higher one between the net amount of the fair value of the assets minus the disposal expenses and the expected present value of the future cash flow of the assets. The fair value of the asset is determined according to the sales agreement in the fair transaction; if there is no sales agreement but there is an active market of assets, the fair value is determined according to buyer's price of the asset; if the sales agreement and the active market of assets do not exist, and the fair value of assets shall be estimated based on the best information available. The disposal expenses shall include the legal expenses related to the asset disposal, relevant taxes, carriage expenses as well as the direct expenses for achieving the available for sale status. The present value of the expected future cash flow of assets shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continued use and final disposal of assets. The asset impairment reserve shall be calculated and recognized on the basis of a single asset. If it is hard to assess the recoverable amount of a single asset, the recoverable amount of the asset group shall be determined according to the asset group including the assets. Asset group refers to the minimum asset portfolio that is capable of independently generating cash inflow.

Goodwill separately presented on the financial statements is tested for impairment at least every year, irrespective of whether there is any indication that the asset may be impaired. For the purpose of impairment testing, the carrying amount of goodwill is allocated to asset groups or sets of asset groups expected to benefit from the synergy of business combination. The test result indicates that if the recoverable amount of the asset group or portfolio that includes the apportioned goodwill is less than its book value, corresponding impairment loss shall be recognized. The amount of the impairment loss shall firstly be deducted from the book value of the goodwill of the mentioned asset group or portfolio of asset group, then be deducted from the book value of various other assets in the book value in proportion of various other assets in the asset group or portfolio of asset group except goodwill.

Once the above-mentioned asset impairment losses are determined, the part whose value can be recovered shall not be reversed in subsequent periods.

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIX) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the benefit period. Long-term deferred expenses of the Company primarily represent decoration costs, with a amortization period of 10 years.

(XX) Employee benefits

Employee benefits are all forms of rewards or compensation provided by the Company in exchange for services rendered by employees or for the termination of employment. Employee benefits mainly include short-term benefits, post-employment benefits, termination benefits and other long-term employee benefits.

1. Short-term benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accrued at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate

2. Post-employment benefits

Pursuant to the relevant laws and regulations of the People's Republic of China, the Company participated in a defined contribution basic pension insurance plan in the social insurance system established and managed by government organisations. The Company makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions payable are recognized as a liability as the employee provides services, with a corresponding charge to profit or loss or include in the cost of assets where appropriate.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XX) Employee benefits (Continued)

3. Termination benefits

When the Company terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

When the Company cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;

When the Company has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(XXI) Estimated liabilities

Estimated liabilities are recognised for obligations related to contingencies if the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Estimated liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, estimated liabilities are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

Where the contingency involves a single item, the best estimate is the most likely outcome.

Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Company reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments

1. Accounting treatment for share-based payments

Share-based payments are transactions that grant equity instruments or assume equity instrument based liabilities for receiving services rendered by employees or other parties.

① *Equity-settled share-based payments*

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value on the date of grant of equity instruments granted to employees. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, the amount of such fair value, based on the best estimates of the number of equity instruments that can be vested during the pending period, is charged to relevant costs or expenses (computed using the straight-line method). Instruments which are vested immediately upon the grant are charged to relevant costs or expenses on the date of grant and the capital reserve is credited accordingly.

At each balance sheet date during the pending period, the Company, based on the latest subsequent information such as the latest update on the change in the number of entitled employees, makes best estimates to adjust the expected number of equity instruments that can be vested. The effect of the above estimate is included in relevant costs or expenses for the period and the capital reserve is adjusted accordingly.

Equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of the services rendered by other parties on the receiving date if such fair value can be reliably measured. If the fair value of the services rendered by other parties cannot be reliably measured, equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of equity instruments on the date of receiving services and charged to relevant costs or expenses and shareholders' equity is credited accordingly, provided that the fair value of equity instruments can be reliably measured.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments (Continued)

1. Accounting treatment for share-based payments (Continued)

② Cash-settled share-based payments

Cash-settled share-based payments are measured at the fair value of the liabilities (share-based or other equity instrument-based) assumed by the Company. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses on the date of grant and liabilities are increased accordingly. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, at each balance sheet date during the pending period, based on the best estimates of the vesting situation, according to the amount of fair value of the liabilities assumed by the Company, the services received for the period are charged to costs or expenses and liabilities are increased accordingly.

At each balance sheet date and settlement date before the relevant liabilities are settled, the fair value of liabilities are re-measured and the resulting changes are included in the profit and loss for the period.

2. Accounting treatment in relation to share-based payment plan modification and termination

When the Company modifies the share-based payment plan, and if such modification increases the fair value of the equity instruments granted, the increase in services received will be recognised accordingly following the increase in fair value of the equity instruments. The increase in fair value of the equity instruments refers to the difference in fair value on the date of modification before and after the modification in respect of the equity instruments. If the modification reduces the total fair value of the share-based payments or adopts any form that is unfavorable to employees, accounting treatment will be continued to be conducted in respect of the services received and the modification will be deemed to have never occurred, unless the Company had cancelled part or all of the equity instruments granted.

During the pending period, if the equity instruments granted are cancelled, the Company will undertake an accelerated vesting in respect of the cancelled equity instruments that had been granted, include the remaining amount that shall be recognised during the pending period in the profit and loss for the period immediately and recognise capital reserve accordingly. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, the Company will treat the granted equity instruments as cancelled.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments (Continued)

3. Accounting treatment for share-based payments involving the Company and the shareholders of the Company or the actual controller

For share-based payment transactions involving the Company and the shareholders of the Company or the actual controller, the settlement enterprise and the enterprise receiving services (one is with the combination scope of the Company while another is not) shall follow the requirements below to conduct accounting treatment in the Company's consolidated financial statements:

- ① For settlement enterprises settling through their own equity instruments, such share-based payment transaction will be treated as equity-settled share-based payment; except for this, such share-based payment transaction will be treated as cash-settled share-based payment.

Where a settlement enterprise is an investor of an enterprise receiving services, the fair value of the equity instruments on the date of grant or the fair value of the liabilities that shall be assumed are recognised as long-term equity investment in the enterprise receiving services, at the same time, capital reserve (other capital reserve) or liabilities are recognized.

- ② Where an enterprise receiving services has no settlement obligations or grants its own equity instruments to employees, such share-based payment transaction will be treated as equity-settled share-based payment; where an enterprise receiving services has settlement obligations and grants equity instruments (other than its own) to employees, such share-based payment transaction will be treated as cash-settled share-based payment.

For a share-based payment transaction occurring between each enterprise with the combination scope of the Company where the enterprise receiving services and the settlement enterprise are not the same enterprise, such share-based payment transaction shall be recognised and measured in each of the respective financial statements of the enterprise receiving services and the settlement enterprise (as compared with the above principles).



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(XXIII) Revenue

Where the contract between the Company and its clients can meet the following conditions at the same time, the revenue shall be recognised when the client owns the relevant control right of the commodity: Each concerned party of the contract has agreed on the contract and promised that they will assume their obligations; The contract has specified rights and obligations of each concerned party related to commodity transfer or labor provision; The contract has specified the payment terms related to commodity transfer; The contract is of the commercial essence, which means that performance of the contract will change the risk, time distribution or amount of future cash flow of the Company; The Company may recover the consideration for which the Company is entitled to obtain for transferred commodities to clients.

On the contract beginning date, the Company identifies the individual performance obligation specified in the contract and amortizes the transaction price to each individual performance obligation based on the relative proportion of the individual sales price of the commodity guaranteed in individual performance obligation. Variable consideration, major financing in the contract, non-cash consideration, consideration for coping with clients and other factors have been taken into account the transaction price.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue (Continued)

As for each individual performance obligation in the contract, if one of the following conditions are met, the Company recognises the transaction price which is amortized into the individual performance obligation based on the performance progress within a relevant performance period as the revenue: The client obtains and consumes the economic benefits while the Company fulfills the performance obligation. The client manages to control the assets under construction while the Company fulfills the performance obligation. Commodities produced during the performance period have irreplaceable purposes and the Company is entitled to charge money for the performance accumulated and has been finished until the current time within the whole contract period. The performance progress shall be recognised based on the property of the commodity transferred by virtue of the input method or the output method. When the performance progress cannot be recognised reasonably, if it is predicted that the incurred cost of the Company can be compensated, the income shall be recognised based on the incurred cost amount until the performance progress can be recognised reasonably. If one of the above conditions cannot be met, the Company recognises the transaction price amortized to the individual performance obligation at the time when the client obtains the control right of relevant commodities as the revenue. When judging whether the client has obtained the control right of the commodity, the Company can consider the following signs: The enterprise has the current collection right of the commodity, namely the client is responsible for current payment obligation of the commodity; The enterprise has transferred the legal ownership of the commodity to the client, namely the client has possessed the legal ownership of the commodity; The enterprise has transferred the real commodity to the client, namely the client has possessed the real commodity; The enterprise has transferred main risks and remuneration of the commodity to the client, namely the client has obtained the main risks and remuneration related to the ownership of the commodity; The client has accepted the commodity; Other signs indicating that the client has obtained the control right of the commodity.

The operating income of the Company mainly includes the sales revenue of the dairy products. The Company recognises the revenue at the time of performing the performance obligation in the contract, namely the client obtains the control right of relevant commodities.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue (Continued)

When meeting general recognition conditions of above-mentioned revenue or the following conditions at the same time, the Company shall recognise revenue from sales of goods:

The sales modes of the Company include direct selling, distribution and dealing. Under the direct sale model, the Company is responsible for arranging for the third party logistics provider to deliver goods to the site designated by the direct selling customers in general, and recognises the goods receiving when the goods are delivered to the direct selling customers. Under the distribution model (mainly adopted in Lanzhou, Xining and Xi'an area), the distributors arranges the goods transport voluntarily and shall voluntarily undertake the loss if the goods are damaged in the transit. The Company recognises the goods receiving when the distributors extract the goods from warehouse. Under the dealing model (mainly adopted in area out of Lanzhou, Xining and Xi'an), if the Company arranges for the third party logistics provider to deliver goods, the Company recognises the goods receiving when the goods are delivered to the dealer; If the dealer voluntarily arranges the transport of goods, the dealer shall voluntarily undertake the loss due to damage of products in the transport, and the Company recognises the goods receiving when the dealer withdraws the goods from the warehouse. The Company measures the sales amount of commodity as per the anticipated consideration that it is entitled to obtain due to commodity transfer to customers.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIV) Government grants

1. Types of government grants and accounting treatment

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Company except for capital contributions from the government in the capacity as an investor in the Company.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Company will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a nonmonetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Company qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets

A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as profit or loss.

The government grants related to business activities are recognized as other income in the light of the nature of such business. The government grants non-related to business activities are recognized as non-operating income or expense.

The interest subsidies obtained is offset against related interest expense.

2. Timing for recognition of governmental grants

A government grants shall be recognised when the enterprise fulfills the conditions attaching to the grant and the enterprise can receive the grant. The governmental grants measured at the amount receivable will be recognized when there is unambiguous evidence suggesting the conformance to related conditions as provided in financial support policies and financial support fund is expected to be received. Other government grants other than those measured at the amount receivable will be recognized at the actual time of receiving such grants.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXV) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years

At the balance sheet date, current tax assets and liabilities are offset only if the Company has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously

Deferred tax assets and deferred tax liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible tax losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the reporting date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

The taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;

Those relate to income taxes levied by the same tax authority on either: the same taxable entity; or different taxable entities which intend either to settle the current tax liabilities and current tax 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 deferred tax assets are expected to be settled or recovered.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Leases

Lease is a contract in which the Company transfers or obtains the right of use of an identified asset or several identified assets under control for the exchange or payment of consideration within a certain period of time.

1. As lessee

The major category of lease assets of the Group is land, machinery and equipment.

① *Initial measurement*

At the commencement date, the Company recognizes an asset that represents its right to use an underlying asset for the lease term as the right-of-use asset and recognizes the lease liability at the present value of the lease payments that are not paid at that date, except for short-term lease and low-value lease. The lease payments are discounted using the interest rate implicit in the lease when calculating the present value of the lease payments. If that rate cannot be readily determined, the Company uses its incremental borrowing rate as the discount rate.

Lease term is the non-cancellable period for which the Company has the right to use an underlying asset, together with both: periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. The Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Leases (Continued)

1. As lessee (Continued)

② Subsequent measurement

The Company depreciates right-of-use assets using straight-line method. If the lease transfers ownership of the underlying asset to the Company by the end of the lease, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability and is recognized in profit or loss.

After the commencement date, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the in-substance fixed lease payments, a change in the amounts expected to be paid under residual value guarantees, a change in future lease payments arising from change in an index or rate, or a change in assessment or result to purchase the underlying asset, to extend the lease or to terminate the lease. The Company remeasures the lease liability to reflect changes to the lease payments, and recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognizes any remaining amount of the remeasurement in profit or loss.

For short-term leases and leases of low-value assets, the Company applies simplification method to account for the relevant asset costs or current profit and loss in each period during the lease term using the straight-line method or other systematic method.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(XXVI) Leases *(Continued)*

2. As lessor

On the commencement date of the lease term, all leases with risks and rewards incident to the ownership of the leased assets are substantially transferred into finance leases, and all other leases are operating leases.

(XXVII) Held-for-sale assets and disposal group

If the Company collects the book value mainly through selling (including substantially commercial nonmonetary assets exchange, similarly hereinafter) rather than continuously use as a non-current asset or disposal group, the non-current asset or disposal group shall be divided into held-for-sale. Specific standard refers to meeting the following conditions at the same time: one non-current asset or disposal group can be immediately sold under the current situation pursuant to the convention for selling such asset or disposal group in similar transaction; the Company has made a resolution about sale plan and the commitment of purchase is recognised; it's predicted that selling will be completed within one year. Wherein, the disposal group refers to one group of assets as a whole disposed by selling or in other way in a transaction as well as liabilities directly related to such assets and transferred in the process of such transaction. In case of asset group where disposal group is or asset group portfolio apportioning the goodwill obtained from business merger as per No. 8 Accounting Standards for Business Enterprises. Impairment of Asset, such disposal group shall include goodwill apportioned to disposal group.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVII) Held-for-sale assets and disposal group (Continued)

If there are non-current assets or disposal groups purchased under agreements to resell during initial measurement or on the balance sheet day based on remeasurement of this Company, if the book value is higher than the net amount by deducting the selling expenses with the fair value, the book value shall be written down and be equal to the net amount by deducting the selling expenses with the fair value. The write-down amount shall be recognised as the loss of depreciation of assets and shall be included in the current profits and losses. At the same time, the impairment reserve of the held-for-sale assets should be calculated and withdrawn. For the disposal group, deduct the book value of the goodwill in the disposal group with the asset depreciation losses recognised, then deduct the book value of each non-current asset in the disposal group conforming to the measurement regulations of Accounting Standards for Business Enterprises No. 42 — non-current Assets Purchased and under Agreements to Resell, Disposal Group and Operation Termination (herein after referred to as “the Standard for Assets Purchased and under Agreements to Resell”). If the net amount by deducting the selling expenses with the fair value of the disposal group purchased and under agreements to resell on the subsequent balance sheet date, the previous write-down amount shall be recovered and shall be reversed within the asset depreciation losses amount of the non-current recognised as per regulation of the Standard for Assets Purchased and under Agreements to Resell after being classified into the category purchased and under agreements to resell. The reverse amount shall be included in the current profits and losses, and the book value shall be added as per the proportion of the book value of each non-current asset in the disposal group applicable to the Standard for Assets Purchased and under Agreements to Resell except for the goodwill. The goodwill book value deducted and the asset depreciation losses of the noncurrent assets applicable to the measurement regulations of the Standard for Assets Purchased and under Agreements to Resell before its recognition of being classified into the category purchased and under agreements to resell shall not be reversed.

Depreciation or amortization in the non-current assets purchased and under agreements to resell or the non-current assets in the disposal group shall not be calculated or withdrawn. Interests of liabilities and other expenses in the disposal group purchased and under agreements to resell shall be recognised continuously.

When the non-current assets or the disposal groups do not continue to be divided into the held-for-sale category because they do not meet the division conditions for the held-for-sale category or the non-current assets are removed from the held-for-sale groups, the lower as follows shall be measured: (1) the amount of the book value before they are divided into the held-for-sale category adjusted according to the depreciation, amortization or impairment which should be recognised in the condition of assuming they are not divided into the held-for-sale category; (2) recoverable amount.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVIII) Dividend distributions

Dividend or profit distributions proposed in the profit appropriation plan, which will be approved after the balance sheet date, are not recognised as a liability at the balance sheet date but are disclosed in the notes separately.

(XXIX) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition, the Company determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC.

(XXX) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Company's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXXI) Key accounting estimates and judgments

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Except for accounting estimates relating to depreciation and amortization of assets such as fixed assets, intangible assets, right-of-use assets and long-term deferred expenses (see Notes III. (XIII), (XVII), (XXVI) and (XIX)), fair value estimates of biological assets and contingent consideration (see Note III. (XVI)), Note IX and provision for impairment of various types of assets (see Notes III. (X), (XVIII), Notes V. (II), (IV), (V), (VIII), (IX), (XII), (XIII)) and Notes XV. (I), (II), (III) and recognition of deferred tax assets (see Note V. (XV)), there are no other key accounting estimates.

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates

1. Reason for Changes in Accounting Policies

On 1 November 2021, the Accounting Department of the Ministry of Finance issued six questions and answers on the implementation of the fifth batch of accounting standards for enterprises in 2021. By the question 5 therein, the department clarified that: "According to the relevant provisions of Accounting Standards for Enterprises No.14-Revenue (CAI KUAI [2017] No.22), the transportation activities that take place before the control over goods or services of an enterprise is transferred to the customer for the purpose of fulfilling the contract with customers do not constitute a single performance obligation, and the relevant transportation costs shall be treated as contractual performance costs and amortised to current profit or loss using the same basis as revenue recognition for goods or services. The relevant performance cost of such contract shall be carried forward and included in the entry "Cost of principal activities" or "Cost of other businesses" when the revenue of goods or services is recognised, and presented in the item "Operating cost" in the income statement."

According to the above provisions, the Company adjusted the transportation expenses that did not constitute a single performance obligation and originally presented in the sales expenses to the operating costs, and made retrospective adjustments to the financial statements.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates (Continued)

2. Impact of the change in accounting policy on the Company

(1) Impact of the change in accounting policy on the consolidated statement:

Unit: RMB'000

Item	2021		2020	
	Before change	After change	Before change	After change
Sales cost	76,252	60,732	73,121	52,676
Operating cost	762,984	778,504	532,944	553,389

(2) Impact of the change in accounting policy on the statement of the parent:

Unit: RMB'000

Item	2021		2020	
	Before change	After change	Before change	After change
Sales cost	47,407	38,431	42,777	28,119
Operating cost	551,929	560,906	403,534	418,193



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

IV TAXATION

(I) Main types of taxes and corresponding tax rates

Tax type	Details of tax rates	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	13%/9%
Urban maintenance and construction tax	Based on VAT paid	7%/5%/1%
Education surcharges	Based on VAT paid	3%
Local education surcharges	Based on VAT paid	2%
Enterprise income tax	Based on taxable profits	15%

(II) Important tax preferences and approvals

(1) VAT

During the period, the wholly-owned subsidiaries of the Company, Qinghai Shengya Plateau Pasture Co., Ltd., Qinghai Shengyuan Pasture Co., Ltd., Linxia County Ruiyuan Pasture Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Lanzhou Ruixing Farming Co., Ltd., Gansu Ruijia Animal Husbandry Co., Ltd., Yuzhong Ruifeng Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd. and Shaanxi Duoxian Animal Husbandry Co., Ltd. were exempted from VAT for dairy cows breeding in accordance with Article 15 of the Provisional Regulations of the People's Republic of China on Value-added Tax.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

IV TAXATION (Continued)

(II) Important tax preferences and approvals (Continued)

(2) Enterprise income tax

- ① In accordance with Article 27, Paragraph 1 of Corporate Income Tax Law of the People's Republic of China, Article 86, Paragraph 1 (7) of Implementation Regulations for the Corporate Income Tax Law of the People's Republic of China and Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Corporate Income Tax (for Trial Implementation) (CS 2008 No. 149), the Company and its subsidiaries such as Qinghai Lake Dairy Industry Co., Ltd. and Xi'an Dongfang Dairy Co., Ltd. are exempted from the enterprise income tax for initial processing of dairy products, which include pasteurised milk and UHT milk, during the Period.
- ② In accordance with Article 2 of Announcement of the Ministry of Finance, the General Administration of Customs, the State Administration of Taxation on Issues Concerning Corporate Income Tax Related to Enhancing the Western Region Development Strategy (CS [2011] No. 58) and Notice of the Gansu Provincial Local Taxation Bureau on Implementing the Enterprise Income Tax Issues Related to the Western Development (Gandhi Tax Letter [2012] No. 136), the Company and its wholly-owned subsidiaries Qinghai Qinghai Lake Dairy Co., Ltd and Xi'an Dongfang Dairy Co., Ltd. are entitled to a reduced corporate income tax rate of 15%.
- ③ In accordance with Article 27 (1) of Regulation on the Implementation of the Corporate Income Tax Law of the People's Republic of China, the wholly-owned subsidiaries of the Company, Qinghai Shengya Plateau Pasture Co., Ltd., Qinghai Shengyuan Pasture Co., Ltd., Yuzhong Ruifeng Pasture Co., Ltd., Linxia County Ruiyuan Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Ningxia Zhuangyuan Pasture Co., Ltd., Lanzhou Ruixing Farming Co., Ltd., Gansu Ruijia Animal Husbandry Co., Ltd. and Shaanxi Duoxian Animal Husbandry Co., Ltd. are exempted from corporate tax.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(I) Cash at bank and on hand

Category	Balance at the end of the period	Balance at the beginning of the period
Cash on hand		4
Bank deposits	362,907	631,560
Other cash at bank and on hand	40,782	215,164
Including: Earnest money	40,000	215,164
Total	403,689	846,729
Including: Total amount deposited overseas	310	371

Note: Other cash at banks and on hand include bank acceptance bill and deposit of RMB40,000,000.00, whose usage was restricted;

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

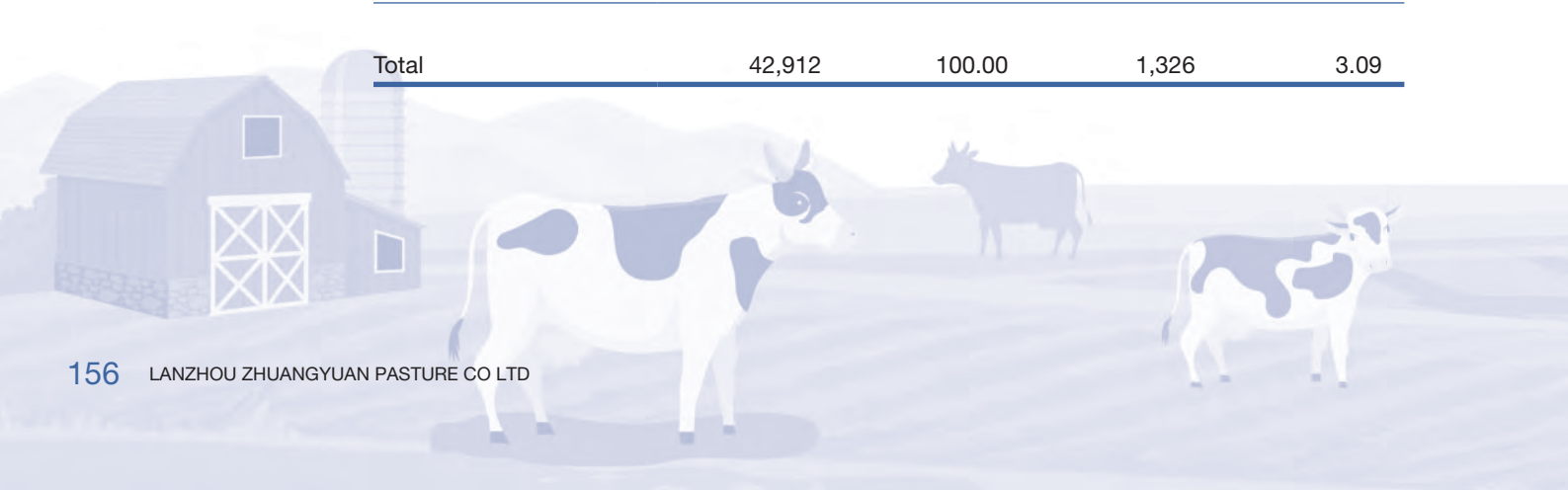
(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Accounts receivable

1. Category of accounts receivable

Item	Balance at the end of the period			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with single provision for bad and doubtful debts				
Accounts receivable with provision for bad and doubtful debts on a group basis	39,939	100.00	958	2.40
Including: Aging group	39,939	100.00	958	2.40
Total	39,939	100.00	958	2.40

Item	Balance at the beginning of the period			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with single provision for bad and doubtful debts				
Accounts receivable with provision for bad and doubtful debts on a group basis	42,912	100.00	1,326	3.09
Including: Aging group	42,912	100.00	1,326	3.09
Total	42,912	100.00	1,326	3.09



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

(1) Accounts receivable with provision for bad and doubtful debts on a group basis

Aging	Balance at the end of the period			Balance at the beginning of the period		
	Balance of carrying value	Expected credit loss (%)	Provision for bad and doubtful debts	Balance of carrying value	Expected credit loss (%)	Provision for bad and doubtful debts
Within one year	38,316		58	41,052		152
Including: 0-6 months	37,165			38,021		
7-12 months	1,151	5.00	58	3,031	5.00	152
1 to 2 years	825	20.00	165	727	20.00	145
2 to 3 years	126	50.00	63	208	50.00	104
Over 3 years	673	100.00	673	925	100.00	925
Total	39,939	—	958	42,912	—	1,326

Note: The sales model of the Company includes direct selling, reselling and distribution. Under the model of direct selling, the revenue was recognized and the aging was calculated when the goods were delivered to customers and the receipt was obtained. Under the model of reselling and distribution, the revenue was recognized and the aging was calculated after the signature of delivery list by customers.

(2) Provision for bad debts made, recovered or reversed during this period

The bad and doubtful debts reversed during the period was RMB368,325.29.

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

(3) Five largest accounts receivable by debtor by balance at the end of the period

Name of entity	Balance at the end of the period	Percentage of total closing balance of the accounts receivable (%)	Closing balance of the provision for bad and doubtful debts
Entity 1	7,982	19.99	118
Entity 2	4,760	11.92	
Entity 3	3,342	8.37	
Entity 4	2,901	7.26	
Entity 5	1,455	3.64	
Total	20,441	51.18	118

(III) Prepayments

1. Prepayments by ageing

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	2,659	96.63	7,976	99.73
1-2 years	93	3.37	22	0.27
Total	2,752	100.00	7,998	100.00



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Prepayments (Continued)

2. Five largest accounts receivable by prepayments

Name of entity	Balance at the end of the period	Percentage of the total prepayments (%)
Entity 1	554	20.15
Entity 2	349	12.69
Entity 3	261	9.50
Entity 4	179	6.49
Entity 5	167	6.08
Total	1,511	54.91

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Other receivables

Item	Balance at the end of the period	Balance at the beginning of the period
Other receivables	9,957	21,547
Less: Provisions for bad and doubtful debts	827	755
Total	9,130	20,792

1. Other receivables

(1) Category of other receivables by nature

Nature of accounts	Balance at the end of the period	Balance at the beginning of the period
Amounts due from disposal of cows		
Deposit and earnest money	4,869	813
Loans to employees	1,582	2,836
Performance compensation		14,106
Current accounts and others	3,505	3,791
Subtotal	9,957	21,547
Less: Provisions for bad and doubtful debts	827	755
Total	9,130	20,792



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Other receivables (Continued)

1. Other receivables (Continued)

(2) Aging analysis on other receivables

Aging	Balance at the end of the period		Balance at the beginning of the period	
	Balance of carrying value	Percentage (%)	Balance of carrying value	Percentage (%)
Within one year	9,130	91.69	20,685	96.00
1 to 2 years				
2 to 3 years			238	1.11
Over 3 years	827	8.31	624	2.89
Total	9,957	100.00	21,547	100.00

(3) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts	Stage 1	Stage 2	Stage 3	Total
	ECL over the next 12 months	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	
Balance at the beginning of the period		152	603	755
Balance at the beginning of the period after reassessment in the period		152	603	755
Provision during the period			254	254
Reversal during the period		152	30	182
Written off during the period				
Other changes				
Balance at the end of the period			827	827

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Other receivables (Continued)

1. Other receivables (Continued)

- (4) The provision for bad and doubtful debts during the period was RMB254,000.
- (5) The provision for bad and doubtful debts reversed during the period was RMB182,000.
- (6) *Five largest other receivables by debtor of balance at the end of the period*

Name of debtor	Nature of amount	Balance at the end of the period	Ageing	Percentage of total other receivables at the end of the period (%)	Provision for bad and doubtful debts
Entity 1	Deposit	4,078	0-6 months	40.96	
Entity 2	Cattle insurance	700	0-6 months	7.03	
Entity 3	Current accounts	395	0-6 months	3.97	
Entity 4	Cattle insurance	240	0-6 months	2.41	
Entity 5	Guarantee account	200	More than 3 years	2.01	200
Total	—	5,614	—	56.38	200



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(V) Inventories

1. Category of inventories

Item	Balance at the end of the period			Balance at the beginning of the period		
	Balance of		Carrying value	Balance of		Carrying value
	carrying value	Provision for depreciation		carrying value	Provision for depreciation	
Raw materials	161,070		161,070	101,410		101,410
Commodities in stock (finished goods)	12,005		12,005	11,787		11,787
Commodities shipped	281		281	390		390
Consumable biological assets	3,103		3,103	38		38
Total	176,459		176,459	113,625		113,625

(VI) Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Input tax to be deducted and without invoice	2,416	10,730
Cost of return receivable	12	8
Total	2,428	10,738

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(VII) Other equity instrument investment

Item	Investment cost	Balance at the beginning of the period	Balance at the end of the period	Dividend income recognised during the period	Accumulative profit or loss during the year transferred from other comprehensive income to retained earnings	Reason for transferring
Gansu Yuzhong Rural Cooperative Bank	44	44	44			
Total	44	44	44			

(VIII) Fixed assets

Item	Balance at the end of the period	balance at the beginning of the period
Fixed assets	1,542,510	1,254,643
Less: Impairment provision	75,550	75,106
Total	1,466,961	1,179,537



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(VIII) Fixed assets (Continued)

1. Fixed assets

(1) Fixed assets

Item	Houses and buildings	Mechanical equipments	Transportation equipments	Others	Total
I. Original carrying value					
1. Balance at the beginning of the period	1,157,318	567,524	10,233	42,646	1,777,721
2. Increase for the year	279,562	101,608	1,370	5,982	388,522
(1) Acquisition	180	9,594	1,345	5,982	17,101
(2) Transferred from construction in progress	279,382	83,438	25		362,845
(3) Others		8,576			8,576
3. Decrease for the year	37,584	23,643	850	4,152	66,228
(1) Disposal or scrapping	7,251	23,643	850	4,152	35,895
(2) Transferred into construction in progress	30,333				30,333
(3) Others					
4. Balance at the end of the period	1,399,297	645,489	10,753	44,475	2,100,014
II. Accumulated depreciation					
1. Balance at the beginning of the period	207,260	276,130	8,639	31,050	523,078
2. Increase for the year	35,096	30,725	1,041	4,723	71,585
(1) Provisions	35,096	28,961	1,041	4,723	69,820
(2) Others		1,765			1,765
3. Decrease for the year	12,892	19,863	801	3,603	37,159
(1) Disposal or scrapping	2,257	19,863	801	3,603	26,524
(2) Transferred into construction in progress	10,635				10,635
(3) Others					
4. Balance at the end of the period	229,463	286,992	8,879	32,169	557,504
III. Impairment provision					
1. Balance at the beginning of the period	72,332	2,774			75,106
2. Increase for the year		591			591
(1) Provisions		591			591
3. Decrease for the year		147			147
(1) Disposal or scrapping		147			147
4. Balance at the end of the period	72,332	3,218			75,550
IV. Carrying value					
1. Closing balance of carrying value	1,097,502	355,279	1,874	12,306	1,466,961
2. Opening balance of carrying value	877,727	288,620	1,594	11,596	1,179,537

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(VIII) Fixed assets (Continued)

1. Fixed assets (Continued)

(2) Provision for impairment of fixed assets

The Company made a provision for impairment of fixed assets of RMB591,000 for idle boiler room in the workshop on the basis of the energy supply in the future.

(IX) Construction in progress

Item	Balance at the end of the period	Balance at the beginning of the period
Construction in progress	1,979	152,093
Total	1,979	152,093

1. Construction in progress

(1) Details of construction in progress

Item	Balance at the end of the period			Balance at the beginning of the period		
	Balance of carrying value	Impairment provision	Carrying value	Balance of carrying value	Impairment provision	Carrying value
Recycling industrial park project of a dairy farm for 10,000 dairy cows in Jinchuan district				136,333		136,333
Construction project of staff canteen in Yuzhong Production and Processing Base						
Reconstruction project of UHT milk processing workshop						
Others	1,979		1,979	15,760		15,760
Total	1,979		1,979	152,093		152,093



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(IX) Construction in progress (Continued)

1. Construction in progress (Continued)

(2) Changes to significant construction in progress of the year

Name of Project	Amount of Budget	Balance at the end of the period	Increase of the period	Amount of fixed assets transferred during the year	Other decrease during the year	Balance at the beginning of the period
Recycling industrial park project of a dairy farm for 10,000 dairy cows in Jinchuan district	29,000	136,333	90,146	224,869	1,610	
Construction project of staff canteen in Yuzhong Production and Processing Base			3,733	3,733		
Reconstruction project of UHT milk processing workshop			85,978	85,978		
Others		15,760	37,005	48,265	2,520	1,979
Total	29,000	152,093	216,862	362,845	4,130	1,979

Name of Project	Percentage of accumulative project investment accounting for the budget (%)	Project progress (%)	Accumulative amount of interests capitalization	Including: amount of interests capitalization of the year	Interests capitalization rate of the year (%)	Source of funds
Recycling industrial park project of a dairy farm for 10,000 dairy cows in Jinchuan district	107.91	100.00	9,518	7,448	5.15	Own capital and bank loan
Construction project of staff canteen in Yuzhong Production and Processing Base		100.00				Own capital
Reconstruction project of UHT milk processing workshop		100.00				Own capital
Total		100.00	9,518	7,448		

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(X) Bearer biological assets

1. Biological assets carried at fair value

Bearer biological assets of the Company are dairy cows held to produce raw milk. The Company's dairy cows are milkable cows held for milk production and heifers and calves that have not reached the age to produce raw milk.

(1) *The number of cows held by the Company as at the date of the statements is as follows:*

Unit: Number of cows

Category	Balance at the end of the period	Balance at the beginning of the period
Calves	2,740	3,550
Heifers	5,748	4,308
Milkable cows	9,085	8,236
Total	17,573	16,094

In general, the heifers are inseminated when they reach approximately 14 months old. After a gestation period of approximately 10 months, a calf is born and the heifers begin to produce raw milk and the lactation periods begin. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 300 days in each lactation period. The male calves newly born are sold while the female calves are bred for 6 months and then transferred to the group of heifers for preparation of insemination.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(X) Bearer biological assets (Continued)

1. Biological assets carried at fair value (Continued)

(2) The Company is mainly subject to the following operating risks in respect of the bearer biological assets:

① Regulatory and environmental risks

The Company is obliged to comply with the laws and regulations in effect at the place of the pasture. The Company has already formulated the environmental policies and procedures specific to the compliance with the local environment and other laws. The management has conducted regular review to identify the environmental risk and ensure that those regulations formulated shall sufficiently manage such risks.

② Climate, disease and other natural risks

The Company's biological assets are subject to the destruction risks from the climate changes, disease and other natural forces. The Company has already taken various measures to monitor and mitigate such risk, including regular review, disease control, investigation and insurance.

(3) Value of the Company's bearer biological assets

Item	Calves	Heifers	Milkable Cows	Total	
Balance at the beginning of the period	43,778	111,986	338,928	494,691	
Plus: Cows purchasing costs					
Breeding costs	Note 1	31,482	58,076	309,401	398,959
Transfer among group of cows					
Transfer-in		27,219	61,027	88,246	
Transfer-out	(27,219)	(61,027)		(88,246)	
Transferred to inventories at the time of milking			(309,401)	(309,401)	
Decrease due to elimination and sales	(2,964)	(11,184)	(45,038)	(59,186)	
Profit and loss from fair value change	Note 2	(8,466)	25,232	(6,865)	9,901
Balance at the end of the period	36,611	150,301	348,051	534,964	



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(X) Bearer biological assets (Continued)

1. Biological assets carried at fair value (Continued)

(3) Value of the Company's bearer biological assets (Continued)

Note 1: The cows breeding costs mainly include the feed costs, labour costs, depreciation and amortization expenses and the amortization of public fees.

Note 2: The profit and loss from fair value change consists of two parts: loss from changes in fair value less costs to sell of bearer biological assets, and gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest.

The Company has already hired certain independent and professional evaluators to conduct evaluation on the fair value of biological assets as at the balance sheet date. Methods for valuation as adopted for the purpose of determination of the fair value and main parameters of the valuation model are disclosed in Note IX. Disclosure of fair value.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XI) Intangible assets

1. Conditions of intangible assets

Item	Land use right	Computer software	Others	Total
I. Original carrying value				
1. Balance at the beginning of the period	99,985	5,774		105,759
2. Increase for the period	1,641	2,379	6	4,025
(1) Acquisition		2,379		2,379
(2) Transferred from construction in progress	1,641			1,641
(3) Others			6	6
3. Decrease for the period				
(1) Disposal				
4. Balance at the end of the period	101,625	8,153	6	109,784
II. Accumulated amortization				
1. Balance at the beginning of the period	5,835	2,767		8,602
2. Increase for the period	2,211	1,143	1	3,355
(1) Provisions	2,211	1,143	1	3,355
3. Decrease for the period				
(1) Disposal				
4. Balance at the end of the period	8,046	3,910	1	11,957
III. Carrying value				
1. Closing balance of carrying value	93,579	4,243	4	97,827
2. Opening balance of carrying value	94,149	3,007		97,156



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XII) Right-of-use assets

Item	Machinery and equipment	Land use right	Total
I. Original carrying value			
1. Balance at the beginning of the period	8,576	53,732	62,308
2. Increase for the period		8,324	8,324
(1) New lease		2,511	2,511
(2) Others		5,813	5,813
3. Decrease for the period	8,576	5,561	14,137
(1) Disposal			
(2) Others	8,576	5,561	14,137
4. Balance at the end of the period		56,495	56,495
II. Accumulated depreciation			
1. Balance at the beginning of the period	1,765	6,759	8,524
2. Increase for the period		3,592	3,592
(1) Provisions		3,592	3,592
(2) Others			
3. Decrease for the period	1,765	935	2,700
(1) Disposal			
(2) Others	1,765	935	2,700
4. Balance at the end of the period		9,416	9,416
III. Carrying value			
1. Closing balance of carrying value		47,079	47,079
2. Opening balance of carrying value	6,811	46,973	53,784



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XIII) Goodwill

1. Original carrying value of goodwill

Item	Balance at the beginning of the period	Increase for the period		Decrease for the period		Balance at the end of the period
		Resulting from business combination	Others	Disposal	Others	
Xi'an Dongfang Dairy Company Limited	58,691					58,691
Total	58,691					58,691

2. Impairment provisions for goodwill

Item	Balance at the beginning of the period	Increase for the period		Decrease for the period		Balance at the end of the period
		Provisions	Others	Disposal	Others	
Xi'an Dongfang Dairy Company Limited	58,691					58,691
Total	58,691					58,691



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XIII) Goodwill *(Continued)*

2. Impairment provisions for goodwill *(Continued)*

(1) *Information on the asset group or the portfolio of asset groups to which the goodwill is attributable*

On 31 October 2018, the Company acquired 82% equity of Xi'an Dongfang Dairy Company Limited (hereafter referred to as "Dongfang Dairy Co.,") and made it become a wholly-owned subsidiary of the Company. This acquisition generated goodwill of RMB58,691,000.

(2) The Company made a provision for goodwill impairment for RMB48,719,000 for the year 2019. The Company made a provision for impairment of RMB9,971,000 for the year 2020. As of 31 December 2020, the carrying value of goodwill is 0. There was no change in the carrying value of goodwill for the period.

(XIV) Long-term deferred expenses

Type	Balance at the beginning of the period	Increase for the period	Amount of amortization of the period	Other decrease	Balance at the end of the period
Office building renovation expenses	4,078		583		3,495
Leasing of warehouses	78		78		
Amortization of guarantee expenses	90		90		
Total	4,246		750		3,495



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XV) Deferred income tax assets, deferred income tax liabilities

1. **Deferred income tax assets and deferred income tax liabilities are not shown as net after set-off**

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deferred income tax assets/ liabilities	Deductible/ taxable temporary differences	Deferred income tax assets/ liabilities	Deductible/ taxable temporary differences
Deferred income tax assets:				
Impairment provisions on assets	306	2,039	247	1,647
Deferred income	2,093	13,954	2,255	15,036
Deductible losses				
Sub-total	2,399	15,993	2,502	16,683
Deferred income tax liabilities:				
Changes in the fair value of trading financial instruments and derivative financial instruments				
Changes in the fair value of financial assets included in other comprehensive income	1,215	8,099	1,215	8,099
Asset appraisal appreciation arising from the business combination not under common control	4,086	27,237	4,418	29,453
Sub-total	5,300	35,336	5,633	37,552



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XV) Deferred income tax assets, deferred income tax liabilities (Continued)

2. Breakdown of unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the beginning of the period
Provision for bad and doubtful debts	171	269
Deferred income	4,251	4,568
Deductible losses	35,645	29,272
Total	40,068	34,109

3. Deductible losses that are not recognized as deferred income tax assets which will expire in the following years

Year	Balance at the end of the period	Balance at the beginning of the period	Remarks
2022			
2023	20,169	20,169	
2024			
2025	9,102	9,102	
2026	6,373		
Total	35,645	29,272	



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XVI) Other non-current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Prepayment for long-term asset purchased	4,256	5,249
Prepayment for cows purchased	17,938	49,788
Total	22,193	55,037

(XVII) Short-term borrowings

1. Category of short-term borrowings

Conditions of loans	Balance at the end of the period	Balance at the beginning of the period
Mortgaged loan	88,000	156,500
Guaranteed loan		115,000
Credit loan	126,000	50,000
Plus: Accrued interest	666	837
Total	214,666	322,337

Note: For details of the mortgage of short-term borrowings, please refer to Note V. (LIV).



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XVIII) Bills payable

Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bill	80,000	431,160
Total	80,000	431,160

(XIX) Accounts payable

1. Classifying by ageing

Item	Balance at the end of the period	Balance at the beginning of the period
Within 1 year (inclusive of 1 year)	248,047	203,441
1-2 years (inclusive of 2 years)	1,714	9,369
2-3 years (inclusive of 3 years)	2,665	786
Over 3 years	958	508
Total	253,385	214,105

Note: After the Company confirmed the completion of purchase (if the goods were placed into the warehouse for acceptance or met the acceptance conditions), the unpaid purchase amount was included in the accounts payable and we started to calculate the ageing at the same time.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XIX) Accounts payable (Continued)

2. Large amount of accounts payable with ageing of over 1 year

Name of entity with creditor's rights	Balance at the end of the period	Reasons for outstanding payment
Entity 1	2,120	Final payment of equipments
Entity 2	564	Final payment of project
Entity 3	294	Final payment of project
Entity 4	163	Final payment of accessories
Entity 5	123	Payment of packaging material
Total	3,263	–

(XX) Contractual liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Within 1 year (inclusive of 1 year)	18,717	10,669
Total	18,717	10,669

Note: RMB10,338,000 of balance of contractual liabilities at the beginning of the period was recognised as operating income.

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXI) Employee benefits payable

1. List of employee benefits payable

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Short-term benefits	6,226	87,761	88,047	5,940
Post-employment benefits – defined benefits plan		5,915	5,915	
Dismissal benefits		557	557	
Total	6,226	94,234	94,520	5,940

2. Conditions of short-term employee benefits

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Wages, bonus, subsidies and allowances	6,144	80,348	80,552	5,940
Employees benefits	24	2,569	2,593	
Social insurance fees		3,067	3,067	
Including: Medical insurance fees		2,795	2,795	
Injuries insurance fees		244	244	
Maternity insurance fees		28	28	
Housing provident fund		1,233	1,233	
Trade union funds and employees education funds	58	545	603	
Total	6,226	87,761	88,047	5,940



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXI) Employee benefits payable (Continued)

3. Conditions of defined benefit plan

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Basic pension insurance		5,602	5,602	
Unemployment insurance fees		313	313	
Total		5,915	5,915	

(XXII) Taxes payable

Categories of taxes	Balance at the end of the period	Balance at the beginning of the period
VAT	852	2,504
Enterprise income tax	2,528	2,711
Environmental protection tax	644	546
Individual income tax	251	159
Urban maintenance and construction tax	58	145
Education surcharges	27	79
Local education surcharges	18	51
Stamp tax	29	33
Other taxes and fees	199	191
Total	4,606	6,419

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXIII) Other payables

Category	Balance at the end of the period	Balance at the beginning of the period
Dividends payable		
Other payables	42,906	52,990
Total	42,906	52,990

1. Other payables

(1) Classifications by nature of amount

Nature of amount	Balance at the end of the period	Balance at the beginning of the period
Government grants charged but not satisfying the attached conditions	2,232	3,982
Deposit due to the third party	13,365	15,828
Professional service fee payable	1,587	946
Restricted share repurchase business (see Note XI. for details)	14,206	23,251
Others	11,516	8,984
Total	42,906	52,990



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXIII) Other payables (Continued)

1. Other payables (Continued)

(2) *Explanation on the conditions of large amount of other payables with the ageing of over 1 year*

Name of entity	Balance at the end of the period	Reasons for outstanding payment
Entity 1	661	Prematurity repayment
Entity 2	298	Prematurity repayment
Entity 3	216	Prematurity repayment
Entity 4	122	Outstanding earnest money
Entity 5	113	Outstanding earnest money
Total	1,410	–

(XXIV) Non-current liabilities due within one year

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term borrowings due within 1 year	105,000	42,377
Lease liabilities due within 1 year	5,349	6,045
Total	110,349	48,422

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXV) Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Amount of tax in items to be resold	2,429	1,448
Total	2,429	1,448

(XXVI) Long-term borrowings

1. Classification of long-term borrowings

Conditions of borrowings	Balance at the end of the period	Balance at the beginning of the period	Range of interest rate
Mortgaged loan	238,800	352,937	5.15%-5.70%
Credit loan	219,000		4.10%-4.40%
Plus: Accrued interest	648	721	
Less: Long-term borrowings due within 1 year (Note V. (XXIV))	105,000	42,377	
Total	353,448	311,281	—

Note: For details of the mortgage conditions of long-term borrowings, please refer to Note V. (LIV).



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXVI) Long-term borrowings (Continued)

2. Repayment term of the long-term borrowings of over 1 year

Repayment term	Balance at the end of the period	Balance at the beginning of the period
1 to 2 years	111,000	72,377
2 to 5 years	180,000	147,130
Over 5 years	61,800	91,054
Total	352,800	310,561

(XXVII) Lease liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Lease payment	67,597	68,323
Less: Unrecognised finance expenses	21,307	21,794
Less: Lease liabilities due within 1 year (Note V. (XXIV))	5,349	6,045
Total	40,942	40,483

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXVIII) Leases

1. The Company as the lessee

(1) Please refer to this Note V. (XII), (XXVII) for the conditions of right-of-use assets and lease liabilities.

(2) Conditions of being included in gain or loss and related asset costs for the year

Item	Being included in gain or loss for the period		Being included in related asset costs	
	Presented item	Amount	Presented item	Amount
Depreciation of right-of-use assets	Operating cost/ administrative expenses	3,592		
Interest	Financial expenses	2,318		

(3) Cash outflow associated with leases

Item	Category of cash flow	Amount for the period
Cash paid for repayment of principal and interest of lease liabilities	Cash outflow from financing activities	5,081
Total	—	5,081



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXVIII) Leases (Continued)

1. The Company as the lessee (Continued)

(4) Other information

① Nature of lease activities

Category	Leased property	Volume (acre/unit)	Lease term (year)
Zhuangyuan Pasture	Land	9.28	5-6
Dongfang Dairy	Land	93.60	30
Duoxian Dairy	Land	212.91	30
Shengya Pasture	Land	273.74	25-30
Ruiyuan Pasture	Land	309.28	24-30
Ruida Pasture	Land	759.38	19-30
Ruian Pasture	Land	220.13	23-30
Ruifeng Pasture	Land	308.46	30
Ruijia Pasture	Land	1,531.00	20
Ruixing Pasture	Land	839.45	10
Ningxia Zhuangyuan	Land	200.00	30

Note 1 The lease term of the lands of the Company is relatively long, and it is generally agreed in the contracts to renew the lease at fair value. The management reasonably judges that the lease will not be renewed when it expires, so as far as the lease term is concerned, the option of renewal is not considered.

Note 2 There is variable lease consideration in a part of the land lease of the Company, and the rent is determined by “the price of wheat for the current month of payment and the price of spring wheat on 15 August in the current year” and belongs to the index and rate-linked rent under the lease standards. The Company will consider the importance of the amount and adjust the lease liabilities and lease assets when there are relevant price changes during the lease execution period.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXIX) Estimated liabilities

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period	Reasons for formation
Returns payment payable	13	23	24	12	Accrued returns payment
Reclamation expense	478	17		495	Reclamation expense for lease lands
Total	490	40	24	506	—

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXX) Government grants

1. General information of government grants in current period

Category	Amounts	Presented item	Amount included in profit or loss of the period
Funds under Dairy Development Project of Bureau of Agriculture and Rural Affairs of Jinchuan District of Jincang City	1,000	Deferred income	58
Grants for resource utilization of livestock and poultry manure from Liangzhou District Agriculture, Husbandry and Rural Bureaus	120	Deferred income	5
Guide Support Funds of Discount for Civil Trade and Products Loans Granted by Finance Bureau of Yuzhong County	3,640	Financial expenses	3,640
Grants for Grain-to-feed Program	2,725	Non-operating income	2,725
Special Funds for the Highquality Development of the Provincial Manufacturing Industry and the Development of the Data and Information Industry	1,000	Other income	1,000
Special funds for the vocational skills improvement action of the Employment Service Center of Yuzhong County	806	Other income	806
Award of Enterprise with Outstanding Contribution	500	Other income	500
Lanzhou City Key Talent Project "Selecting the Best Candidates via Open Competition Mechanism"	450	Other income	450
Major Technical Project Fund			
Subsidies for Semen Freezing	300	Other income	300
Funds for rewarding, supplementing and supporting the development of agricultural industrialization of Agriculture and Rural Bureau of Liangzhou District	115	Other income	115
Subsidy for the new certification of "Three Products and One Standard" by the Agricultural Products Quality and Safety Supervision Center of Yuzhong County	10	Other income	10
Central Government Agricultural Production Disaster Relief Funds	90	Other income	90
Financial Awards and Subsidies for Enterprise	85	Other income	85
2021 Funds for Rewarding, Supplementing and Supporting Yuzhong County East West Collaborative Consumption	80	Other income	80
Others	184	Other income	184
Total	11,105		10,049

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXX) Government grants (Continued)

2. Conditions on the refund of government grants

Nil

(XXXI) Deferred income

1. Deferred income listed by category

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period	Reasons for formation
Government grants	37,059	2,870	3,436	36,493	Government grants
Total	37,059	2,870	3,436	36,493	—

2. Conditions of projects of government grants

Item	Balance at the beginning of the period	Increase of grants for the period	Amount included in gain or loss for the period	Other changes	Balance at the end of the period	Related to assets/revenue
Dairy farming project	19,945	1,750	2,256		19,439	Related to assets
Dairy product production project	4,698		417		4,280	Related to assets
Biogas engineering project	3,751		262		3,489	Related to assets
Others	8,666	1,120	501		9,285	Related to assets
Total	37,059	2,870	3,436		36,493	—

Note: Please refer to Note V. (XXX) for breakdowns of government grants.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXXII) Share capital

Item	Balance at the beginning of the period		Increase and decrease for this time (+, -)				Balance at the end of the period		
	Amount	Percentage	Issuing new shares	Grant of shares	Conversion of reserve funds into shares	Others	Subtotal	Amount	Percentage
		(%)							(%)
I. Shares subject to lock-up	70,489	30.16				(44,300)	(44,300)	26,189	11.27
Including: Domestic corporate shares	37,932	16.23				(37,932)	(37,932)		
Domestic natural person shares	32,557	13.93				(6,368)	(6,368)	26,189	11.27
II. Shares not subject to lock-up	163,192	69.84				43,000	43,000	206,192	88.73
1. RMB ordinary shares	128,062	54.81				43,000	43,000	171,062	73.61
2. Overseas listing foreign shares	35,130	15.03						35,130	15.12
III. Total number of shares	233,681	100.00				(1,300)	(1,300)	232,381	100.00

During the forty-sixth meeting of the third session of the Board of Directors and the thirty-first meeting of the third session of the Supervisory Committee held on 15 January 2021 and the first Extraordinary General Meeting in 2021 held on 18 March 2021, Proposal on the Repurchase and Cancellation of All Restricted Shares in the First Release of Locked Period under the 2019 Restricted Shares Incentive Scheme was considered and approved, according to which, and after revising articles of association, the Company repurchased and cancelled the shares (restricted shares incentive) held by domestic natural persons, the total repurchase funds amounted to RMB9,045,000, including a reduction of RMB1,300,000 in share capital and a reduction in capital reserves of RMB7,745,000.

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXXIII) Capital reserve

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
I. Capital premium	854,580		7,745	846,834
Including: Capital reserve of restricted share scheme	19,910		7,745	12,165
II. Other capital reserve				
Including: Equity incentive cost amortization				
Total	854,580		7,745	846,834

For the details of the changes in capital reserve for the period, please refer to Note V. (XXXII).

(XXXIV) Treasury share

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period	Reasons for the change
Restricted share scheme	23,251		9,045	14,206	
Total	23,251		9,045	14,206	

As stated in Note V. (XXXII), the Company repurchased restricted shares during the current period, reducing treasury shares and other payables – the obligation to repurchase restricted shares by RMB9,045,000.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXXV) Surplus reserve

Category	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Statutory surplus reserve	43,387	1,934		45,321
Total	43,387	1,934		45,321

(XXXVI) Retained earnings

Item	Amount	Balance at the end of the period Proportion of withdrawal or allocation
Retained earnings at the end of the previous period prior to the adjustments	483,437	
Total amount of retained earnings at the beginning of the period of adjustment (“+” for increase, “-” for decrease)		
Retained earnings at the beginning of the period after the adjustment	483,437	
Add: Net profit attributable to the owners of the parent company during the period	53,533	
Less: Withdrawal of statutory surplus reserve	1,934	
Withdrawal of discretionary surplus reserve		
Ordinary share dividends payable	4,674	
Ordinary share dividends changed into share capital		
Other decreases		
Retained earnings at the end of the period	530,362	

Note: According to the resolutions of the 2020 Annual General Meeting, the 2021 First A Class Meeting and the 2021 First H Class Meeting held by the Company on 29 June 2021, the Company distributed a total of RMB4,674,000 dividends to all shareholders.

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXXVII) Operating income and costs

Item	Incurred during this period		Incurred in previous period	
	Income	Cost	Income	Cost
I. Subtotal of principal business	994,128	758,107	722,152	546,384
II. Subtotal of other business	27,303	20,396	17,669	7,005
Total	1,021,432	778,504	739,821	553,389

(XXXVIII) Taxes and surcharges

Item	Incurred during this period	Incurred in previous period
Environmental protection tax	2,370	2,199
Urban maintenance and construction tax	1,182	1,109
Land use tax	645	655
Charges for water resources	35	35
Education surcharges	631	549
Stamp tax	1,085	727
Local education surcharges	421	366
Property tax	3,023	2,078
Water conservancy construction funds	118	25
Total	9,510	7,745



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XXXIX) Selling expenses

<u>Item</u>	<u>Incurred during this period</u>	<u>Incurred in previous period</u>
Staff cost	22,015	25,314
Low cost and short-lived consumable items	13,341	10,627
Promotional fees	9,835	6,893
Depreciation and amortization	2,274	2,635
Travel expenses	2,014	2,207
Rents and property management fees	1,374	1,458
Others	9,879	3,541
Total	60,732	52,676

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XL) Administrative expenses

Item	Incurred during this period	Incurred in previous period
Staff cost	31,644	20,652
Depreciation and amortization	18,705	9,678
Maintenance fees	16,110	13,923
Professional service fees	6,586	4,410
Environmental protection and discharge fees	3,870	3,297
Administrative expenses	6,069	4,925
Property insurance expenses	1,000	1,353
Water, electricity and heat expenses	2,449	1,927
Test fees	445	1,286
Equity incentive expenses		(2,418)
Audit fees	2,452	1,811
Business entertainment expenses	1,017	864
Travel expenses	1,835	1,594
Freight and miscellaneous charges	1,733	746
Others	7,341	4,766
Total	101,257	68,815



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XLI) Research and development expenses

Item	Incurred during this period	Incurred in previous period
Research and development of new products	9,247	9,103
Total	9,247	9,103

(XLII) Financial expenses

Item	Incurred during this period	Incurred in previous period
Interest expenses from loans and payables	26,141	29,620
Including: Interest expenses	29,781	33,670
Interest subsidies for policy-related preferential loans	(3,640)	(4,050)
Less: Interest expense capitalized	7,448	2,070
Interest income from deposits	6,587	5,470
Net exchange losses/(gains)	10	(8)
Others	491	1,820
Total	12,607	23,891



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XLIII) Other income

Item	Incurred during this period	Incurred in previous period	Related to assets/revenue
Amortization of deferred income	3,436	3,959	Related to assets
Government grants received during the year	3,621	2,443	Related to revenue
Others	25	101	
Total	7,082	6,503	—

Note: Please refer to Note V. (XXX) for breakdowns of government grants

(XLIV) Investment income

Type	Incurred during this period	Incurred in previous period
Gains from derecognition of financial assets at amortized cost	(3,344)	(12,925)
Total	(3,344)	(12,925)



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XLV) Gains from changes in fair value

Source of gains from changes in fair value	Incurred during this period	Incurred in previous period
1. Bearer biological assets	9,901	74,263
Including: Gain from fair value less costs to sell of bearer biological assets	(8,033)	59,148
Gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	17,934	15,115
2. Trading financial assets		
Including: Profits and losses of changes in fair value arising from contingent consideration		
Total	9,901	74,263

The Company's bearer biological assets are the cows. On the balance sheet date, the Company hired certain qualified and professional assets valuer to determine the fair value of these cows. Any change over each period is included in the profit or loss of the current period.

The agricultural products received by the Company from the bearer biological assets are the raw milk. At the time of harvest, the fair value of such agricultural products less the selling expenses (subject to the quotation in the local market) is recognized as the initial costs of the inventory. Any profit or loss (that is, the fair value of agricultural products at the time of harvest less the selling expenses and farming costs) generated from the recognition based on such fair value on the date of harvest shall be recognized in the income statement. Thereafter, during the sales, the inventory amount initially recognized based on such fair value is transferred to selling costs.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XLVI) Credit impairment loss

Item	Incurred during this period	Incurred in previous period
Credit impairment loss of accounts receivable ("–" for loss)	368	(449)
Credit impairment loss of other receivables ("–" for loss)	(72)	(1,064)
Total	297	(1,513)

(XLVII) Asset impairment loss

Item	Incurred during this period	Incurred in previous period
Impairment loss of fixed assets ("–" for loss)	(591)	(65,867)
Impairment loss of goodwill ("–" for loss)		(9,971)
Total	(591)	(75,838)



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(XLVIII) Gains from disposal of assets

Item	Incurred during this period	Incurred in previous period
Gains from disposal of fixed assets (“-” for loss)	(575)	313
Total	(575)	313

(XLIX) Non-operating income

Item	Incurred during this period	Incurred in previous period	Amounts included in the non-recurring profit or loss of the current period
Government grants irrelevant to the daily activities	2,725	1,195	2,725
Performance compensation		7,325	
Others	898	485	898
Total	3,623	9,006	3,623

Note: Please refer to Note V. (XXX) for breakdowns of government grants.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(L) Non-operating expenses

Item	Incurred during this period	Incurred in previous period	Amounts included in the non-recurring profit or loss of the current period
External donations	536	56	536
Loss on destruction and scrapping of non-current assets	9,676	11,446	9,676
Fines and overdue payment expenses	215	100	215
Other expenses	414	48	414
Total	10,841	11,650	10,841

(LI) Income tax expenses

1. Breakdown of income tax expense

Item	Incurred during this period	Incurred in previous period
Income tax expenses for the current period calculated in accordance with tax laws and relevant regulations	1,823	1,160
Deferred income tax expenses	(229)	747
Total	1,594	1,907



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(LI) Income tax expenses (Continued)

2. Reconciliation of accounting profit and income tax expenses

Item	Amount
Total amount of profit	55,128
Income tax expenses calculated based on statutory/applicable tax rate	8,269
Effect of application of different tax rates on subsidiaries	(2,685)
Effect of adjustment of income tax for the prior period	
Effect of non-taxable income	(5,774)
Effect of non-deductible costs, expenses and losses	180
Effect of using deductible temporary difference or deductible losses on unrecognized deferred income tax assets for the prior period	
Effect of deductible temporary difference or deductible losses of unrecognized deferred income tax assets at the end of the period	1,604
Income tax expenses	1,594

(LII) Cash flow statement

1. Cash received or paid from/for other operating activities

Item	Incurred during this period	Incurred in previous period
Cash received from other operating activities	33,714	43,869
Including: Earnest money	5,668	7,049
Government grants	11,105	9,181
Others	16,941	27,640
Cash paid for other operating activities	83,607	94,000
Including: Office travelling expenses	8,082	4,794
Maintenance fees	14,442	13,932
Freight and miscellaneous charges		20,446
Professional service fees	7,451	6,198
Promotional fees	9,466	5,966
Others	44,166	42,665

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(LII) Cash flow statement (Continued)

2. Cash received or paid from/for other investing activities

Item	Incurred during this period	Incurred in previous period
Cash received from other investing activities	14,106	41,233
Including: Recovery of performance compensation	14,106	22,333
Recovery of the cost of land acquisition in the previous period		18,900

3. Cash received or paid from/for other financing activities

Item	Incurred during this period	Incurred in previous period
Cash received from other financing activities	291,820	540,792
Including: Recovery of earnest money	215,164	
Recovery of guarantee fees		160,792
Bill discount	76,656	380,000
Cash paid for other financing activities	405,544	364,534
Including: Cash paid relating to leases	5,081	4,789
Guarantee fees paid	0	1,150
Bank bill settlement	351,160	148,146
Increase in pledged deposit	40,000	210,449
Repurchase of restricted shares	9,302	



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(LIII) Supporting information about cash flow statement

1. Supporting information about cash flow statement

Item	Incurred during this period	Incurred in previous period
1. Adjustment of net profit to cash flow of operating activities		
Net profit	53,533	10,453
Plus: Credit impairment loss	297	1,513
Asset impairment loss	591	75,838
Fixed assets and right-of-use assets depreciation	114,248	94,419
Intangible assets amortization	3,355	2,798
Long-term deferred expenses amortization	750	2,910
Loss on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)	575	(313)
Loss on scrapping of fixed assets (“-” for gains)	9,676	11,446
Loss on changes to the fair value (“-” for gains)	(9,901)	(59,148)
Financial expenses (“-” for gains)	18,693	27,550
Loss on investment (“-” for gains)	3,344	12,925
Decrease of deferred income tax assets (“-” for increase)	103	4,142
Increase of deferred income tax liabilities (“-” for decrease)	(332)	(3,394)
Decrease of inventories (“-” for increase)	(62,834)	(18,793)
Decrease of operating items receivable (“-” for increase)	27,400	(20,983)
Increase of operating items payable (“-” for decrease)	47,495	285
Others		
Net amount of cash flow generated from operating activities	206,991	141,647
2. Major investing and financing activities irrelevant to cash income and expenses		
Conversion of debts into capital		
Convertible corporate bonds to become due within one year		
Acquisition of fixed assets under finance leases		
3. Net changes to cash and cash equivalents		
Balance of cash at the end of the period	362,907	631,565
Less: Balance of cash at the beginning of the period	631,565	248,235
Plus: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase of cash and cash equivalents	(268,658)	383,330

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(LIII) Supporting information about cash flow statement (Continued)

2. Cash and cash equivalents

Item	Balance at the end of the period	Balance at the beginning of the period
I. Cash	362,907	631,565
Including: Cash on hand		4
Bank deposits immediately available for payment	362,907	631,560
Other currencies immediately available for payment		
Amount available for payment and deposited in the Central Bank		
Deposit in other financial Institutions		
Loans to other financial Institutions		
II. Cash equivalents		
Including: Debenture investment due within 3 months		
III. Balance of cash and cash equivalents at the end of the period	362,907	631,565
IV. Use of restricted cash and cash equivalents by the Parent Company or the subsidiaries of the Company		



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(LIV) Assets with restricted ownership or use right

Item	Balance at the end of the period	Reasons for restriction
Cash at bank and on hand	40,000	Bills earnest money
Fixed assets	110,624	Mortgage of long-term and short-term borrowings and bank acceptance bill
Intangible assets	76,584	Mortgage of long-term borrowings
Total	227,208	—

VI. CHANGES OF SCOPE OF CONSOLIDATION

(I) Business combination not under the common control occurred during the period

None

(II) Business combination under the common control occurred during the period

None

(III) Disposal of equity in subsidiaries during the period

None

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES

(I) Interests in subsidiaries

1. Composition of group members

Name of Subsidiaries	Place of Main Business	Place of Registration	Nature of Business	Shareholding Proportion (%)		
				Direct	Indirect	Method to Obtain
Qinghai Qinghai Lake Dairy Co., Ltd.	Xining City, Qinghai Province	Xining City, Qinghai Province	Dairy products production and sales	100.00		Investment and establishment
Xi'an Dongfang Dairy Co., Ltd.	Xi'an City, Shaanxi Province	Xi'an City, Shaanxi Province	Dairy products production and sales	100.00		Acquisition
Qinghai Shengyuan Pasture Co., Ltd.	Huangyuan County, Xining City, Qinghai Province	Huangyuan County, Xining City, Qinghai Province	Dairy farming	100.00		Investment and establishment
Qinghai Shengya Plateau Pasture Co., Ltd.	Huangzhong County, Xining City, Qinghai Province	Huangzhong County, Xining City, Qinghai Province	Dairy farming	100.00		Investment and establishment
Yuzhong Ruiifeng Pasture Co., Ltd.	Yuzhong County, Lanzhou City, Gansu Province	Yuzhong County, Lanzhou City, Gansu Province	Dairy farming	100.00		Investment and establishment
Linxia County Ruiyuan Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu Province	Linxia County, Linxia Prefecture, Gansu Province	Dairy farming	100.00		Investment and establishment
Linxia County Ruian Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu Province	Linxia County, Linxia Prefecture, Gansu Province	Dairy farming	100.00		Investment and establishment
Wuwei Ruida Pasture Co., Ltd.	Wuwei City, Gansu Province	Wuwei City, Gansu Province	Dairy farming	100.00		Investment and establishment
Ningxia Zhuangyuan Pasture Co., Ltd.	Wuzhong City, Hui Autonomous Region, Ningxia	Wuzhong City, Hui Autonomous Region, Ningxia	Dairy farming	100.00		Investment and establishment
Lanzhou Ruixing Animal Husbandry Co., Ltd.	Yongdeng County, Lanzhou City, Gansu Province	Yongdeng County, Lanzhou City, Gansu Province	Dairy farming	100.00		Investment and establishment
Gansu Ruijia Animal Husbandry Co., Ltd.	Jinchang City, Gansu Province	Jinchang City, Gansu Province	Dairy farming	100.00		Investment and establishment



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company's financial instruments mainly include borrowings, accounts receivable and accounts payable, for details of these financial instruments please refer to Note V. For risks related to these financial instruments and the risk management policies adopted by the Company for the purpose of mitigating such risks, please see below. The Company's management shall manage and monitor these risk exposures to ensure that the aforesaid risks may be controlled within the restricted scope.

(I) Risk management objectives and policies

The Company implements risk management to keep proper balance between the risks and gains and attempt to reduce the adverse impacts of these financial risks on its financial performance. Based on such risk management objective, the Company has already worked out the risk management policy to identify and analyze its risk, set appropriate acceptable level of risk and design corresponding internal control process to monitor its risk level. The Company will also regularly review these risk management policies and internal control system so as to adapt to the market situations or changes to its business activities. The Company's internal auditing department will also regularly or at any time check whether the implementation of its internal control system is in compliance with the risk management policy.

1. Credit risk

On 31 December 2021, the biggest credit risk exposure resulting in the Company's financial loss mainly results from the failure by the other party to the contract to perform the obligations, thus, the Company suffers from any loss on the financial assets and has to provide the financial guarantee, specifically including the cash at bank and on hand and the accounts receivable.

In order to reduce the credit risk, the Company's management will continuously monitor these credit risk exposures.

The Company's cash at bank and on hand other than the cash is mainly deposited in the banks with higher credit rating, therefore, the management considers that there is no existence of higher credit risk and expects no loss to the Company arising from the default of the other party.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

1. Credit risk (Continued)

As for the accounts receivable, the Company's management has already worked out the credit policy based on the actual situations and conduct credit evaluation on the customers to determine the credit limit and period. The credit evaluation depends on the customer's financial status. The accounts receivable will become due 30 days after the statement of accounts is issued or no later than 1 year. The debtor with overdue accounts receivable will be required to first repay any and all of the outstanding balance and then can obtain the further credit limit. Generally, the Company will not request the customer for provision of any mortgaged item. In addition, the Company will review the recovery of each accounts receivable on the date of each balance sheet to ensure the sufficient provision for bad and doubtful debts based on the estimated credit loss on such assets. Therefore, the Company's management considers that its credit risk has already been significantly reduced.

The Company's credit risk is mainly affected by the characteristic of each customer but not the industry or country and region of such customer. Therefore, the significant credit risk mainly results from the significant accounts receivable by the Company from the individual customer. On the balance sheet date, the accounts receivable from the Company's top 5 customers account for 51.18% (55.42% in 2020) of the total amount of accounts receivable by the Company; in addition, those accounts receivable by the Company that have not become overdue or been impaired mainly involve multiple customers without default records in recent times.

As for other receivables, the Company's management will implement management based on the nature of the receivables. With respect to the credit risk in connection with other receivables, the Company has already taken the net amount after loss on impairment into consideration and listed in the balance sheet.

The Company's largest credit risk exposure is the book amount of each financial asset listed in the balance sheet.

The Company has adopted the necessary policy to ensure that all the sale customers keep good credit records.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

2. Liquidity risk

Liquidity risk means while performing the obligations by way of settlement in cash or other financial assets, the enterprise suffers from the risk of lack of funds. The Company and each of its subsidiaries are responsible for their respective cash management work, including the cash surplus short-term investment and loan financing to meet the requirements for projected cash payable (if the amount of loan exceeds the upper limit authorized by certain presupposition, approval should be obtained from the Company's Board of Directors). The Company's policy is to regularly monitor short-term and long-term liquidity requirements and whether it meets the requirements of the loan agreement to ensure that sufficient cash reserves are maintained. Meanwhile, it obtains the commitments from major financial institutions for provision of sufficient reserve funds so as to satisfy the short- and long-term requirements for the current funds.

The following tables set out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at 31 December) and the earliest date the Group can be required to pay:

Unit: RMB'000

Item	Contractual undiscounted cash flow at the end of the period				Total	Carrying value on the balance sheet date
	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years but within 5 years	Over 5 years		
Short-term borrowings	670,912				670,912	214,666
Bills payable	80,000				80,000	80,000
Accounts payable	253,385				253,385	253,385
Other payables	42,906				42,906	42,906
Long-term borrowings	126,059	125,720	197,785	63,391	512,955	458,448
Lease liabilities	5,349	3,939	11,445	46,864	67,597	46,291
Total	1,178,611	129,659	209,230	110,256	1,627,755	1,095,695

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

IX. FAIR VALUE

The following table includes the fair value information of the Company's assets and liabilities sustainably measured by the fair value on each balance sheet date at the end of the period of such report and the level of such measurement. The level of fair value measurement results depends on the input at the lowest level that significantly affects the fair value in general. Three levels of input are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3 inputs are unobservable inputs for the asset or liability.

(I) Fair value of assets and liabilities measured by fair value at the end of the year

Item	Fair value as at the end of the period			Total
	Fair value measurement at Level 1	Fair value measurement at Level 2	Fair value measurement at Level 3	
Sustainable fair value measurement			534,964	534,964
Bearer biological assets			534,964	534,964
Trading financial assets				

(Continued)

Item	Fair value as at the beginning of the period			Total
	Fair value measurement at Level 1	Fair value measurement at Level 2	Fair value measurement at Level 3	
Sustainable fair value measurement			494,691	494,691
Bearer biological assets			494,691	494,691
Trading financial assets				

The carrying value of consumable biological assets on each balance sheet date during the report period is relatively minor, which is approximate to the fair value.

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

IX. FAIR VALUE (Continued)

(II) Qualitative and quantitative information over the valuation technology and important parameters adopted by the evaluation on fair value of bearer biological assets

1. Quantitative information over fair value measurement at Level 3:

Category	Methods for valuation	Key unobservable inputs	Relationship between the key unobservable inputs and fair value measurement
Calves and heifers	The fair value of 14-month old heifer is calculated by reference to the market price of the active transaction market.	The average market price of 14-month old domestic heifer this period is RMB20,000 (RMB18,300 in 2020); and the average market price of 14-month old imported heifer is RMB25,400 (RMB23,000 in 2020).	When the market price is increased, it is estimated that the fair value will be increased.
Milkable cows	The fair value of milkable cows is determined according to the multi period-excess-earnings and based on the discounted future cash flow generated by the milkable cows.	<p>As for the quantity of milkable cows, it is assumed that the existing number of milkable cows is decreased at the end of the related period arising from the rejection rate due to natural or unnatural factors (including disease, difficult delivery, low milk production or end of all the gestation periods), it is estimated that the overall rejection rate this year will be 5.0%-100% as increase of the gestation period (5%-100% in 2020).</p> <p>Each milkable cow has 5-6 gestation periods to the maximum extent. It is estimated that in the self-operated pastures of 7 wholly-owned subsidiaries, within each gestation period of this period, each cow will averagely produce 8.62 tons of raw milk (the output of raw milk of the seven self-operated pastures varies, namely Ruixing (8.37-9.82 tons); Wuwei Ruida (8.09-11.09 tons); Shengya (5.9-7.7 tons); Ruijia (8.59-9.97 tons); Ruiyuan (8.28-10.04 tons); Ruifeng (8.17-9.85 tons); and Shaanxi Duoxian (8.54-10.34 tons)) (the output of raw milk of the seven self-operated pastures was 9.12 tons in 2020), depending on the number of times during the gestation period and the individual health status.</p> <p>It is estimated in this period that the future local market price of each ton of the raw milk is RMB4,416/ton(the price of the seven self-operated pastures varies, namely Ruixing (RMB4,419/ton); Wuwei Ruida (RMB4,449/ton); Shengya (RMB4,294/ton); Ruijia (RMB4,410/ton); Ruiyuan (RMB4,512/ton); Ruifeng (RMB4,447/ton); and Shaanxi Duoxian (RMB4,378/ton)) (RMB4,305/ton in 2020).</p> <p>Calculated as per the capital asset pricing model, the discount rate of this period is 11.44% (10.75% in 2020).</p>	<p>It is estimated that when the rejection rate is increased, the fair value will be decreased.</p> <p>It is estimated that when the production volume of raw milk is increased, the fair value will be increased.</p> <p>It is estimated that when the future local market price of the raw milk is increased, the fair value will be increased.</p> <p>When the discount rate is increased, it is estimated that the fair value will be decreased.</p>

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

X. RELATED PARTIES AND RELATED TRANSACTIONS

(I) De facto controller

The controlling shareholder of the Company is Gansu Nongken Group Limited Liability Company (甘肅省農墾集團有限責任公司). It holds 29.62% equity interests in the Company through its wholly-owned subsidiaries, namely Gansu Nongken Asset Operation Company Limited (甘肅省農墾資產經營公司) and Lanzhou Zhuangyuan Investment Co., Ltd. (蘭州莊園投資有限公司).

The de facto controller of the Company is Gansu People's Government Asset Supervisory Management Committee.

(II) Subsidiary of the Company

For details please refer to "Note VII. Interest in the Subsidiaries".

(III) Other related parties of the Company

Name of other related parties	Relationship between other related parties and the Company
Linxia County Ruihua Pasture Co., Ltd.	Entity under the common control of spouses of family members of the shareholder, Ma Hongfu
Gansu Nongken Tianmu Dairy Company Limited	Jointly controlled by the same party
Gansu Yasheng Pastoral Pastoral Grass Industry Group Co., Ltd. Yinma Branch (甘肅亞盛田園牧歌草業集團有限責任飲馬分公司)	Jointly controlled by the same party
Gansu Nongken Jinchang Farm Company Limited (甘肅農墾金昌農場有限公司)	Jointly controlled by the same party

(IV) Related transactions

1. Related transactions such as purchase and sales of commodities and provision and acceptance of labor service

Name of related party	Type of related transaction	Content of related transaction	Pricing method and decision-making process of related transaction	Incurred during this period	Incurred in previous period
Gansu Nongken Tianmu Dairy Company Limited	Purchase of goods	Raw milk	Marker price, approved by the Board of Directors	132,462	11,989
Gansu Yasheng Pastoral Pastoral Grass Industry Group Co., Ltd. Yinma Branch	Purchase of goods	Feed	Marker price, approved by the Board of Directors	3,393	
Gansu Nongken Jinchang Farm Company Limited	Purchase of goods	Feed	Marker price, approved by the Board of Directors	25,619	

Note: Among the fresh milk supply of the Company during this period, the own produced milk accounted for 58.99% and the external purchase accounted for 41.01%, of which the purchase from the related party Nongken Tianmu Dairy accounted for 71.83% of the external purchase.

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

X. RELATED PARTIES AND RELATED TRANSACTIONS (Continued)

(IV) Related transactions (Continued)

2. Remuneration of key management personnel

Remuneration of key management personnel	Incurred during this period RMB'000	Incurred in previous period RMB'000
Total	1,770	1,852

3. Other related transactions

None

(V) Receivables from and Payables to related parties

1. Items receivable

Name of item	Related party	Closing balance		Opening balance	
		Balance of carrying value	Provision for bad and doubtful debts	Balance of carrying value	Provision for bad and doubtful debts
Current accounts	Gansu Nongken Tianmu Dairy Company Limited			1,011	
Total	-			1,011	

2. Items payable

Name of item	Related party	Closing balance	Opening balance
Current accounts	Gansu Nongken Tianmu Dairy Company Limited	11,332	
Current accounts	Gansu Yasheng Pastoral Pastoral Grass Industry Group Co., Ltd. Yinma Branch	2,184	
Current accounts	Gansu Nongken Jinchang Farm Company Limited	12,119	
Total	-	25,636	



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XI. SHARE-BASED PAYMENT

(1) Overall Conditions of Share-based Payment

① According to the “Proposal on the 2019 Restricted Share Incentive Scheme (Draft) of Lanzhou Zhuangyuan Pasture Co., Ltd. and its Summary” considered and passed at the first extraordinary general meeting of the Company held on 23 May 2019 and the “Proposal on Adjusting Matters Related to the 2019 Restricted Share Incentive Scheme” and the “Proposal on the First Grant of Restricted Stock to Incentive Targets” considered and passed at the 21st meeting of the third session of the Board of the Company held on 21 June 2019, the number of restricted shares granted under the adjusted 2019 Restricted Share Incentive Scheme was 3,940,600 shares, including 3,340,600 shares in the first grant and 600,000 shares reserved, the total number of the incentive targets in the first grant was 84 individuals, and the price of grant was RMB6.96 per share. The targets of the incentive scheme included the Directors, senior management, middle-level management and core technicians (sales staff) of the Company. Source of shares: RMB common A-shares of Lanzhou Zhuangyuan Pasture Co., Ltd. issued to the incentive targets of the Company; date of grant: 21 June 2019; price of the grant: RMB6.96 per share; number of the grant: 3,340,600 shares; number of grantees: 84 individuals.

② Lock-up Arrangement

The unlocking arrangement under the first grant of the restricted shares is set out in the table below:

Unlocking arrangement	Unlocking time	Unlocking proportion
First unlocking period	Commencing on the first trading day after expiry of the 18-month period from the record date and ending on the last trading day of the 30-month period from the record date	30%
Second unlocking period	Commencing on the first trading day after expiry of the 30-month period from the record date and ending on the last trading day of the 42-month period from the record date	30%
Third unlocking period	Commencing on the first trading day after expiry of the 42-month period from the record date and ending on the last trading day of the 54-month period from the record date	40%



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions

During the unlocking period, the restricted shares granted to the incentive targets if the following conditions of grant are satisfied:

A. *There is no occurrence of any of the following events on the part of the Company*

- ① issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
- ② issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
- ③ failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
- ④ prohibition from implementation of a share incentive scheme by laws and regulations;
- ⑤ any other circumstances as determined by the CSRC.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

B. There is no occurrence of any of the following events on the part of the Incentive Participants:

- ① being subject to any identification as an ineligible personnel by a stock exchange in the last 12 months;
- ② being subject to any identification as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;
- ③ imposition of administrative penalties or measures prohibiting the Incentive Participants from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;
- ④ circumstances under which the Incentive Participant is prohibited from acting as a director and a member of the senior management of the Company pursuant to the Company Law;
- ⑤ circumstances under which the Incentive Participants are not allowed by the laws and regulations to participate in share incentive schemes of a listed company;
- ⑥ any other circumstances as determined by the CSRC.

In case the Company has any of the circumstances specified in the above sub-paragraph (1) during the implementation of the Incentive Scheme, all the restricted shares that have been granted to the Incentive Participants under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company and the repurchase price shall be the sum of the grant price and the interests on the bank deposits of the same term; in case any Incentive Participant has any of the circumstances specified in the above sub-paragraph (2), the Company will terminate its right to participate in the Incentive Scheme, and the restricted shares that have been granted to the Incentive Participant under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company and the repurchase price shall be the grant price.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

C. Performance appraisal targets at the Company level

The Incentive Scheme is subject to evaluation once an accounting year. The performance appraisal targets of the First Grant are as follows: Unlocking period

Performance appraisal targets

First unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2019 shall not be lower than 10%
Second unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2020 shall not be lower than 20%
Third unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2021 shall not be lower than 30%

In the event the Company fails to meet the performance appraisal targets above, all restricted shares which can be unlocked by the Incentive Participants in the respective assessment year shall not be unlocked and shall be repurchased and cancelled by the Company at the grant price plus the interest rate of bank deposits of the same term.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

D. Performance appraisal requirements at the Incentive Participant level

Incentive Participants can only unlock restricted shares if the Company achieved the abovementioned performance appraisal targets and individuals' post performance appraisal standards in the previous year. The specific unlocking ratio shall be determined based on the individual performance appraisal results of the Incentive Participants.

The individual performance appraisal of the Incentive Participants shall be conducted annually in accordance with the Assessment Management Measures for Implementation of the 2019 Incentive Scheme for Restricted Shares of Lanzhou Zhuangyuan Pasture Co., Ltd. (《蘭州莊園牧場股份有限公司2019年限制性股票激勵計劃實施考核管理辦法》). The assessment results shall be determined in accordance with individuals' performance appraisal and evaluation indicators. In principle, the performance evaluation results are classified into four grades, i.e. excellent (A), good (B), general (C), and poor (D), of which, A/B/C are qualified and D is unqualified. The appraisal and evaluation form is applicable to the assessment objects.

Appraisal results	Qualified			Unqualified
Standard grade	Excellent (A)	Good (B)	General (C)	Poor (D)
Standard coefficient	1.0	1.0	0.8	0

Individuals' actual unlock limit for the current year = standard coefficient × limit planned to be unlocked by individuals in the current year. The restricted shares which cannot be unlocked by the Incentive Participants in the year of appraisal shall be repurchased and cancelled by the Company.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XI. SHARE-BASED PAYMENT (Continued)

(2) Equity-settled share-based payment

Basis of the determination of the number of equity instruments expected to vest: At each balance sheet date during the vesting period, the Group makes the best estimation according to the latest information of the number of employees who are granted to vest and revises the number of equity instruments expected to vest. On vesting date, the estimate shall be equal to the number of equity instruments that ultimately vested.

Method to determine the fair value of equity instruments at the date of grant: the Company selected the closing price on the date of granting the restrictive Shares (RMB13.14 per Share) to determine the fair value of the restrictive Shares, and the total fair value of the equity instruments at the date of grant was RMB20,645,000, details of which are set out in the table below:

Item	Phase I	Phase II	Phase III	Total
Fair value per restrictive shares (RMB)	6.18	6.18	6.18	
Unlocked shares (RMB'000)	1,002	1,002	1,336	3,341
Total cost of restrictive shares for the current period (RMB'000)	6,193	6,193	8,258	20,645

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XI. SHARE-BASED PAYMENT (Continued)

(3) Cost of equity-settled share-based payment actually recognized during the year

The actual share-based payment cost recognized during the period was RMB0.00.

The Company failed to meet the performance conditions of its equity incentives scheme. The final amortization of restricted shares costs recognized in 2019 to 2022 is set out in the table below:

Item	2019	2020	2021	2022	Total
Costs of the restrictive shares	2,418	(2,418)			

As of 31 December 2021, the Company has no equity instruments.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XII. COMMITMENTS AND CONTINGENT MATTERS

(I) Commitments Matters

(1) Capital Commitments

Item	Closing balance	Opening balance
Capital commitments contracted but not recognized in the financial statement	13,920	12,479
– Commitment to the construction of long-term assets	13,920	12,479
Total	13,920	12,479

(II) Contingency

None

XIII. EVENTS AFTER THE BALANCE SHEET DATE

On 17 December 2021, the Company considered and approved a resolution at the 7th meeting of the fourth session of the Board of Directors, pursuant to which it is agreed to carry out the planning, argumentation and preliminary preparations for the H Share repurchase and delisting plan, and it is preliminarily agreed that all H Shares will be repurchased and cancelled through a voluntary offer. In order to complete the H Share repurchase and delisting plan, the total cost that the Company needs to pay overseas is estimated to be approximately HK\$390.00 million, including the indicative aggregate consideration for the H Share repurchase offer in the aggregate amount of approximately HK\$382.57 million, representing a minimum offer price of HK\$10.89 per H Share, i.e. the offer price would not be lower than HK\$10.89 per H Share if the H Share repurchase offer was made. The Company is preparing on matters related to foreign exchange remittance for this H Share repurchase and delisting plan.

On 30 March 2022, the Company considered and approved a resolution at the 11th meeting of the fourth session of the Board of Directors, pursuant to which it is proposed to distribute a cash dividend of RMB0.47 (tax inclusive, the actual distribution amount may vary slightly due to rounding) for every 10 shares with the total share capital of 232,381,032 shares at the end of 2021 as the base, the total proposed cash dividend will be RMB10,922,000. This proposal on profit distribution is still subject to be considered at the general meeting.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XIV. OTHER IMPORTANT MATTERS

(I) Segment reporting

Considering the framework of internal organization, management requirements and internal reporting system, the Company has determined two reportable segments, which are dairy farming and dairy products production. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they acquire different technology and market strategies. The financial information of the different segments is regularly reviewed by the Company's management to determine the allocation of resources and assess the performance.

Name of segment	Principal activities of segments
Dairy farming	Breeding dairy cows to produce and sell raw milk
Dairy products production	Production and sales of Pasteurized Milk, UHT Milk, Modified Milk, Yogurt and Other Dairy Products

1. Profit or loss, assets and liabilities of reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the Company's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other long-term assets and current assets, such as receivable, with the exception of deferred tax assets and other unallocated corporate assets (if any). Segment liabilities include current and non-current liabilities, such as payables, bank borrowings, attributable to the individual segments, but exclude deferred tax liabilities (if any).



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XIV. OTHER IMPORTANT MATTERS (Continued)

(I) Segment reporting (Continued)

1. Profit or loss, assets and liabilities of reportable segments (Continued)

Financial performance is operating income (including operating income from external customers and inter-segment operating income) after deducting operating costs, taxes and surcharges, selling and distribution expenses, general and administrative expenses, financial expenses and non-operating income and expenses attributable to the individual segments but exclude unallocated corporate expenses (if any). Transfer pricing of income among reportable segments is in accordance with the similar terms of transaction with external parties.

Information regarding the Company's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the Company's management or is otherwise regularly provided to the Company's management, even if not included in the measurement of segment profit or loss and segment assets and liabilities:

Item	Dairy Products Production							
	Dairy farming Segment		Segment		Elimination among Segments		Total	
	Incurred		Incurred		Incurred		Incurred	
	In the period	in previous period	In the period	in previous period	In the period	in previous period	In the period	in previous period
Operating income from external customers	197,802	70,800	823,630	669,021			1,021,432	739,821
Inter-segment operating income	265,223	213,957			(265,223)	(213,957)		
Depreciation and amortization	37,923	35,802	38,845	61,415			76,767	97,217
Interests income	3,364	253	3,223	5,218			6,587	5,470
Interests expense	2,676	4,345	16,017	23,205			18,693	27,550
Total amount of profit/(losses)	8,001	(66,792)	47,126	79,152			55,128	12,361
Income tax expense			1,594	1,907			1,594	1,907
Net profit/(losses)	8,001	(66,792)	45,532	77,245			53,533	10,453
Total assets	1,698,403	1,520,434	2,040,301	2,203,694	(928,324)	(643,571)	2,810,380	3,080,558
Total liabilities	1,063,305	893,338	1,034,705	1,238,957	(928,324)	(643,571)	1,169,687	1,488,724
Additions on non-current assets	71,489	154,282	66,362	2,191			137,851	156,473



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XIV. OTHER IMPORTANT MATTERS (Continued)

(I) Segment reporting (Continued)

2. Geographic information

As the Company's revenue is derived from customers located in the Mainland of China and non-current assets are mainly taken from and wholly located in Mainland China and all the branches are managed on a national basis due to their similar customer classifications or classification and similar regulatory environment in all regions, no information has been provided to the management of the Group by geographical area in mainland China.

3. Major customers

In 2021 and 2020, there is no case in which revenue to a single customer exceeds 10% of the total revenue of the Company.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XIV. OTHER IMPORTANT MATTERS (Continued)

(II) Remuneration of directors, supervisors and employees

	Remuneration of directors and supervisors	Salaries, housing allowance and other allowance	Discretionary bonus	Retirement benefits	Total
Executive Directors:					
Yao Gexian		55		16	71
Ma Hongfu		82	212	11	305
Zhang Yu		49		11	60
Yang Yi		49		11	60
Lian Enzhong					
Wang Guofu		45	135	5	185
Zhang Qianyu		65	115	11	191
Non-executive Director:					
Yap Kean Chong					
Independent Directors:					
Liu Zhijun	15				15
Zhao Xinmin	15				15
Wong Cho Hang Stanley	50				50
Xie Zhongkui	9				9
Wang Haipeng	20				20
Sun Jian	20				20
Zhang Yubao	12				12
Supervisors:					
Wang Fengming		55		15	70
Du Wei		80	93	11	184
Wang Xuefeng		43	28	5	76
Wei Lin	15				15
Sun Chuang					
Total	166	523	584	95	1,358

Notes: Wang Guofu resigned as executive director of the Company upon expiry of term on 29 June 2021. He serves as a deputy general manager of the Company;

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XIV. OTHER IMPORTANT MATTERS (Continued)

(II) Remuneration of directors, supervisors and employees (Continued)

1. Remuneration of directors and supervisors (Continued)

Yap Kean Chong resigned as non-executive director of the Company upon expiry of term on 29 June 2021. He no longer holds any positions in the Company;

Liu Zhijun, Zhao Xinmin and Wong Cho Hang Stanley resigned as independent non-executive directors of the Company upon expiry of term on 29 June 2021. They no longer hold any positions in the Company;

Xie Zhongkui resigned as independent non-executive director of the Company on 26 August 2021. He no longer holds any positions in the Company;

Wei Lin and Sun Chuang resigned as supervisors of the Company upon expiry of term on 29 June 2021. They no longer hold any positions in the Company;

Yao Gexian, Zhang Yu, Yang Yi and Lian Enzhong were appointed on 29 June 2021. They serve as executive directors of the Company;

Wang Fengming and Wang Xuefeng were appointed on 29 June 2021. They serve as supervisors of the Company;

Zhang Yubao was appointed on 26 August 2021. He serves as an independent non-executive director of the Company;

Wang Haipeng and Sun Jian were appointed on 29 June 2021. They serve as independent non-executive director of the Company.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XIV. OTHER IMPORTANT MATTERS (Continued)

(II) Remuneration of directors, supervisors and employees (Continued)

2. Five Highest Paid Individuals

The five highest paid individuals of the Company during the year are shown as follows:

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

	2021	2020
Salaries, allowances and benefits in kind	224.4	483.5
Pension scheme contributions	2.6	10.5
	227	494

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

	2021	2020
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	0	0

For the year ended 31 December 2021, no emoluments were paid or payable by the Group to any Directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2020: nil).

(III) Legal proceedings

- On 13 February 2018, according to the Notice on the Closing and Relocation of Livestock Farms in the Livestock and Poultry Prohibited Area (《關於畜禽禁養區內養殖場關閉搬遷的通告》) issued by the People's Government of Litong District of Wuzhong City, Ningxia Zhuangyuan Pasture Co., Ltd. a wholly-owned subsidiary of the Company, was listed as the livestock farms planned to be closed and relocated, and the Company responded positively to the government's work arrangement and carried out the closure work. The Company has been actively negotiating compensation matters with the Litong District People's Government, but has not yet signed a compensation agreement with the People's Government of Litong District till the date of this announcement. The Company filed a lawsuit with the Intermediate People's Court of Wuzhong City and requested the People's Court to order the People's Government of Litong District of Wuzhong City to fulfill statutory obligations in accordance with the requirements of the Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》) and make compensation for the loss caused by the closure and relocation of the Company's farms. Ningxia Zhuangyuan has received the Administrative Judgment ((2020) Ning 03 Xingchu No. 6) served by the People's Court of Wuzhong City of Ningxia Hui Autonomous Region. The main content of the Judgment is that "the People's Government of Litong District of Wuzhong City as defendant shall compensate Ningxia Zhuangyuan Pasture as plaintiff for the closure and relocation within 60 days from the date on which this Judgment takes effect". As of the date of this report, compensation for demolition and relocation is still in the process of negotiation and communication.

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XIV. OTHER IMPORTANT MATTERS (Continued)

(III) Legal proceedings (Continued)

2. On 25 July 2017, according to the notice on the Plan for Delineation of the Prohibited Area and Restricted Area of Livestock and Poultry in Xining City (Trial) (Ningzhengban 2017 No. 143) (《西寧市畜禽養殖禁養區限養區劃定方案(試行)》) issued by the General Office of the People's Government of Xining City, Qinghai Shengyuan Plateau Pasture Co., Ltd. a subsidiary of the Company, was included in the scope of the prohibited area. The Company respected environmental protection work arrangements, stopped the operations of farm and responded actively to close the relevant farm. The Company has requested the People's Government of Huangyuan County of Xining City to compensate for the relocation losses but has not yet received any response. To this end, the Company submitted an administrative complaint to the Intermediate People's Court of Xining City in Qinghai Province in accordance with the requirements of the Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》), requesting the People's Government of Huangyuan County of Xining City to make compensation. On 31 August 2020, the Intermediate People's Court of Xining City of Qinghai Province issued the Administrative Judgment ((2020) Qing 01 Xingchu No. 16). The main content of the Judgment is that "the People's Government of Huangyuan County of Xining City as defendant shall compensate Qinghai Shengyuan Pasture Co., Ltd. as plaintiff for the closure and relocation within 60 days from the date on which this Judgment takes effect". On 30 November 2020, the People's Government of Huangyuan County has handled the application for compensation for the closure and relocation of Shengyuan Pasture in accordance with the judgment and sent the Reply Letter from the People's Government of Huangyuan County on the Closing and Relocation of Qinghai Shengyuan Pasture Co., Ltd. (Yuan Zheng Han 2020 No. 27) to the Qinghai Shengyuan Pasture Co., Ltd. Since the People's Government of Huangyuan County has not made substantive compensation plans or opinions on the losses incurred by Qinghai Shengyuan Pasture due to policy relocation.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XIV. OTHER IMPORTANT MATTERS (Continued)

(III) Legal proceedings (Continued)

On 18 February 2021, Qinghai Shengyuan Pasture Co., Ltd. filed the second lawsuit and submitted an administrative complaint to Xining Intermediate People's Court of Qinghai Province. The second lawsuit was heard on 3 August 2021. On 16 November 2021, Qinghai Shengyuan Pasture received the Administrative Judgement ([2021] Qing 01 Xingchu No. 27) issued by the Xining City Intermediate People's Court of Qinghai Province. The following judgement is made: (1) to revoke the Reply Letter from the People's Government of Huangyuan County on the Closing and Relocation of Qinghai Shengyuan Pasture Co., Ltd. issued by the defendant, the People's Government of Huangyuan County of Xining City, on 30 November 2020; (2) to order the defendant, the People's Government of Huangyuan County of Xining City, to make a new decision on compensation for the plaintiff, Qinghai Shengyuan Pasture Co., Ltd., within 60 days from the date on which the judgement takes effect. Qinghai Shengyuan Pasture was not satisfied with the Administrative Judgement ([2021] Qing 01 Xingchu No. 27) by the Xining City Intermediate People's Court of Qinghai Province. On 2 December 2021, Qinghai Shengyuan Pasture submitted an administrative appeal to the Higher People's Court of Qinghai Province. The Higher People's Court of Qinghai Province issued the Administrative Judgement ([2021] Qingxingzhong No. 110) on 25 February 2022. The main points of view of the Higher People's Court of Qinghai Province as set out in the "Opinions of our Court" section of the judgement are as follows: based on the above, the court of first instance, the Xining City Intermediate People's Court, found the fact clearly and applied the law properly, which should be upheld in accordance with the law. The appeal filed by the appellant, Qinghai Shengyuan Pasture, cannot be established. Based on the above points of view, the Higher People's Court of Qinghai Province made the following judgement in accordance with the requirements of Article 89 (1) (1) of the Administrative Procedure Law of the People's Republic of China: the appeal was dismissed and the original judgement was upheld.

(IV) Other important matters

Mr. Ma Hongfu, a shareholder of the Company pledged 30,000,000 of his shares of the Company to Gansu Jinkong Investment Co. Ltd. (甘肅金控投資有限公司) for the purpose of third party financing guarantee. The guarantee started on 2 March 2021 and will end on 2 March 2023.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Accounts receivable

1. Category of accounts receivable

Category	Closing balance			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with provision for bad and doubtful debts on an individual basis				
Accounts receivable with provision for bad and doubtful debts on a group basis	24,597	100.00	6	0.02
Of which: Aging portfolio	24,597	100.00	6	0.02
Total	24,597	100.00	6	0.02

(continued)

Item	Opening balance			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with provision for bad and doubtful debts on an individual basis				
Accounts receivable with provision for bad and doubtful debts on a group basis	15,184	100.00	87	0.57
Of which: Aging portfolio	15,184	100.00	87	0.57
Total	15,184	100.00	87	0.57

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

(1) Accounts receivable with provision for bad and doubtful debts on a group basis

Aging	Closing balance			Opening balance		
	Balance of carrying value	Expected credit loss rate (%)	Provision for bad and doubtful debts	Balance of carrying value	Expected credit loss rate (%)	Provision for bad and doubtful debts
Within 1 year	24,569			15,174		85
Of which: 0-6 months	24,565			13,470		
7-12 months	4	5.00		1,703	5.00	85
Over 1 year but within 2 years	28	20.00	6	10	20.00	2
Over 2 years but within 3 years	–	50.00			50.00	
Over 3 years	–	100.00			100.00	
Total	24,597	–	6	15,184	–	87

2. Provision for bad and doubtful debts made, recovered or reversed in the current period

The amount of provision for bad and doubtful debts reversed in the current period was RMB81,564.66.



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Accounts receivable (Continued)

3. Accounts receivable with top five closing balance by debtor

Name of entity	Closing balance	Percentage of total accounts receivable (%)	Balance of provision for bad and doubtful debts
Entity 1	4,760	19.35	
Entity 2	3,703	15.06	
Entity 3	3,342	13.59	
Entity 4	2,901	11.80	
Entity 5	1,048	4.26	
Total	15,754	64.06	

(II) Other receivables

Category	Closing balance	Opening balance
Other receivables	556,283	495,553
Less: Provision for bad and doubtful debts	596	527
Total	555,687	495,026



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(1) Category of other receivables by nature

Nature of accounts	Closing balance	Opening balance
Deposit and earnest money	197	244
Reserve funds for employees	991	1,641
Current accounts from related parties	553,848	477,653
Performance compensation		14,106
Current accounts and others	1,248	1,909
Subtotal	556,283	495,553
Less: Provision for bad and doubtful debts	596	527
Total	555,687	495,026

(2) Aging analysis of other receivables

Aging	Closing balance		Opening balance	
	Balance of carrying value	Percentage (%)	Balance of carrying value	Percentage (%)
Within 1 year	555,687	99.89	494,952	99.88
Over 2 years but within 3 years			148	0.03
Over 3 years	596	0.11	453	0.09
Total	556,283	100.00	495,553	100.00



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(3) Provision for bad and doubtful debts

	Stage 1 Expected credit losses over the next 12 months	Stage 2 Lifetime ECL (no credit impairment occurred)	Stage 3 Lifetime ECL (credit impairment occurred)	Total
Opening balance		74	453	527
Opening balance reassessed in the current period		74	453	527
Provided in the current period			143	143
Reversed in the current period		74		74
Written-off in the current period				
Other changes				
Closing balance			596	596



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(4) Other receivables with top five closing balance by debtor

Name of debtor	Nature of accounts	Closing balance	Aging	Percentage of the total closing balance of other receivables (%)	Balance of provision for bad and doubtful debts
Linxia Ruiyuan Pasture Co., Ltd.	Current accounts	135,401	Within one year	24.34	
Wuwei Ruida Pasture Co., Ltd.	Current accounts	113,867	Within one year	20.47	
Qinghai Shengya Plateau Pasture Co., Ltd.	Current accounts	92,534	Within one year	16.63	
Yuzhong Ruifeng Pasture Co., Ltd.	Current accounts	77,619	Within one year	13.95	
Lanzhou Ruixing Pasture Co., Ltd.	Current accounts	57,657	Within one year	10.36	
Total	—	477,078	—	85.75	

(III) Long-term equity investment

Item	Balance of carrying value	Closing balance		Carrying value	Opening balance		Carrying value
		Provision for impairment			Balance of carrying value	Provision for impairment	
Investment in subsidiaries	1,032,734	30,000	1,002,734	1,032,734	30,000	1,002,734	
Total	1,032,734	30,000	1,002,734	1,032,734	30,000	1,002,734	

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(III) Long-term equity investment (Continued)

1. Investment in subsidiaries

Invested Entity	Opening balance	Increase in the current period	Decrease in the current period	Closing balance	Provision	Impairment
					for impairment in the current period	provision Closing balance
Qinghai Qinghai Lake Dairy Co., Ltd.	53,014			53,014		
Qinghai Shengya Plateau Pasture Co., Ltd.	30,000			30,000		30,000
Qinghai Shengyuan Pasture Co., Ltd.	30,000			30,000		
Linxia Ruiyuan Pasture Co., Ltd.	30,000			30,000		
Yuzhong Ruifeng Pasture Co., Ltd.	20,000			20,000		
Linxia County Rui'an Pasture Co., Ltd.	20,000			20,000		
Wuwei Ruida Pasture Co., Ltd.	20,000			20,000		
Ningxia Zhuangyuan Pasture Co., Ltd.	20,000			20,000		
Lanzhou Ruixing Animal Husbandry Co., Ltd.	10,000			10,000		
Xi'an Dongfang Dairy Co., Ltd.	290,775			290,775		
Gansu Ruijia Animal Husbandry Co., Ltd.	508,945			508,945		
Total	1,032,734			1,032,734		30,000



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(IV) Operating income and operation cost

1. Operating income and operation cost by main category

Item	Incurred during this period		Incurred in previous period	
	Income	Cost	Income	Cost
I. Subtotal of principal business	683,748	554,967	497,314	417,444
II. Subtotal of other business	6,378	5,939	900	749
Total	690,125	560,906	498,214	418,193



Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XVI. SUPPORTING INFORMATION

(I) Statement of non-recurring profit or loss of the current period

Item	Amount	Remark
1. Profit or loss from disposal of non-current assets, including the write-off portion for which provision for impairment of assets is made	(10,250)	Mainly represents the disposal of fixed assets
2. Tax rebates and deductions exceeding the approval, or without formal approval or incidentally incurred		
3. Government grants included in the current profit or loss, however, except for those which are closely related to the enterprise's business and are granted with specific quota or amount according to the national unified standards	13,421	Mainly represents the government grants received by the Company
4. Funds occupation fees included in the current profit or loss and charged from non-financial enterprises		
5. Profit or loss when the investment cost of the enterprise for the purpose of acquisition of the subsidiaries, associates and joint ventures is lower than the fair value of net identifiable assets of the invested entity as entitled at the time of receipt of the investment		
6. Profit or loss from exchange of non-monetary assets		
7. Profit or loss from investment or management of assets by the others		
8. Provision for asset impairment due to force majeure factors, such as natural disasters		
9. Profit or loss from debts restructuring		
10. Enterprise restructuring fees, such as the expenses for employees settlement and the integration fees		
11. Profit or loss exceeding the fair value and generated from the transaction of which the transaction price is obviously unfair		
12. Net profit or loss in the current period of the subsidiaries generated from business combination under the same control from the beginning of the year to the date of consolidation		
13. Profit or loss from contingent issues irrelevant to the Group's normal business		
14. Except for the efficient hedging related to the Company's normal business, profit or loss from changes in fair value as generated from financial assets held-for-trading and financial liabilities held-for-trading and profit or loss from investment arising from disposal of financial assets held-for-trading, other non-current financial assets and financial liabilities held-for-trading		
15. Reversals of provision for impairment of receivables that is tested separately for impairment		
16. Profit or loss from entrusted loans		
17. Profit or loss from changes in fair value of the investment property that is subsequently measured by adopting the fair value mode		
18. Impacts on the current profit or loss by the one-time adjustments to profit or loss over the current period under the tax, accounting and other laws and regulations		
19. Trusteeship fees income from entrusted operation		
20. Other non-operating income and expenses other than the aforesaid items	(267)	Mainly represents the donation expenses
21. Other profit or loss items as defined by the non-recurring profit or loss		
22. Amount of impact on income tax	149	
23. Amount of impact on minority shareholders		
Total	3,053	

Note: As for the figures in the non-recurring profit or loss column, "+" represents the gains and income, "-" represents the loss or expense.

The Company recognizes non-recurring profit or loss items according to the Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public-Non-recurring Gains and Losses (ZJHGG 2008 No. 43).

Notes to the Financial Statements (Continued)

(Amounts expressed in thousands of Renminbi Yuan herein unless otherwise stated)

XVI. SUPPORTING INFORMATION (Continued)

(II) Rate of return on net assets and earnings per share

Profit during the report period	Rate of return on weighted average net assets (%)		Earnings per share (RMB)			
	The current year	The previous year	Basic earnings per share		Diluted earnings per Share	
			The current year	The previous year	The current year	The previous year
Net profit attributable to the Company's ordinary shareholders	3.31	0.85	0.23	0.05	0.23	0.05
Net profit attributable to the ordinary shareholders of the Company after a deduction of non- recurring profit or loss	3.12	0.26	0.22	0.02	0.22	0.02

Financial Summary

Financial summary of audited financial statements of the Group for the respective years are set out below.

	Years ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Operating income	1,021,432	739,821	813,554	657,732	628,374
Profit for the year	53,533	10,453	51,321	63,533	68,352
Attributable to equity shareholders of the Company	53,533	10,453	51,321	63,533	68,352
Earnings per share (RMB) ⁽¹⁾	0.23	0.05	0.27	0.34	0.46
Proposed dividend per share (RMB)	4.70 cents	2.00 cents	5.50 cents	6.80 cents	7.30 cents
Total assets	2,810,380	3,080,558	2,492,727	2,048,109	1,803,718
Total liabilities	1,169,687	1,488,724	1,267,320	863,702	676,053
Total equity attributable to equity shareholders of the Company	1,640,693	1,591,834	1,225,407	1,184,407	1,127,665

(1) Please refer to Note XVI on page 241 for calculation of earnings per share.

