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**優然牧業**  
YOURAN DAIRY

**China Youran Dairy Group Limited**

**中國優然牧業集團有限公司**

(A company incorporated in the Cayman Islands with limited liability)

(Stock Code: 9858)

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2022**

**HIGHLIGHTS**

	Year ended December 31,		Year-on-year change (%)
	2022 RMB'000	2021 RMB'000	
Revenue	<b>18,050,761</b>	15,346,167	17.6
Including: revenue from raw milk business	<b>10,853,917</b>	9,537,814	13.8
revenue from comprehensive ruminant farming solutions	<b>7,196,844</b>	5,808,353	23.9
Gross profit	<b>4,223,722</b>	4,694,479	(10.0)
Profit attributable to owners of the Company	<b>414,771</b>	1,558,016	(73.4)
Net asset value per share (RMB) <i>Note 1</i>	<b>3.44</b>	3.47	(0.9)
Non-IFRSs measure:			
Adjusted profit attributable to owners of the Company <i>Note 2</i>	<b>889,338</b>	2,040,400	(56.4)
Cash EBITDA <i>Note 3</i>	<b>3,591,036</b>	3,667,183	(2.1)
Profit for the year (before biological assets fair value adjustments) <i>Note 4</i>	<b>2,023,102</b>	2,428,656	(16.7)
	<b>Heads</b>	<b>Heads</b>	
Herd size of dairy cows	<b>499,451</b>	416,196	20.0
Including: Milkable cows	<b>231,709</b>	204,545	13.3
Calves and heifers	<b>267,742</b>	211,651	26.5
Proportion of milkable cows in the herd size of dairy cows <i>Note 5</i>	<b>46.4%</b>	49.1%	decreased by 2.7 percentage points

The Board proposed to pay a final dividend for the year ended December 31, 2022 at RMB0.022 per Share (including tax) to the Shareholders (2021: Nil). Subject to Shareholders' approval at the AGM, the dividend is expected to be paid on or before June 15, 2023.

- 1 It is calculated by dividing equity attributable to owners of the Company at the end of the period by the number of issued ordinary Shares of the Company at the end of the Reporting Period and the period of 2021.
- 2 Adjusted profit attributable to owners of the Company represents profit, adding back (i) the difference between the fair value loss on convertible notes and the interest calculated at 4% of the nominal interest rate (being nil during the Reporting Period and RMB104 million in the period of 2021); and (ii) the difference between the interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate (being RMB524 million during the Reporting Period and RMB292 million in the period of 2021); (iii) listing expenses (being nil during the Reporting Period and RMB18 million in the period of 2021); and (iv) loss on arbitration regarding the adjustments made to the consideration for the acquisition of SKX (being nil during the Reporting Period and RMB69 million in the period of 2021). (Items (i), (iii) and (iv) were not applicable during the Reporting Period), and deducting the reversal of loss on arbitration regarding the adjustments made to the consideration for the acquisition of SKX (being RMB49 million during the Reporting Period and nil in the period of 2021).
- 3 It represents profit for the year excluding finance costs, interest income, income tax expense, depreciation and amortisation, loss/gain arising from changes in fair value less costs to sell of biological assets, other gains and losses, impairment loss under expected credit loss model, net of reversals and effect of Listing expenses.
- 4 It represents profit for the year excluding loss/gain arising from changes in fair value less costs to sell of biological assets.
- 5 Reproduction in self-operated dairy farms and import of quality heifers in new dairy farms lead to the decrease in the proportion of milkable cows in the herd size of dairy cows.

Shareholders and potential investors of the Company should note that the adjusted profit attributable to owners of the Company is not a measure required by or presented in accordance with the IFRSs.

The Board of the Company is pleased to announce the audited consolidated results of the Group for the Reporting Period.

In this announcement, “we”, “us”, and “our” refer to the Company (as defined above) and where the context otherwise requires, the Group.

## FINANCIAL INFORMATION

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2022

	<i>NOTES</i>	<b>Year ended 31/12/2022 RMB'000</b>	Year ended 31/12/2021 RMB'000
Revenue	<i>5</i>	<b>18,050,761</b>	15,346,167
Cost of sales	<i>6</i>	<b>(16,958,848)</b>	(14,333,273)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		<b>3,131,809</b>	3,681,585
Gross profit		<b>4,223,722</b>	4,694,479
Loss arising from changes in fair value less costs to sell of biological assets		<b>(1,617,116)</b>	(407,440)
Other income	<i>7</i>	<b>362,890</b>	151,974
Impairment loss under expected credit loss model, net of reversal	<i>8</i>	<b>(32,739)</b>	(12,438)
Other gains and losses	<i>9</i>	<b>47,999</b>	(52,618)
Fair value loss on convertible notes		–	(132,910)
Selling and distribution expenses		<b>(590,016)</b>	(556,699)
Administrative expenses		<b>(721,535)</b>	(835,399)
Other expenses		<b>(64,923)</b>	(3,348)
Listing expenses		–	(17,848)
Share of losses of associates		<b>(35,531)</b>	–
Share of profit of a joint venture		<b>4</b>	23
Finance costs	<i>10</i>	<b>(1,097,485)</b>	(732,443)
Profit before tax		<b>475,270</b>	2,095,333
Income tax expense	<i>11</i>	<b>(69,284)</b>	(74,117)
Profit for the year		<b>405,986</b>	2,021,216

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)**

FOR THE YEAR ENDED DECEMBER 31, 2022

	<i>NOTES</i>	Year ended 31/12/2022 <i>RMB'000</i>	Year ended 31/12/2021 <i>RMB'000</i>
<b>Other comprehensive (expense)/income, net of income tax</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Fair value loss on investments in equity instruments at fair value through other comprehensive expense		(6,873)	(12,928)
Exchange differences arising on translation from functional currency to presentation currency		<u>1,338,548</u>	<u>(352,491)</u>
		<u>1,331,675</u>	<u>(365,419)</u>
<b>Item that may be reclassified subsequently to profit or loss:</b>			
Exchange differences arising on translation of foreign operations		<u>(1,586,925)</u>	<u>436,402</u>
Other comprehensive (expense)/income for the year, net of income tax		<u>(255,250)</u>	<u>70,983</u>
Total comprehensive income for the year		<u><u>150,736</u></u>	<u><u>2,092,199</u></u>
Profit/(loss) for the year attributable to:			
Owners of the Company		414,771	1,558,016
Non-controlling interests		<u>(8,785)</u>	<u>463,200</u>
		<u><u>405,986</u></u>	<u><u>2,021,216</u></u>
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		162,353	1,634,521
Non-controlling interests		<u>(11,617)</u>	<u>457,678</u>
		<u><u>150,736</u></u>	<u><u>2,092,199</u></u>
		<i>RMB</i>	<i>RMB</i>
Earnings per share			
Basic	13	0.11	0.44
Diluted		<u>0.11</u>	<u>0.44</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT DECEMBER 31, 2022**

	<i>NOTES</i>	<b>31/12/2022</b> <b>RMB'000</b>	31/12/2021 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>12,965,610</b>	10,131,630
Investment properties		<b>23,815</b>	25,744
Right-of-use assets		<b>2,455,583</b>	2,186,585
Goodwill		<b>792,980</b>	792,980
Intangible assets		<b>23,163</b>	4,278
Biological assets		<b>13,221,418</b>	10,408,379
Deferred tax assets		<b>24,345</b>	17,751
Interest in a joint venture		<b>4,758</b>	496
Interests in associates		<b>1,156,647</b>	–
Equity instruments at fair value through other comprehensive income		<b>28,066</b>	24,812
Pledged and restricted bank deposits		<b>11,667</b>	10,250
Deposits paid for purchase of property, plant and equipment		<b>708,316</b>	467,916
Deposits paid for purchase of biological assets		<b>459,138</b>	423,020
Deposits paid for right-of-use assets		<b>1,601</b>	13,635
		<b>31,877,107</b>	24,507,476
<b>Current assets</b>			
Inventories	<i>15</i>	<b>4,692,784</b>	3,326,130
Trade receivables	<i>16</i>	<b>1,312,099</b>	1,189,240
Bills receivable		–	13,828
Contract assets		<b>7,116</b>	8,354
Biological assets		<b>8,490</b>	7,701
Prepayments, deposits and other receivables	<i>17</i>	<b>858,465</b>	467,554
Financial assets at fair value through profit or loss		<b>1,919,338</b>	–
Amounts due from related parties		<b>917,568</b>	780,392
Pledged and restricted bank deposits		<b>401,097</b>	33,544
Bank balances and cash		<b>936,358</b>	1,015,261
Deposits placed with a related party		<b>515,895</b>	612,159
		<b>11,569,210</b>	7,454,163
<b>Current liabilities</b>			
Trade and bills payables	<i>18</i>	<b>2,688,578</b>	1,878,597
Other payables and accruals	<i>19</i>	<b>1,893,511</b>	1,397,550
Contract liabilities		<b>41,895</b>	41,090
Amounts due to related parties		<b>47,338</b>	1,883
Bank and other borrowings		<b>13,827,675</b>	5,412,175
Lease liabilities		<b>131,604</b>	51,009
Other liabilities		<b>6,942</b>	6,593
Other provisions		<b>19,807</b>	82,056
Convertible notes		<b>1,206,200</b>	2,407,292
Income tax payable		<b>32,734</b>	29,741
		<b>19,896,284</b>	11,307,986

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AT DECEMBER 31, 2022**

	<i>NOTES</i>	<b>31/12/2022</b> <i>RMB'000</i>	31/12/2021 <i>RMB'000</i>
Net current liabilities		<u>(8,327,074)</u>	<u>(3,853,823)</u>
Total assets less current liabilities		<u>23,550,033</u>	<u>20,653,653</u>
<b>Non-current liabilities</b>			
Bank and other borrowings		6,731,381	4,043,939
Deferred tax liabilities		6,192	6,434
Deferred income		619,510	434,053
Lease liabilities		1,425,387	1,266,390
Other liabilities		7,310	14,252
Other provisions		<u>9,124</u>	<u>8,674</u>
		<u>8,798,904</u>	<u>5,773,742</u>
<b>Net assets</b>		<u><b>14,751,129</b></u>	<u><b>14,879,911</b></u>
<b>Capital and reserves</b>			
Share capital		251	251
Reserves		<u>13,063,495</u>	<u>13,180,660</u>
Equity attributable to owners of the Company		<u>13,063,746</u>	<u>13,180,911</u>
Non-controlling interests		<u>1,687,383</u>	<u>1,699,000</u>
<b>Total equity</b>		<u><b>14,751,129</b></u>	<u><b>14,879,911</b></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2022

### 1. GENERAL INFORMATION

China Youran Dairy Group Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since June 18, 2021. The address of the Company’s registered office is 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands. The principal place of business of the Company is No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, the PRC.

The Company and its subsidiaries (together, the “**Group**”) is primarily engaged in the production and sale of raw milk, and the trading, production and sale of feeds, ruminant farming products and breeding products in the PRC.

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is different from the Company’s functional currency of United States dollars (“**USD**”). The directors of the Company adopted RMB as presentation currency because the Group primarily conducts its business in the PRC.

### 2. APPLICATION OF AMENDMENTS TO IFRSs

#### **Amendments to IFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied the following amendments to IFRSs for the first time, which are mandatorily effective for the annual period beginning on January 1, 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to International Accounting Standards (“ <b>IAS</b> ”) 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2018-2020</i>

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### ***Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use***

The Group has applied the amendments for the first time in the current year. The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with IAS 2 *Inventories*.

In accordance with the transitional provisions, the Group has applied the new accounting policy retrospectively to property, plant and equipment made available for use on or after the beginning of January 1, 2021. The application of the amendments has had no material impact on the Group’s financial positions and performance.

## 2. APPLICATION OF AMENDMENTS TO IFRSs (CONTINUED)

### *New and amendments to IFRSs in issue but not yet effective*

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	<i>Insurance Contracts<sup>1</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>2</sup></i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback<sup>3</sup></i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current<sup>3</sup></i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants<sup>3</sup></i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies<sup>1</sup></i>
Amendments to IAS 8	<i>Definition of Accounting Estimates<sup>1</sup></i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2023.

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>3</sup> Effective for annual periods beginning on or January 1, 2024.

The directors of the Company anticipate that the application of the above new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with IFRSs. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.



### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### Going concern assessment

As at December 31, 2022, the Group had net current liabilities of RMB8,327 million. The consolidated financial statements have been prepared on a going concern basis, because the directors of the Company are of the opinion that, based on a cash flow forecast of the Group for the 12 months ending December 31, 2023 prepared by the management, the Group would have adequate funds to meet its liabilities as and when they fall due for at least 12 months from December 31, 2022. Based on the forecast, the sufficiency of the Group's working capital for the next 12 months depends on the Group's ability to obtain the anticipated cash flows from the Group's operating activities, the available unutilised banking facilities obtained and the successful renewal of certain banking facilities amounting to approximately RMB6.3 billion in 2023.

The consolidated financial statements has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values and biological assets at fair value less costs to sell, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36 *Impairment of Assets*.

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

##### ***Fair value measurements of biological assets – milkable cows***

The Group's biological assets are measured at fair value less costs to sell at the end of the reporting period. The Group uses valuation techniques that include inputs that are not based on market observable data to estimate the fair value of biological assets. For milkable cows, the fair value is determined by using the multi-period excess earnings method which is based on the discounted future cash flows to be generated by such milkable cows. The management's estimation is primarily based on the discount rate, the estimated future market price of raw milk, the estimated average daily milk yield and the estimated feed costs per kilogram of raw milk. Any changes in the inputs may affect the fair value of the Group's biological assets – milkable cows significantly. The carrying amount of the Group's milkable cows as at December 31, 2022 was RMB7,204,357,000 (2021: RMB6,660,982,000).

##### ***Estimated impairment of property, plant and equipment and right-of-use assets***

The carrying amounts of property, plant and equipment and right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policies. The recoverable amounts of these assets are the higher of the fair value less costs of disposal and value in use, the calculations of which involve the use of estimates. Any change in these estimates may have a material impact on the results of the Group.

As at December 31, 2022, the carrying amounts of property, plant and equipment and right-of-use assets of the Group were RMB12,965,610,000 (2021: RMB10,131,630,000) and RMB2,455,583,000 (2021: RMB2,186,585,000).

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

##### ***Provision of expected credit loss (ECL) for trade receivables***

Trade receivables with significant balances or credit-impaired are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on the trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors that have similar loss patterns taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 16.

##### ***Estimated impairment of goodwill***

Determining whether goodwill is impaired requires a significant degree of estimates made by the management in determining the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of fair value less costs of disposal and value in use. The recoverable amount has been determined by a value in use calculation of the relevant cash-generating units, to which goodwill has been allocated, primarily based on the cash flow projections and a discount rate. The key assumptions and inputs used in cash flow projections including selling price, volume of sales, gross profit margin, growth rate and discount rate. The value in use requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or changes in facts and circumstances which result in downward revision of future estimated cash flows, a material impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to volatility in financial markets, including potential disruptions of the Group's raw milk and other businesses.

As at December 31, 2022, the carrying amount of goodwill was RMB792,980,000 (2021: RMB792,980,000).

##### ***Estimated impairment of interests in associates***

As at December 31, 2022, in view of impairment indicators, the Group performed impairment assessment on its interests in associates. Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associate which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate its share of the present value of the estimated future cash flows expected to be generated by the associate and the proceeds from the ultimate disposal of the investment taking into consideration assumptions including gross profit margin, discount rate and growth rate. Where the actual cash flows are less than expected, or change in facts and circumstances which result in revision of future cash flows estimation or discount rate, an impairment may arise, which would be recognised in profit or loss for the period in which such a change takes place.

As at December 31, 2022, the carrying amount of the interests in associates amounted to RMB1,156,647,000 (2021: Nil).

## 5. REVENUE AND SEGMENT INFORMATION

### (i) Disaggregation of revenue from contracts with customers

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Types of goods:		
Sales of raw milk	10,853,917	9,537,814
Sales of feeds	6,576,398	5,328,139
Sales of ruminant farming products	468,644	411,453
Sales of breeding products	151,802	68,761
	<u>18,050,761</u>	<u>15,346,167</u>
Timing of revenue recognition:		
A point in time	<u>18,050,761</u>	<u>15,346,167</u>

### (ii) Performance obligations for contracts with customers

The Group sells raw milk, feeds, ruminant farming products and breeding products directly to its customers. Revenue is recognised when control of the goods has transferred, being at the point the customer received and accepted the goods.

For the sale of raw milk, payments are generally due in two weeks after delivery. The credit term for the sale of feeds, ruminant farming products, and breeding products is normally one to three months for certain large customers and customers having long business relationship with the Group. The Group requests advance payments for certain new customers and such advance payments are recorded as contract liabilities until the control of the goods is transferred to the customers.

### (iii) Transaction price allocated to the remaining performance obligation for contracts with customers

Most of the sale contracts are for periods of one year or less. As permitted by IFRS 15, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

Information regarding segments is reported below.

Segment information has been identified on the basis of internal management reports, which are regularly reviewed by senior management, which composed of executive directors of the Company and top management (being chief operating decision maker (the “CODM”)), in order to allocate resources to operating segments and to assess their performance focuses on types of products delivered. Specifically, the Group’s reportable segments under IFRS 8 Operating Segments are as follows:

- Raw milk business – raising and breeding dairy cows, and raw milk production
- Comprehensive ruminant farming solutions – trading, production and sales of feeds, ruminant farming products, and breeding products

## 5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

#### *For the year ended December 31, 2022*

	Raw milk business <i>RMB'000</i>	Comprehensive ruminant farming solutions <i>RMB'000</i>	Segment total <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue					
External customers	10,853,917	7,196,844	18,050,761	–	18,050,761
Inter-segment revenue	–	2,049,064	2,049,064	(2,049,064)	–
	<u>10,853,917</u>	<u>9,245,908</u>	<u>20,099,825</u>	<u>(2,049,064)</u>	<u>18,050,761</u>
Segment results	<u>2,712,863</u>	<u>414,232</u>	<u>3,127,095</u>		3,127,095
Loss arising from changes in fair value less costs to sell of biological assets					(1,617,116)
Share of profit of a joint venture					4
Share of losses of associates					(35,531)
Fair value gain on financial assets at FVTPL					19,338
Reversal of provision regarding the adjustments made to the consideration for acquisition of SKX					49,234
Unallocated other income and expenses					(145,508)
Unallocated finance costs					(922,246)
Profit before tax					<u>475,270</u>

#### *For the year ended December 31, 2021*

	Raw milk business <i>RMB'000</i>	Comprehensive ruminant farming solutions <i>RMB'000</i>	Segment total <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue					
External customers	9,537,814	5,808,353	15,346,167	–	15,346,167
Inter-segment revenue	–	1,769,977	1,769,977	(1,769,977)	–
	<u>9,537,814</u>	<u>7,578,330</u>	<u>17,116,144</u>	<u>(1,769,977)</u>	<u>15,346,167</u>
Segment results	<u>3,040,390</u>	<u>337,633</u>	<u>3,378,023</u>		3,378,023
Loss arising from changes in fair value less costs to sell of biological assets					(407,440)
Fair value loss on convertible notes					(132,910)
Share of profit of a joint venture					23
Unallocated other income and expenses					(146,472)
Unallocated finance costs					(595,891)
Profit before tax					<u>2,095,333</u>

## 5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results (Continued)

Segment results represent the profit before tax earned by each segment without allocation of central administration costs, corporate income and expenses, loss arising from changes in fair value less costs to sell of biological assets, fair value loss on convertible loans, fair value gain on financial assets at FVTPL, share of profit of a joint venture, share of losses of associates and certain finance costs that are not directly attributable to operating segments. This is the measure reported to the CODM for the purposes of resources allocation and assessment of segment performance.

Inter-segment revenue is charged at prices agreed between group entities, which are determined by reference to the prices offered to third party customers.

### Segment assets and liabilities

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

### Other segment information

	Raw milk business <i>RMB'000</i>	Comprehensive ruminant farming solutions <i>RMB'000</i>	Segment total <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<b>For the year ended December 31, 2022</b>					
<b>Amounts included in the measure of segment profit or loss:</b>					
Depreciation and amortisation charged to profit or loss	375,165	53,878	429,043	10,566	439,609
Impairment loss of trade and other receivables under expected credit loss model, net of reversal	(6,483)	39,222	32,739	–	32,739
Impairment loss of property, plant and equipment	3,522	–	3,522	–	3,522
Fair value losses on derivative financial instruments	27,413	–	27,413	–	27,413
Gains on termination of lease agreements	(673)	–	(673)	–	(673)
Reversal of provision regarding to a civil litigation	(4,247)	–	(4,247)	–	(4,247)
(Gain)/loss on disposal of property, plant and equipment	(1,179)	3,179	2,000	–	2,000
Interest income	(7,381)	(3,495)	(10,876)	(12,308)	(23,184)
Finance costs	121,705	53,534	175,239	922,246	1,097,485
<b>Amounts not included in the measure of segment profit or loss or segment assets</b>					
Additions to non-current assets ( <i>Note</i> )	9,570,432	178,137	9,748,569	–	9,748,569
Investments in associates	–	–	–	1,156,647	1,156,647
Investment in a joint venture	–	–	–	4,758	4,758
Share of losses of associates	–	–	–	35,531	35,531
Share of profit of a joint venture	–	–	–	(4)	(4)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Other segment information (Continued)

	Raw milk business <i>RMB'000</i>	Comprehensive ruminant farming solutions <i>RMB'000</i>	Segment total <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<b>For the year ended December 31, 2021</b>					
<b>Amounts included in the measure of segment profit or loss:</b>					
Depreciation and amortisation charged to profit or loss	317,538	46,846	364,384	12,915	377,299
Impairment loss of trade and other receivables under expected credit loss model, net of reversal	3,911	8,527	12,438	–	12,438
Loss on disposal of property, plant and equipment	6,033	1,625	7,658	–	7,658
Write-down of inventories	–	4,602	4,602	–	4,602
Interest income	(23,971)	(4,108)	(28,079)	(157)	(28,236)
Finance costs	120,128	16,424	136,552	595,891	732,443
<b>Amounts not included in the measure of segment profit or loss or segment assets</b>					
Additions to non-current assets ( <i>Note</i> )	8,590,494	156,787	8,747,281	143	8,747,424
Investment in a joint venture	–	–	–	496	496
Share of profit of a joint venture	–	–	–	(23)	(23)

*Note:* Non-current assets excluded goodwill, financial instruments, deferred tax assets, interests in associates, interest in a joint venture and non-current assets acquired through business combination.

### Geographic information

Since all revenue from external customers is derived from the customers located in Mainland China and all of the non-current assets are located in Mainland China, no geographic information is presented.

### Revenue from major customers

Revenue from the customer individually contributing over 10% of the total revenue of the Group is as follows:

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Customer A:		
Revenue from sales of raw milk	<b>10,485,086</b>	8,756,701
Revenue from sales of feeds	<b>119,506</b>	68,944
Revenue from ruminant farming products	<b>422</b>	7,261
Revenue from breeding products	<b>12,754</b>	5,871
	<b>10,617,768</b>	8,838,777

## 6. COST OF SALES

An analysis of cost of sales is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of raw milk sold before fair value adjustments	7,441,870	5,585,284
Raw milk fair value adjustments	<u>3,132,382</u>	<u>3,677,884</u>
Cost of raw milk sold after fair value adjustments	<u>10,574,252</u>	<u>9,263,168</u>
Cost of feeds sold before forage grass fair value adjustments	5,912,629	4,682,608
Forage grass fair value adjustments	<u>(573)</u>	<u>3,701</u>
Cost of feeds sold after fair value adjustments	<u>5,912,056</u>	<u>4,686,309</u>
Cost of ruminant farming products sold	394,853	352,916
Cost of breeding products	<u>77,687</u>	<u>30,880</u>
Total cost of sales	<u><u>16,958,848</u></u>	<u><u>14,333,273</u></u>

## 7. OTHER INCOME

An analysis of other income is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Government grants released from deferred income	145,875	58,228
Incentive subsidies ( <i>Note (i)</i> )	155,316	39,985
Rental income	9,612	6,027
Bank interest income	16,514	27,670
Interest income from Yili	6,670	566
Income from sale of scrap materials	10,816	7,581
Compensation income	1,938	2,349
Write-back of other payables	3,735	4,274
Others	<u>12,414</u>	<u>5,294</u>
	<u><u>362,890</u></u>	<u><u>151,974</u></u>

*Note:*

- (i) The amounts mainly represent subsidies granted by certain local governments for encouraging domestic business development and unconditional subsidies for the purpose of giving financial support to the Group's operations. There are no unfulfilled conditions or contingencies relating to the above subsidies.



## 8. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Impairment loss recognised/(reversed) on:		
Trade receivables	33,450	9,786
Other receivables	(711)	2,652
	<u>32,739</u>	<u>12,438</u>

## 9. OTHER GAINS AND LOSSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Foreign exchange differences, net	3,309	4,261
Loss on disposal of property, plant and equipment, net	(2,000)	(7,658)
Impairment loss on property, plant and equipment	(3,522)	–
Fair value (loss)/gain on derivative financial instruments ( <i>Note (i)</i> )	(27,413)	4,299
Fair value gain on financial assets at FVTPL	19,338	–
Gain on partial redemption of convertible notes	901	–
Gain on termination of lease agreements	673	1,857
Reversal of provision regarding to a civil litigation ( <i>Note (ii)</i> )	4,247	–
Reversal of/(provision) regarding the adjustments made to the consideration for acquisition of SKX ( <i>Note (iii)</i> )	49,234	(69,041)
Recovery of pre-acquisition doubtful debt of SKX	3,447	11,366
Others	(215)	2,298
	<u>47,999</u>	<u>(52,618)</u>

### Notes:

- (i) The fair value changes mainly represent gain/loss on commodity forward contracts entered as an economic hedge of the market price fluctuations on soybean meal. The Group did not have open positions at the respective year end.
- (ii) A provision of approximately RMB13 million was recognised from a civil litigation against the Group for alleged failure to supply products to a customer as at December 31, 2021. According to the final judgment on June 22, 2022, the Group reversed approximately RMB4 million of the above provision.
- (iii) A provision of approximately RMB69 million was recognised for arbitration regarding the adjustments made to the consideration for acquisition of SKX as at December 31, 2021. During the current year, the directors reviewed the latest circumstances and reversed approximately RMB49 million of the above provision to reflect the current best estimate.

## 10. FINANCE COSTS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest on:		
Bank and other borrowings	435,914	302,254
Other liabilities	907	1,239
Lease liabilities	68,542	56,218
Unwinding of the discount of other provisions	450	426
Convertible notes	628,269	382,551
	<u>1,134,082</u>	<u>742,688</u>
Less: Amounts capitalised to construction in progress	(36,597)	(10,245)
	<u><u>1,097,485</u></u>	<u><u>732,443</u></u>

Borrowing costs capitalised to qualifying assets were based on actual borrowing costs incurred for specific and general borrowings.

## 11. INCOME TAX EXPENSE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax:		
PRC Enterprise Income Tax (“EIT”)	80,320	82,395
Overprovision in prior periods:		
PRC EIT	(4,200)	(1,676)
Deferred tax	(6,836)	(6,602)
	<u><u>69,284</u></u>	<u><u>74,117</u></u>

The Company is incorporated as an exempted company and as such is not subject to Cayman Islands taxation.

No provision for taxation in Hong Kong has been made as the Group’s income neither arises in, nor is derived from Hong Kong (2021: Nil).

Pursuant to the prevailing tax rules and regulation in the PRC, certain subsidiaries of the Company are exempted from PRC EIT for taxable profit from the operation of agricultural business in the PRC. In addition, certain subsidiaries operating in the PRC, including Inner Mongolia Youran Dairy Co., Ltd., Inner Mongolia Muquan Yuanxing Feed Co., Ltd., Ningxia Yikangyuan Bio-Technology Co., Ltd., Wulanchabu Muquan Yuanxing Feed Co., Ltd. and Bayannur Muquan Yuanxing Feed Co., Ltd. are eligible for preferential tax rate of 15% under relevant preferential tax policy in relation to western development in the PRC. According to the preferential tax policy of Ningxia, the PRC, for promoting local investment (Ningzheng Fa [2012] No. 97), Ningxia Yikangyuan Bio-Technology Co., Ltd. is eligible for 20% EIT reduction from 2021 to 2023 on the basis of 15% tax rate. According to preferential tax policy of Heilongjiang, the PRC, for promoting local investment (Heizheng Han[2021] No.102), Duerbote Muquan Yuanxing Feed Co., Ltd. is eligible for 40% EIT reduction from 2022.

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, except for the preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group operating in the PRC are subject to EIT at the statutory rate of 25% (2021: 25%).

## 11. INCOME TAX EXPENSE (CONTINUED)

The income tax expense can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before tax	<u>475,270</u>	<u>2,095,333</u>
Tax at the statutory rate of 25% (2021: 25%)	118,818	523,833
Tax effect of expenses not deductible for tax purpose	5,166	2,700
Effect of PRC tax exemption granted to agricultural business	(188,582)	(561,100)
Preferential income tax rates applicable to PRC subsidiaries	(34,819)	(22,778)
Effect of tax exemption granted to the Company	169,457	134,984
Overprovision in respect of prior periods	(4,200)	(1,676)
Tax effect of additional deduction on certain research and development expenses	(5,438)	(1,850)
Share of profit of a joint venture	(1)	(6)
Share of losses of associates	8,883	–
Others	–	10
Income tax expense	<u>69,284</u>	<u>74,117</u>

## 12. PROFIT FOR THE YEAR

The Group's profit for the year is arrived at after charging:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Depreciation of:		
Property, plant and equipment	713,712	578,587
Investment properties	1,929	1,981
Right-of-use assets	165,494	121,362
Amortisation of intangible assets	<u>2,441</u>	<u>748</u>
Total depreciation and amortisation	883,576	702,678
Less: Capitalised in biological assets	(355,397)	(274,204)
Capitalised in construction in progress	(10,126)	(10,512)
Capitalised in inventories	<u>(78,444)</u>	<u>(40,663)</u>
Depreciation and amortisation charged directly to profit or loss	<u>439,609</u>	<u>377,299</u>
Lease payments not included in the measurement of lease liabilities	36,308	28,055
Less: Capitalised in biological assets	(14,053)	(12,658)
Capitalised in inventories	<u>(888)</u>	<u>(391)</u>
	<u>21,367</u>	<u>15,006</u>
Auditors' remuneration	<u>6,950</u>	<u>4,000</u>
Research and development costs recognised in profit or loss	58,691	48,310
Employee benefits expense (including directors' remuneration):		
Salaries and allowances	1,011,913	901,054
Retirement benefit scheme contributions	<u>115,306</u>	<u>87,010</u>
Total staff costs	1,127,219	988,064
Less: Capitalised in biological assets	<u>(395,988)</u>	<u>(282,078)</u>
	<u><u>731,231</u></u>	<u><u>705,986</u></u>

### 13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
Earnings for the purpose of basic earning per share	<b>414,771</b>	1,558,016
Effect of dilutive potential ordinary shares:		
Convertible notes	<u>N/A</u>	<u>N/A</u>
Earnings for the purpose of diluted earnings per share	<u><b>414,771</b></u>	<u>1,558,016</u>
	<b>2022</b> <b>'000</b>	2021 <i>'000</i>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>3,795,404</b>	3,566,951
Effect of dilutive potential ordinary shares:		
Convertible notes	<u>N/A</u>	<u>N/A</u>
	<u><b>3,795,404</b></u>	<u>3,566,951</u>

The computation of diluted earnings per share for the year ended December 31, 2022 and 2021 does not assume the conversion of the Company's outstanding convertible notes since their assumed conversion would result in an increase in earnings per share.

### 14. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2022 (2021: Nil).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2022 of RMB0.022 (2021: Nil) per ordinary share, in an aggregate amount of RMB83,499,000 (2021: Nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

### 15. INVENTORIES

	<b>31/12/2022</b> <b>RMB'000</b>	31/12/2021 <i>RMB'000</i>
Raw materials	<b>4,440,375</b>	3,160,837
Finished goods	<b>225,568</b>	142,086
Semi-finished goods	<b>8,391</b>	6,835
Breeding products	<u><b>18,450</b></u>	<u>16,372</u>
	<u><b>4,692,784</b></u>	<u>3,326,130</u>

## 16. TRADE RECEIVABLES

	<b>31/12/2022</b> <i>RMB'000</i>	31/12/2021 <i>RMB'000</i>
Trade receivables	<b>1,421,352</b>	1,265,196
Less: Allowance for credit losses	<b>(109,253)</b>	(75,956)
	<b><u>1,312,099</u></b>	<b><u>1,189,240</u></b>

The following is the aged analysis of trade receivables, net of allowance for credit losses, presented based on the dates of delivery of goods:

	<b>31/12/2022</b> <i>RMB'000</i>	31/12/2021 <i>RMB'000</i>
Within 90 days	<b>1,093,213</b>	953,182
90 days to 180 days	<b>155,196</b>	189,470
181 days to 1 year	<b>63,690</b>	43,532
Over 1 year	<b>–</b>	3,056
	<b><u>1,312,099</u></b>	<b><u>1,189,240</u></b>

The following is the past due analysis of the carrying amount of trade receivables:

	<b>31/12/2022</b> <i>RMB'000</i>	31/12/2021 <i>RMB'000</i>
Not yet past due	<b>994,772</b>	866,296
Past due less than 30 days	<b>118,809</b>	127,873
Past due more than 30 days but less than 90 days	<b>127,386</b>	136,288
Past due more than 90 days	<b>71,132</b>	58,783
	<b><u>1,312,099</u></b>	<b><u>1,189,240</u></b>

The above trade receivables which have been past due more than 90 days are not considered as in default because these trade receivables relate to a number of independent customers for whom there was no recent history of default and they have a good track record with the Group.

For trade receivables with significant balances or credit-impaired, management will assess the corresponding expected credit loss individually. In addition, the Group uses practical expedient in estimating ECL on the trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors by groupings of customers with similar loss patterns (i.e., by product type and customer type) taking into consideration the Group's historical default rates and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

**17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>31/12/2022</b> <b>RMB'000</b>	31/12/2021 <i>RMB'000</i>
Prepayments	<b>695,531</b>	390,454
Value-added tax recoverable	<b>20,416</b>	6,534
Deposits placed with brokers for commodity forward contracts	<b>18,429</b>	41,800
Rental receivables	<b>8,333</b>	4,104
Utility and other deposits	<b>47,120</b>	16,275
Compensation receivable	<b>37,083</b>	1,727
Advances to staff	<b>1,308</b>	1,137
Government grants receivables	<b>27,338</b>	–
Other receivables	<b>8,566</b>	11,904
	<b>864,124</b>	473,935
Less: Allowance for credit losses	<b>(5,659)</b>	(6,381)
	<b>858,465</b>	467,554

**18. TRADE AND BILLS PAYABLES**

	<b>31/12/2022</b> <b>RMB'000</b>	31/12/2021 <i>RMB'000</i>
Trade payables	<b>2,479,966</b>	1,717,402
Bills payables	<b>208,612</b>	161,195
	<b>2,688,578</b>	1,878,597

The following is an aged analysis of trade payables presented based on delivery dates.

	<b>31/12/2022</b> <b>RMB'000</b>	31/12/2021 <i>RMB'000</i>
Within 1 year	<b>2,401,247</b>	1,620,254
1 to 2 years	<b>47,475</b>	57,904
2 to 3 years	<b>8,052</b>	14,675
More than 3 years	<b>23,192</b>	24,569
	<b>2,479,966</b>	1,717,402

The maturity period of bills payables are normally within 1 year based on the invoice dates.

## 19. OTHER PAYABLES AND ACCRUALS

	<b>31/12/2022</b>	31/12/2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Payables for purchase of property, plant and equipment	<b>1,196,639</b>	828,935
Salaries and welfare payables	<b>259,919</b>	220,291
Deposits received from suppliers	<b>177,377</b>	130,233
Service and professional fee payables	<b>86,559</b>	71,933
Freight charges payables	<b>80,401</b>	56,051
Storage fee payables	<b>18,681</b>	12,817
Non-income tax related tax payables	<b>16,766</b>	16,609
Sundry payables and accrued expenses	<b>55,358</b>	52,279
Accrued listing expenses	<b>1,811</b>	1,453
Accrued issue costs	–	6,949
	<hr/>	<hr/>
	<b>1,893,511</b>	1,397,550
	<hr/> <hr/>	<hr/> <hr/>

## 20. EVENTS AFTER THE REPORTING PERIOD

As disclosed in Note 14, subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2022 of RMB0.022 per ordinary share, in an aggregate amount of RMB83,499,000, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.



## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY REVIEW

During the Reporting Period, despite the on-going impact of the spread of COVID-19 pandemic, the fragile recovery of the global economy, the outstanding challenges of climate change and complicated geopolitics, China's economy maintained strong resilience. The gross domestic product (GDP) increased by 3.0% at constant prices during the Reporting Period as compared with that in the period of 2021, according to the data from the National Bureau of Statistics of China ("NBS"). The per capita disposable income of national residents grew by 5.0% as compared with that in the period of 2021, with a real growth rate of 2.9% regardless of price factors.

With respect to the dairy industry, by virtue of the introduction of "Dairy Industry Vitalization", "Healthy China" and other national strategies and decisions, the strategic position of the dairy industry is continuously raised, and the industry is steadily revitalizing, upgrading and transforming, with the integrated development paradigm of the entire industry chain being formed. The consumption of dairy products is characterized by rigid demand. In addition, China still lags a long way behind other major dairy consumption countries in per capita consumption of dairy products, presenting a promising consumption market for dairy products. Driven by the downstream demand, the scale of dairy farming is steadily increasing in China. According to the data from NBS, China's milk production reached 39.32 million tons during the Reporting Period, up by 6.8% from that in the period of 2021. During the Reporting Period, the average price of raw milk in major provinces where China's dairy industry was concentrated decreased to RMB4.16/kg, according to data from the Ministry of Agriculture and Rural Affairs.

With respect to the dairy farming industry, as affected by factors like tighter national land policies and more stringent environmental requirements, the barriers of the dairy farming industry continue to be heightened, and its concentration is further increased, promoting the large-scale development of dairy farming industry. Large-scale farming has promoted the improvement of Chinese dairy farming level, which has led to an increase in the unit production of dairy cows and the quality of raw milk, and a steady increase in the recognition of domestic dairy products by consumers. According to customs statistics, all kinds of dairy products imported to China during the Reporting Period were equivalent to 19.17 million tons of raw milk, representing a decrease of 14.9% from the period of 2021, for which dry dairy products were calculated at a rate of 1:8 and liquid dairy products at a rate of 1:1. In addition, the cost of bulk raw materials and forage grass take a relatively high proportion in the cost of dairy farming. During the Reporting Period, the rising prices of some bulk raw materials and forage grass led to the reduction of the profit margin of dairy farming industry. The Chinese government has issued a series of favourable policies to support the development of the dairy farming industry in China, such as the "Opinions on Promoting the Revitalization of the Dairy Industry to Ensure the Quality and Safety of Dairy Products". Many major provinces where China's dairy industry is concentrated successively issued policies to support the animal husbandry industry and increased the amount of subsidies such as subsidies for the construction of large-scale dairy farms and subsidies related to inclusive policies etc. With the demand for optimized technology, economy and effect in the large-scale dairy farming industry, intelligent, digital and large-scale dairy farming technology groups with forage grass supporting herds will usher in more development opportunities.

With respect to ruminant concentrated feed and forage grass, driven by the continuously steady growth of the demand for quality animal protein such as beef, mutton and milk, the continuous expansion of China's herd farming size of dairy cows, the constant improvement in the scale and level of farming, the increasing demand for high-quality feed and forage grass and the tight supply of imported forage grass, China's ruminant concentrated feed and forage grass market has been further expanded. Besides, the Chinese government has issued a series of policies to support the accelerated construction of modern forage industry and promote the high-quality development of herbivorous animal husbandry. For example, the Ministry of Agriculture and Rural Affairs of the PRC issued the "14th Five-Year Plan for the Development of National Forage Industry". During the Reporting Period, some provinces and cities in China also issued policies on subsidies for the construction of alfalfa hay bases. With more stringent requirements for the quality of feed and forage grass and technical services, feed manufacturers with strong research & development ("R&D") strength and technical service capability and forage grass plantation enterprises with quality forage grasses selection and breeding technology will be gradually at an advantage.

With respect to the breeding business, quality breeds are guaranteed to be the source and mainstay of the industry chain of the animal husbandry industry. With the increase of large-scale dairy farms, there is a strong demand for high-quality breeding products in China. According to customs statistics, during the Reporting Period, China imported 12.34 million straws of frozen bovine semen, with the value of imports amounting to US\$89 million, representing an increase of 18% over the period of 2021. The continuous innovation and popularization of technology has brought a major breakthrough for China's breeding techniques and methods. The domestic dairy cow embryos business has entered into the stage of large-scale production and commercial application. In addition, the Chinese government has promulgated a series of policies to support the improvement of independent breeding capabilities. For example, the "Opinions of the CPC Central Committee and the State Council on Doing a Good Job in the Key Work of Comprehensively Promoting Rural Revitalization in 2023" issued by the State Council of China advocates the in-depth implementation of the breeding revitalization action. Some provinces and cities in China have also issued policies such as subsidies for purchasing fine breeds and subsidies for the cultivation of high-quality dairy cows with sex-sorting embryos to actively guide the technological upgrading of future breeding business. Contributing to national seed security and the strong domestic demand has brought new opportunities for the development of enterprises possessing advanced independent herd genetic improvement and sex-sorting technologies.

## **BUSINESS REVIEW**

The Group is a leader in China's upstream dairy market and is the largest provider of comprehensive products and services along the upstream dairy industry chain in China in terms of revenue, with business covering the entire upstream dairy industry chain from breeding, feed to raw milk production. The Group provides premium raw milk and specialty raw milk to large-scale dairy manufacturers and offers comprehensive ruminant farming solutions to dairy farms through the business segments of raw milk and comprehensive ruminant farming solutions. The Group's revenue was RMB18,051 million for the Reporting Period, representing an increase of 17.6% from RMB15,346 million in the period of 2021.

The following table sets forth the Group's two business segments, i.e. raw milk and comprehensive ruminant farming solutions:

Business Segments	Business Lines	Business Introduction	Operations	Revenue
<b>Raw milk</b>	Raw milk business	The Group provides premium raw milk and specialty raw milk to large-scale dairy manufacturers. Specialty raw milk mainly includes Jersey milk, DHA milk, A2 milk, organic milk, organic A2 milk, selenium-rich milk and organic Jersey milk etc.	As of December 31, 2022, the Group operated 78 modern dairy farms across 16 provinces in China, with a herd size of dairy cows of nearly 500,000 heads. During the Reporting Period, the Group's raw milk production was approximately 2,380,000 tons and the annualised average milk yield per milkable cow (excluding Jerseys) was 11.4 tons, representing an increase of 4.6% from the period of 2021.	During the Reporting Period, revenue from the Group's raw milk business was approximately RMB10.85 billion, representing an increase of 13.8% from the period of 2021 and accounting for approximately 60.1% of the Group's total revenue during the Reporting Period.
<b>Comprehensive ruminant farming solutions</b>	Feed business	The Group provides nutrition-concentrated feed and forage grass for dairy farms that meet the demands of ruminants for their growth and production, and offers ancillary ruminant farming support services, such as ruminant nutrition, breeding techniques, and ruminant healthcare.	As of December 31, 2022, the Group operated 15 feed mills and 14 forage grass plantation bases in China. During the Reporting Period, the Group's production of concentrated feed was more than 1,370,000 tons, representing an increase of 23.6% from the period of 2021. The quality grade of the alfalfa grown in our forage grass plantation bases is grade A or higher, with supreme alfalfa (RFV higher than 170) accounting for over 60%, and alfalfa silage with 22% protein content accounting for over 30%, achieving the highest quality level of alfalfa in the U.S.	During the Reporting Period, revenue from the Group's feed business was approximately RMB6.58 billion, representing an increase of 23.4% from the period of 2021.

Business Segments	Business Lines	Business Introduction	Operations	Revenue
	Ruminant farming products marketplace business	<p>The Group provides ruminant farming products purchased from selected suppliers, such as veterinary drugs, animal husbandry equipment and other items for dairy farms, through its online platform, Jumuc.com, and offline pick-up stores and offers ancillary ruminant farming support services to diversify its product offerings and further address its customers' business needs.</p>	<p>During the Reporting Period, the Group provided over 1,000 ruminant farming products through its online platform, Jumuc.com, and 28 offline pick-up stores to 25 provinces, municipalities and autonomous regions of China, covering core operations of dairy farms.</p> <p>The Group further strengthened the deep strategic partnership with 13 domestic and foreign well-known suppliers, including Diamond V. During the Reporting Period, the Group developed products under its own brand of “Muyuanyouneng (牧元優能)”, “Juyoudian (聚優典)”, and “Chuweishi (芻衛士)”, providing support for clients to reduce cost and improve efficiency.</p>	<p>During the Reporting Period, revenue from the Group's ruminant farming products business was approximately RMB0.47 billion, representing an increase of 13.9% from the period of 2021.</p>
	Breeding business	<p>The Group provides dairy farms with access to high quality frozen bovine semen for dairy cattle and beef cattle etc. in China and overseas through its subsidiary, SKX.</p>	<p>As of December 31, 2022, the Group operated 3 key breeding bases. During the Reporting Period, the sales volume of the Group's breeding products was approximately 1,230,000 straws/units and the Group produced approximately 14,000 sex-sorted breeding embryos, making us one of the dairy companies in China that pioneered the large-scale production and commercial application of high-yield dairy cow embryos.</p>	<p>During the Reporting Period, revenue from the Group's breeding business was approximately RMB0.15 billion, representing an increase of 120.8% from the period of 2021.</p>

## I. PERFORMANCE OF EACH BUSINESS SEGMENT AND OPERATION REVIEW

### (I) Raw Milk Business

The Group has established long-term and stable relationships with large dairy manufacturers in the PRC. Benefiting from the growth of the dairy industry, the large dairy manufacturers continue to expand and the integrated development paradigm of the entire dairy industry chain is formed, which will constantly contribute to the sustainable development of the Group's business. During the Reporting Period, the major customers of the Group's raw milk business included Yili, Bright Dairy Group, Junlebao Dairy, etc.

The following table sets forth certain key operating data with respect to the Group's raw milk business for the periods and as of the dates indicated:

	<b>For the year ended/ As of December 31,</b>	
	<b>2022</b>	<b>2021</b>
Number of self-operated dairy farms	<b>78</b>	73
Number of dairy cows (in heads)	<b>499,451</b>	416,196
Raw milk production volume (in tons)	<b>2,377,156</b>	1,989,684
Raw milk sales volume (in tons)	<b>2,328,512</b>	1,947,226
Annualised average milk yield per milkable cow (excluding Jerseys <sup>Note 1</sup> ) <sup>Note 2</sup> (in tons)	<b>11.4</b>	10.9
Including: Inner Mongolia Youran (excluding Fonterra China Farms Group acquired) (in tons)	<b>11.7</b>	11.4
Including: Fonterra China Farms Group acquired (in tons)	<b>11.5</b>	10.3
Including: SKX (in tons)	<b>10.9</b>	10.5

1 Jerseys are a breed of small dark brown dairy cattle originating from the Jersey Islands, the English Channel, with a high milk fat and milk protein content and lower milk yield per dairy cow as compared to Holsteins.

2 The annualised average milk yield per milkable cow was calculated based on the total raw milk production volume divided by the average number of the milkable cows during the period.

## **Farm overview and herd structure**

As of December 31, 2022, the Group operated 78 modern dairy farms (excluding obsolete small dairy farms) across 16 provinces in China. The number of dairy cows of the Group increased by 20.0% from 416,196 as of December 31, 2021 to 499,451 as of December 31, 2022, including 231,709 milkable cows and 267,742 calves and heifers, accounting for 46.4% and 53.6% of the total number of the Group's dairy cows, respectively. Reproduction in self-operated dairy farms and import of quality heifers in new dairy farms lead to a 2.7 percentage points decrease in the proportion of milkable cows, as compared to 49.1% in the period of 2021. Younger herd structure will provide strong support to the continuous improvement of production volume of raw milk and the sustainable herd expansion in the future.

During the Reporting Period, the Group had a total of 7 new dairy farms put into operation, one of which is an organic dairy farm of 10,000 cows. The newly operated Chilechuan intelligent dairy farm introduced advanced milking robots and other smart equipment, as well as low-carbon and eco-friendly new process and facilities. Internet of Things (IoT) technologies and intelligent farm management system are also applied, with support from the first-class embryo breeding technology, empowering it to become a new benchmark of a world-class intelligent dairy farm.

As of December 31, 2022, the Group is constructing several new dairy farms in Inner Mongolia, Heilongjiang, Gansu, Shanxi, Xinjiang and other provinces on the golden milk source belt, and the provinces of South-central China such as Shandong, Henan and Anhui, where there is a large population, strong economy, great consumption potential, scarce land resources and a long-term lack of raw milk, which will be successively put into operation in 2023 and afterwards.

## **Dairy farms operation and management**

The Group is committed to raising healthy dairy cows and producing premium milk. Under such business philosophy, the health, longevity and high milk yield of dairy cows are not only the Group's responsibilities, but they are also vital for consolidating our leading position in the industry. During the Reporting Period, the Group continuously adopted the TPM system, extensively implemented lean production management, strictly implemented SOP feeding management process standards and enhanced standardized operation of employees, which promoted the increase of average milk yield per dairy cow and reduce the dairy farming cost. On the other hand, the Group made full use of the research achievements of ruminant feed, relied on its own R&D team, dairy cow nutrition database, feed mills and forage grass plantation bases, and applied core technologies such as amino acid balance technique, gastrointestinal health regulation technology and precise nutrition assessment technology to achieve precise nutrition and high efficient milk yield of dairy cows and stable supply of high-quality concentrated feed and forage grass to guarantee the health and high milk yield of dairy cows. In addition, the Group continued to practice technology-empowered businesses and apply its self-developed intelligent farm management system, Intelligent Farm Cloud, to achieve accurate monitoring and health care for dairy cows. The Group comprehensively and continuously improved dairy cattle welfare by applying the IoT and through equipment upgrade and the application of intelligent systems etc.. The Group continuously established core herds with embryo technology, cow cloning technology, genetic testing and other advanced breeding technologies and kept to promoting the primipara cows' longevity and high milk yield plan to increase the proportion of high-yield cow herd and extend primipara cows' lifespans. Through the above measures, the Group's operational efficiency was fully enhanced. During the Reporting Period, the Group was selected by the Dairy Association of China for its "Research Report on the Welfare of Pasture Dairy Cows in China" and was awarded the "2022 Animal Welfare Science Promotion Award" by China Animal Health and Food Safety Alliance.

The Group proactively implements low-carbon and environmental protection strategy in dairy farms operation, actively introduces clean energy, and accelerates the electrification transformation and new energy construction of dairy farms. During the Reporting Period, the Group promoted the construction of 2 photovoltaic farms, and completed the renovation of replacing biomass boiler with air source heat pumps in 4 farms, with the renovation of a total of 50 farms having been completed; and completed the renovation of 10 farms with waste heat recovery, with the renovation of 33 farms in total having been completed. The Group introduced new energy vehicles such as electric loaders and electric pushers, and promoted their application.



## Raw milk production volume and average milk yield per milkable cow

The Group's raw milk production volume increased by 19.5% from 1,989,684 tons in the period of 2021 to 2,377,156 tons during the Reporting Period. The annualised average milk yield per milkable cow (excluding Jerseys) increased by 4.6% from 10.9 tons in the period of 2021 to 11.4 tons during the Reporting Period. The increase in raw milk production was mainly due to:

- i. The effective implementation of lean production management. During the Reporting Period, the Group's farms gradually completed the comprehensive introduction of the TPM tool by batches and phases, analysed and improved the value stream to establish the best and most suitable standards based on the value stream, applied the thinking of lean production management and deepened the concept system to achieve the fission and replication of the lean production organization. During the Reporting Period, the annualised average milk yield per milkable cow of 7 new dairy farms put into operation reached 12.3 tons, and the annualised average milk yield per milkable cow of a new dairy farm exceeded 13 tons, achieving high yield once put into operation;
- ii. Effective consolidation of the Acquired Businesses and the powerful synergy from SKX's advanced breeding technology. Through the acquisition of SKX and Fonterra China Farms Group (the "**Acquired Businesses**"), the Group brought in quality talents and specialists and introduced advanced management practice and standards, such as TPM. The acquired dairy cows are fed with high-quality feed that is tailored to their needs and conditions. The Group also upgraded the equipment and facilities of the Acquired Businesses to make dairy cows more comfortable. All of these efforts significantly improved the operation efficiency of the Acquired Businesses. In addition, the Group effectively makes use of the synergy from SKX's advanced breeding technologies, such as genetic testing, embryo technology, cow cloning technology, to continuously establish core herds and expand the proportion of high-yield dairy cows of the Group. The annualised average milk yield per milkable cow of SKX reached 10.9 tons during the Reporting Period, representing an increase of 3.8% from the period of 2021. The annualised average milk yield per milkable cow of the acquired Fonterra China Farms Group reached 11.5 tons during the Reporting Period, representing an increase of 11.7% from the period of 2021;
- iii. The continuous and steady increase in the average milk yield per milkable cow as a result of the improvement of dairy cattle welfare and cow health and quality through innovative feed products and nutritious diet formula; and
- iv. The production capacity that the Group gradually released through its self-operated dairy farms and strategically constructed new dairy farms.



## **Raw milk research and development and study on dairy farming technology**

The Group has built a leading dairy nutrition system in China based on its own dairy nutrition database and established a research and development platform focusing on dairy nutrition and health. By introducing quality breeds through genetic screening of dairy cows, the Group conducted continuous research on the long-term nutritional metabolism, farming techniques and professional nutritional formula of dairy cows, and carried out feeding trials on its own farms to continuously improve the basic nutritional composition of raw milk such as milk protein and milk fat, and develop special raw milk to meet consumers' requirements for quality, taste and efficiency. During the Reporting Period, the Group launched the production of organic Jersey milk, which is high in protein and meets the organic standards of the PRC and the European Union, and continued to expand its production capacity of A2 milk and organic milk.

The Group actively facilitated the technical research on carbon emission reduction in dairy farming, and jointly advanced the study on the project of the Research and Application of Comprehensive Technology of Carbon Neutralization and Carbon Emission Reduction in Large-scale Dairy Breeding (《規模化牧場養殖過程碳中和、碳減排綜合技術研究與應用》) and the Key Technology Research on the Integration of Dairy Cow Breeding and Farmland Planting (《奶牛－農田系統種養一體化關鍵技術研究》) together with Chinese Academy of Agricultural Sciences and other scientific research institutions and universities. Combined with the key emission links identified by carbon emission accounting and emission reduction technology, the Group continued to promote precise emission reduction in the process of dairy farming to contribute its intelligence to the green and sustainable development of the global dairy industry.

## **(II) Comprehensive Ruminant Farming Solutions**

The Group deeply believes that outstanding grass, high-quality feed and quality breeding products are fundamental guarantees to the health and high milk yield of cows. Benefiting from the continuous expansion of China's herd farming scale, the improvement of large-scale dairy farming and farming techniques, the Group's advantages in R&D capability, technical service capability, quality grass selection and cultivation technologies and advanced independent cow genetic improvement and sex-sorting technologies are increasingly highlighted, achieving continuous and steady growth of feed business, breeding business and ruminant farming products marketplace business.

### **The “product + service” operation model**

The Group supports the dairy farm operation with professional and comprehensive ruminant farming solutions. With nearly 40 years of experience in operation and research, combined with the Group's huge nutrition database, the Group is able to obtain valuable information on the nutritional requirements of ruminants of different breeds and at different growth stages, as well as the nutritional composition of feeds, and is able to accurately identify the needs and pain points of the core aspects of daily farm operation and industry development trends. By combining industry insight with strong technical strength, the Group has launched a series of ruminant feed products, breeding products, aquaculture consumables and corresponding supporting technical services.

The Group provides high-quality feed covering the whole life cycle of ruminants, focuses on developing high-tech products such as premixes and functional feed, cultivates dairy supermarket products of its own brand, creates breeding products with core competitiveness, continuously improves the quality and conversion rate of grass products, and fully converges with international standards in terms of technology research and development, product innovation capabilities and technical service standards, so as to continuously improve the Group's product and service strength and brand power.

Leveraging its strategies of the dual-talent systems of dairy farming and farming solutions, core technology accumulation of its in-house technical team, and its own long-term and large-scale farming advantages in different regions with different scales, the Group established a senior expert service team and pooled over 200 highly sophisticated talents on technical services and with experience in dairy farm management to provide customers with various services such as diagnosis, on-site services, breed selection and matching, accurate nutrition, effective breeding and technology escrow, and make available of diversified services such as online product trade, technical consultation, remote diagnosis and information support, through Jumuc.com.

During the Reporting Period, the Group introduced high-tech new testing instruments and used digital formula software to formulate comprehensive solutions covering ancillary technology services such as accurate feeding and effective breeding for customers. The Group adopted the customer acquisition strategy driven by "demonstration dairy farms" in the promotion of models to promote the business development of the Company. For its feed business, the Group has established many demonstration dairy farms in China. The annualised average milk yield per milkable cow of the same customers of demonstration dairy farms across China increased by approximately 3.9% as compared with that in the period of 2021 and the daily average milk yield per milkable cow at some farms exceeded 41 kg. For its breeding business, the Group focused on identifying and acquiring several customers for the demonstration projects of sex-sorted embryos of dairy cows to promote the high-end brand image of breeding business and achieve win-win results between the Group and its customers.

### **Concentrated feed business**

The Group currently owns eight brands and offers a variety of concentrated feed under them, which are customised for different ruminants, including dairy cows, beef cattle, sheep and dairy goats. The sales volume of concentrated feed increased by 19.5% from 914,085 tons in the period of 2021 to 1,092,738 tons during the Reporting Period, making the Group the first company in China with external sales volume of ruminant concentrated feed over 1 million tons in the industry.

### ***Overview and distribution of concentrated feed mills***

The Group continuously enhanced the production scale of feed business and expanded the production capacity of the high value-added premix feed through self-construction dairy farms and cooperation with third parties. As of December 31, 2022, the Group operated 15 feed mills in China. During the Reporting Period, the Group had one new feed mill with a designed production capacity of 0.4 million tons put into operation and conducted new cooperative production with third-party feed manufacturers in Gansu. Its production volume of concentrated feed increased by 23.6% from 1,111,000 tons in the period of 2021 to 1,373,000 tons during the Reporting Period. As of December 31, 2022, the Group has commenced the construction of a feed mill in Hebei. The production capacity of the Group's feed mills will reach 1,890,000 tons after the feed mill is put into operation. All the new feed mills of the Group were equipped with advanced equipment and facilities as well as cutting-edge technologies, which laid a solid foundation for the Group's further improvement in scale and operational capacity in the future.

### ***Concentrated feed brand building and channel expansion***

In respect of feed brand upgrading, the Group entered into a strategic cooperation agreement with Dr. Mike Hutjens, a famous dairy cattle nutrient expert of the United States, an internationally prestigious dairy cattle feeding and management technical specialist and an editorial board member of the Nutrient Requirements of Dairy Cattle, to bring the technological research and development, product innovation capability and technical service level of the Group comprehensively in line with international standards and promote the Group to become a global leader in feed business. Furthermore, the Group has developed a brand upgrading plan to strengthen the brand power of its feed business in addition to product competitiveness, with an aim to continuously expand product market.

In respect of channel expansion of the feed business, the Group adhered to the direct sales business model of "company-dairy farms". Through the Jumuc.com platform, based on market opportunities and combined with phased operation focuses of dairy farms and seasonal nutrition demands, it carried out the "health protection of cows, intestinal health protection of calves, prevention and control of heat stress" and other marketing activities during the Reporting Period. Through grid-based sales management measures, the Group implemented strategies on the expansion of new markets and new channels and effectively promoted business development in northwestern and southwestern markets.

### ***Concentrated feed product development and technology research***

The Group continues to innovate and upgrade a wide range of concentrated feed under its eight feed brands. Through the application of core technologies such as amino acid balance technique, gastrointestinal health regulation technology and precise nutrition assessment technology, the Group has established a strategic partnership with Dr. Mike Hutjens, an internationally renowned dairy farming expert, and combined with the most advanced dairy nutrition technology in the United States to create world-class high-yield, long-life feed products. During the Reporting Period, in the field of dairy feed, the Group carried out the research and application of “Ruminal Protein Combination Products” to optimize the digestibility of starch, protein and fiber, improve strain fermentation control and product fermentation efficiency, and provide precise nutrition, health care and supporting technical services covering the whole life cycle of dairy cows to enhance the high productivity and longevity of dairy cows while reducing costs and increasing efficiency for customers. In the area of beef cattle and sheep and camel feed, the Group introduced premix products aimed at improving the weight gaining performance of beef cattle and sheep, functional feed products that improve the acidity of dairy goat milk, and “camel breed” feed products.

The Group has actively studied the carbon emission reduction and nutrition regulation technology of dairy cows and participated in the 2022 key research and development project on low carbon emission reduction in dairy farms of Ningxia Science and Technology Department. The project plans to study the carbon emission patterns under typical farming mode through the determination of the nutritional composition and carbon emission model of commonly used feed raw materials of dairy cows, research and develop nutrition regulation technology to reduce carbon emissions and manure efficient utilization technology, and integrate low-carbon recycling farming technology.

### **Forage grass business**

The Group laid out premium forage grass plantation bases centred on Ar Horqin Banner, the China’s “Grass Capital”. Based on the synergies between the livestock breeding and forage grass business segments, the Group established ancillary forage grass plantation bases in proximity to our dairy farms and has built a total of 14 forage grass plantation bases mainly used for the production of alfalfa hay, alfalfa silage, oat hay, oat silage, corn silage, paper mulberry silage, sorghum silage and other high-quality forage grass products, striving to achieve the long-term sustainable development of its business through the integration of plantation and dairy farming model.

By undertaking scientific and technological research projects and combining with the Group’s practice of producing high-quality forage grass, the Group has further promoted the in-depth integration of production and technology, and kept creating a new landscape of industry development boosted by science and technology. Forage grass is known as “the first workshop of the dairy industry”, and high-quality alfalfa grass is an important source of nutrition for dairy cows, which can significantly increase the milk yield and milk protein content of dairy cows. The Group selects alfalfa seeds according to local conditions, constantly makes breakthroughs in field management and protection standard, and has made outstanding achievements in variety selection, standardized plantation, precise irrigation, alfalfa regreening, afforestation and sand fixation, and has become a leading high-quality forage grass plantation enterprise in China.

During the Reporting Period, the quality of the Group's self-produced alfalfa grass all reached Grade 1 and above, of which the percentage of superior alfalfa grass with RFV170 or above was over 60%, and the percentage of alfalfa silage protein index of 22% reached over 30%, reaching the top level of alfalfa grass in the United States; the overall re-greening rate of the Group's alfalfa grass reached over 85%, ranking top in the industry. In order to ensure the timely and safe harvest of alfalfa grass, the Group adjusts the product structure and harvest mode of alfalfa, and takes the lead in developing the wrapped silage technology in China, through which, alfalfa silage can effectively retain alfalfa protein, improve the palatability of dairy cows, and keep the quality of alfalfa to the greatest extent. By virtue of its advantages of integration of plantation and dairy farming, the Group has actively facilitated the improvement of salinized and sandy land, and studied soil carbon sequestration technology to promote the "increase of foreign exchange" of plantation bases. The Group has achieved a breakthrough in the salinized and sandy land in Wuwei, increasing the yield from 1.8 tons/mu in the period of 2021 to 3.5 tons/mu during the Reporting Period without changing water and fertilizer resources, representing an increase of 94.4%. During the Reporting Period, the plantation base implemented no-tillage carbon sequestration seeding technology in about 51,000 mu land.

### **Ruminant farming products marketplace business**

As of December 31, 2022, the Group provided over 1,000 ruminant farming products for customers through the Group's online platform, Jumuc.com, and the sales network of 28 offline pick-up stores nationwide, with its business covering 25 provinces, municipalities and autonomous regions, serving around 1,500,000 dairy cows in China and involving various core business operations of dairy farms. Through online orders and offline delivery model, the Group provides instant delivery services that can deliver within 24 hours. It thoroughly solves the difficulties of dairy farms in online procurement and offline delivery and provides better and more convenient procurement experience and services for dairy farms in areas under full coverage, meeting the one-stop shopping demands of dairy farms, promoting the common development of partners in the upper and down streams of the industrial chain and achieving win-win results.

The Group consolidated its advantages in the industry chain, further strengthened the deep strategic partnership with 13 domestic and foreign well-known suppliers, including Diamond V, made joint efforts to promote product upgrade and service improvement and upgraded the customer analysis system of Jumuc.com for precision marketing to help customers continuously reduce the overall cost and offer procurement convenience. During the Reporting Period, the Group expanded vaccination, agricultural materials and other new businesses, integrated global supply of resources and introduced milking robots, material pushing robots, calves feeding equipment and other new equipments and products, providing product and service support to achieve the intelligence and automation of dairy farms. It promoted the strategic cooperation with large-scale groups and developed products under its own brand of "Muyuanoung" (牧元優能) fat powder, "Juyoudian" (聚優典) medical bath fluid, and "Chuweishi" (芻衛士) mycotoxin adsorbent products etc. Such efforts provided support for customers to reduce costs and increase efficiency and promoted the revenue growth of the Group.



## **Breeding business**

The sales volume of the Group's breeding products increased by 25.8% from 977,988 straws/units in the period of 2021 to 1,230,050 straws/units during the Reporting Period. During the Reporting Period, the Group produced nearly 14,000 sex-sorted breeding embryos and became one of the breeding companies in China that pioneered the large-scale production and commercial application of high-yield dairy cow sex-sorted embryos.

### ***Overview and distribution of breeding bases***

The Group is operating a total of three breeding farms in Inner Mongolia, China and Wisconsin, the United States, one of which is a core breeding farm operated in Inner Mongolia that meets international standards with a designed capacity of 3,500 cattle and equipped with a world-class embryo production laboratory. The laboratory is committed to developing into an international first-class platform for the research and development of dairy breeding techniques and germplasm innovation. Leveraging the integrated application of ovum pick-up-in vitro fertilization (OPU-IVF) technology and sex-sorted technology, it rapidly expanded the breeding of high-yield dairy cows and breeding cows and bred high-yield dairy cows and reserve breeding bulls on a large-batch basis. The breeding farm was put into operation during the Reporting Period. In the future, the Group will have the annual production capacity of 50,000 high-yield sex-sorted embryos of over 14 tons, 2,000 breeding embryos and 500 breeding cattle, which will make it become the largest quality cow breed supply base in China, so as to solve the current shortage of high-yield dairy cows in China. The full operation of the breeding farm will enhance the profitability of the Group and lay a foundation for maintaining high growth of the Group's breeding business.

During the Reporting Period, the Group completed the preliminary work of establishing a core breeding farm of high-quality beef cattle with the highest standard in China, including the incorporation of a company, project initiation and design, the application of various permits and tendering for the construction project.

### ***Value breed sources and expand channels***

During the Reporting Period, the Group accelerated the operation of its world-class core breeding farms, expedited its independent cultivation of world-class top-class sires, increased its investment in the joint-venture breeding farm in the United States, and carried out strategic cooperation with the world's leading breeding companies to secure the world's top breeds. It established strategic breeding partnership with customers and promoted the commercial application of whole-genome detection at dairy farms. Combined with embryo production and transplant technology and the upgrading of the genetics application system (GAS) as well as ancillary long-term, systematic and continuous breeding services, the Group provided customers with accurate improvement plans and built core herds. Leveraging the channel advantages of Jumuc.com, the Group continuously improved the penetration rate of customers and the market share of the platform. Through the above measures, the Group continues to improve its core competitiveness and market share in breeding business.

### ***Breeding product development and technological innovation***

The Group strengthened the production technology and quality of domestically-produced frozen semen, embryos and bovine embryo through genetic testing technology, cow cloning technology and embryo technology to empower the national strategy of germplasm resources security and independent breeding technology. Relying on the support of its in-house research and development team, during the Reporting Period, the Group conducted the integration of technology and innovation in the production of high-yield sex-sorted embryos of dairy cows through ovum pick-up-in vitro fertilization (OPU-IVF), achieving the commercial production and application of in vitro embryos of dairy cows; carried out researches on the whole-genome detection and genetic evaluation after cutting microcells of breeding embryos, establishing independent intellectual property rights-protected technical systems and procedures of the genome detection for breeding embryos, increasing breeding efficiency and lowering the cost of breeding cattle, and speeding up in the genetic improvement process of dairy cows; carried out researches on new varieties of functional dairy cows and building a technical process for stem cell gene editing in dairy cows to provide technical reserves for cultivating new varieties of functional dairy cows;

The Group actively conducts research on the establishment of low-emission model and breeding of dairy cows. During the Report Period, SKX applied for the Project of Revitalizing Inner Mongolia Autonomous Region with Technology – Research on Key Technologies for Low Carbon Emission and Breeding of Heat Stress Resistant Dairy Cow. A preliminary prediction model of methane emission of cows was established by measuring production performance of cows in self-owned dairy farms and collating and analysing infrared spectral data.

## **II. RESEARCH AND DEVELOPMENT STRATEGIES MANAGEMENT**

Leveraging nearly four decades of experience in operation research and breeding sources of approximately 500,000 dairy cows, the Group is devoted to research and development efforts in the upstream dairy industry, mainly including research on farming technologies of dairy cows, development of specialty raw milk, research on the nutrition value of feed, research on genetic improvement technology and sex-sorting technology for cattle, as well as exploration and practice of integrated farming model and eco-farming standards.

The Group focuses on the improvement of the quality and competitiveness of its products with innovative technologies. On the one hand, the Group attaches importance to the reserve of core technology research and development personnel. As of December 31, 2022, the Group's research and development team consisted of more than 400 personnel, all of whom have extensive experience in their respective industries. Supported by our in-house research and development team, as of December 31, 2022, the Group obtained 75 core patented technologies, covering each of our business lines. On the other hand, the Group has continuously enriched its specialty raw milk offerings and comprehensive ruminant farming solutions and has successively launched 7 kinds of specialty raw milk and proprietary concentrated feed products, such as structural calf feed, rumen bypass soybean meal, premixes and heat stress resistant perinatal feed. Moreover, the Group has built a leading ruminant nutrient database in China and developed leading genetic improvement technology and sex-sorting technology. The Group explored and created new farming models and methods, developed and promoted new technologies for the deep processing and utilization of forage grass products. In addition, the Group established extensive cooperation with renowned colleges and research institutions, actively participated in the construction of the "Dairy Breeding and Farming Technology Research Centre" under the National Dairy Technology Innovation Centre and undertook major demonstration projects adopting the "open competition mechanism" under the guidance of the action of "revitalizing Inner Mongolia through science and technology" in the Inner Mongolia Autonomous Region to conduct research on the transformation and application of technological and R&D achievements, with focus on key technological issues in the upstream dairy industry, such as cow breeding and farming, exploration of high-quality dairy breed source and alfalfa selection and cultivation technology. During the Reporting Period, projects adopting the "open competition mechanism" undertaken by the Group included "Key Technological Innovation for the Exploration of High-end Dairy Breed Source and Efficient Reproduction", "Selection and Cultivation of New Varieties of High-quality Alfalfa and Industrial Demonstration", and "Key Production, Processing and Utilization Technology Research and Integrated Demonstration of Large-scale High-quality Alfalfa Hay". During the Reporting Period, SKX was selected as one of "National Livestock and Poultry Agriculture Constituent Enterprises (國家畜禽種業陣型企業)" by the Ministry of Agriculture and Rural Affairs of the PRC and one of units with major support from the "Breeding Capability Evaluation Award Project for Dairy Breeding Enterprises" in Inner Mongolia Autonomous Region.



### III. QUALITY ASSURANCE

Sticking to the mission of “Creating the Source Power for the Healthy Life of Human Beings with Quality” and carrying forward the management concept that quality is life, the Group focuses on consolidating the foundation for quality management through three cores, namely quality culture, full-chain quality management and high-quality products. The Group continuously promotes the implementation of the quality management system among all the staff, during the full process and in all aspects and adheres to “high quality, high standards and high requirements” for the production process to guarantee product quality.

During the Reporting Period, the Group continued to conduct and passed various food safety and quality related management system certifications: the SQF (Safe Quality Food system), ISO9001 (the quality management system), ISO22000 (the food safety management system) and ChinaGAP (China Good Agricultural Practice) and ISO17025 (CNAS Laboratory Management System) etc. Additionally, the Group is the first comprehensive enterprise of dairy farming and feed processing in China that has passed SQF certification, the world-leading food safety and quality management system.

During the Reporting Period, the Group’s near-infrared nutrition database recorded over one million marked samples. It was successfully unveiled at the 6th China Animal Health and Food Safety Conference and was widely praised by industry experts. The establishment of this database is of weighty significance in promoting accurate nutrition and improving test efficiency. The Group pioneered raw material adulteration identification technology in the animal husbandry industry to ensure the high-quality feed ingredients and products for self-operated dairy farms and feed customers.

During the Reporting Period, empowered by digital technologies and the quality management information platforms, such as near-infrared database, CNAS-certified laboratories, quality information management system and EHSQ (Environment, Health, Safety, and Quality) management system, the collection, transmission and analysis of the quality information along the whole chain are becoming more intelligent and efficient. The food safety team of the Group adopted quality examine mechanism, quality warning mechanism and supplier evaluation mechanism to promote the continuous improvement of the quality assurance and risk prevention and control system. The Group continued to strengthen the whole chain quality improvement and made great achievements in quality management and quality improvement by quickly identifying known and unknown risks, improving quality management information system, normalising quality assurance control points (QACP).

During the Reporting Period, all of the Group’s products have passed the sampling inspection of quality conducted by national supervision and inspection authorities at all levels. The Group also won the title of 2022 Outstanding Dairy Product Processing Enterprise given by Dairy Association of China. The Group assesses the quality of its raw milk primarily with reference to indicators generally recognised in the industry, namely aerobic plate count and somatic cell count. During the Reporting Period, the average aerobic plate count and somatic cell count in the Group’s raw milk were much superior to the standards set forth in China’s Premium Milk Initiative (中國國家優質乳工程) and the standards of the United States, Japan and the European Union.

#### **IV. PROCUREMENT STRATEGIES MANAGEMENT**

The Group applied a “full life cycle” supplier management system and developed procurement strategies highly matching its strategic development, which focused on deeply implementing the procurement strategy on bulk raw and ancillary materials, further expanding strategic suppliers and optimising supplier structure. It mitigated the procurement risk on bulk raw materials and further reduced procurement cost through the hedging of futures, strategic reserve, direct purchase from sources, global purchases and other strategies. During the Reporting Period, the Group formed strategic relation on 96 collaborative projects with 44 strategic suppliers, among which eight were key strategic suppliers. The Group continued to explore value-added businesses that can be carried out with strategic partners and strengthened the relationship with business partners to build a sustainable win-win ecosystem.

#### **V. DIGITAL MANAGEMENT**

The Group adheres to the principle of “driving business innovation with data and adding value to business with technologies” to facilitate its digital transformation. To enhance business value with digital technologies, the Group continued to advance the business upgrading and transformation and perfect its digital top-level design, introduce and implement emerging internet technologies, optimise and upgrade the established digital assets including Intelligent Farm Cloud, the Jumuc.com, financial sharing platform and human resources sharing platform, gain business experience and respond to market changes with more agility. Meanwhile, the Group continued to foster the innovation in the development and application of IoT smart facilities in animal husbandry industry, optimised the accurate digital-driven application in stages from operating decision to on-site operation, built an industry big data service center and improved the digital capability of all staff to cultivate more digital talents who are familiar with business and management. By doing so, the Group’s digital competitiveness and operation ability were enhanced.

During the Reporting Period, the Group gave full play to the data value of near-infrared database and CNAS-certified laboratories, Intelligent Farm Cloud and the Jumuc.com platform through the integration and governance mechanism to guarantee the accuracy of basic data. It also applied cloud computing, artificial intelligence and the IoT and other advanced digital technologies and conducts digital management on the full lifecycle of dairy cows to achieve the upgrading of business management and operation models. The Group introduced financial sharing, actively advanced human resources sharing and have been preparing the procurement sharing to conduct the centralized consolidation of businesses for standardized handling and carry out process reengineering and standardized unification. It achieved fully automatic processing model of and large-scale benefits from fundamental operation through intensified production, professional labor division and standardized procedures, effectively facilitating the reasonable allocation of resources, standardized management, risks prevention and the improvement of satisfaction of employee and ecosystem partners. During the Reporting Period, the Group was selected to the collection of outstanding cases of digital transformation in China dairy industry by Dairy Association of China.

## **VI. BUILDING A SUSTAINABLE DEVELOPMENT MODEL**

The Group adheres to the green, ecological and sustainable development strategy, continuously deepens the sustainable development management system, increasingly integrates core issues on sustainable development with business development and innovation and vigorously promotes the long-term mechanism on sustainable development to set an example to the industry. During the Reporting Period, the Group officially became a participant of United Nations Global Compact (UNGC) and took active actions to fulfill ten principles of the UNGC covering human rights, labor, environment and anti-corruption, thus assuming more industry obligations and social mission, and contributing more wisdom and efforts to the global sustainability.

The Group actively advanced the carbon neutrality strategy by developing the Implementation Plan for a Zero-carbon Future of Youran Dairy. It set the goal of striving to peak carbon emissions before 2030 and achieve carbon neutrality before 2050. It also developed a three-step strategy, eight core measures and a three-pillar system to facilitate the implementation of the carbon neutrality strategy. During the Reporting Period, the Group actively promoted the technical research on the reduction of fossil-carbon emissions and bio-carbon emissions and the implementation of specific measures, established the carbon accounting model for the entire upstream dairy industry chain and carried out carbon inventory accounting. Based on the results of the first stage of carbon inventory accounting, the Group further refined the plans, targets and implementation paths of carbon peaking and carbon emission reduction to promote the further refinement of carbon emissions reduction, and invited a third-party review organisation to review the undertakings and statements on carbon neutrality.

The Group continues to put the sustainable development strategy into practice by taking full advantage of the synergy between business segments of dairy farming and forage grass plantation. During the Reporting Period, the Group built ancillary forage grass plantation bases near its dairy farms, and actively cooperated with silage suppliers and other suppliers. The actual land area under the integrated plantation and dairy farming model was more than 2,500,000 mu.

The Group actively fulfilled its social responsibilities, provided job opportunities for farmers and herdsmen in surrounding areas and helped farmers and herdsmen achieve income growth through businesses and technologies. The Group gave full play to its industrial and technological advantages to enhance the quality of agricultural products and agricultural output value, and increase farmers' production benefits. The Group formulated specific poverty alleviation policies in different regions to enhance the self-development ability of local farmers and herdsmen to achieve mutual development. In addition, during the pandemic, the production bases of the Group actively helped fight against the pandemic in the regions where they were located.

The Group continues to promote animal conservation and has established an efficient cloning technology system for cattle, deer, dairy goats and other animals, and continuously improved the animal genetic resources on the Mongolian Plateau, initially establishing the first “Genetic Resource Bank and Information Platform of Animals in the Mongolian Plateau” in the world, which provides precious biological resources and materials for exploring the anti-disease and anti-reverse genetic characteristics of animals exclusive in the Mongolian Plateau, the breeding of domestic livestock and the cultivation of new breeds as well as animal genetics and evolution, and realizes the conservation of animal genetic resources. In addition, through studying the genetic performance of such animals, the genetic characteristics of cold resistance, disease resistance, strong reproductive ability and high parity may be applied to the world-class sires bred by the Group in China in the future, which will expand a new development direction for the Group’s breeding business. The Group achieved breakthrough in the production efficiency of cloned cow embryos and the pregnancy rate of transplant recipients and other major technical indicators.

Details of the sustainable development of the Group will be set out in the “Environmental, Social and Governance Report” to be published by the Company.

## **VII. PROSPECTS**

With 2022 being the first year that the Group implemented its upgraded strategies, the Group embarked on a scientific strategic transformation from rapid development to quality development with an upgraded vision to lead China’s animal husbandry and march forward to the most trustworthy world-class animal husbandry group. It has set strategic goals of achieving breakthrough empowered by science and technology and doubling revenue to enhance benefits. Under the guidance of four concepts of leading customer value, leading social value, leading employee value and leading enterprise value, the Group will implement six strategic measures to drive the high quality and sustainable development of the Group. In addition, during the Reporting Period, the Group issued six management philosophies and related codes of conduct that match its strategies, laying the cultural foundation for its sustainable development with high quality.

In the coming years, the Group will continue to implement its six strategic initiatives to advance technology and innovation, platform synergy and extension, lean production management, business digitalization, talent development and culture, and the implementation of green sustainability strategies. Details are as follows:

### **Technology-Driven and Innovation**

The Group implements technology-driven and innovation strategies for the existing business lines, including comprehensive innovation in nutrition, healthcare, breeding, process and equipment, new ingredients, new processes, new equipment, new technology and new products and other dimensions, and effectively promotes their application. By doing this, each business segment will see sustainable cost reduction and efficiency increase, and product quality and competitiveness will be steadily improved. Furthermore, the Group will explore upstream high-tech new business to facilitate the technology upgrade of the existing core business, create a sustainable technology innovation system that connects internal and external business and build the ability to lead technology.

## **Platform Collaboration and Extension**

The Group will continue to establish and improve the collaboration platform covering the whole upstream industry chain to achieve fully collaboration in technology research and development application, technology promotion and demonstration, convenient procurement, convenient process and packaging, large-scale procurement, joint business and strategic cooperation and other dimensions. In the meantime, giving full play to internal and external advantages of the platform in technology, service, suppliers and customers, the Group will accelerate the development of high-tech and high value-added business platforms, and develop new high- and new-technology industries based on its main business and platform advantages. In addition, the Group will take Yuanxing Feeds and Jumuc.com as the mainstay and accelerate the construction of a product + brand + technical service platform, covering products under its own brand, products for which it is the national general agent, and products under strategic cooperation, to create a sustainable industry chain service platform worthy of trust.

## **Lean Production Management**

The Group will expand its achievements to be made in trial lean production projects by gradually building farms and manufacturing bases which adopt lean production management model with independent and sustainable improvement capacities. The Company will also concentrate its resources to implement lean production strategy in all respects. Thoroughly guided by the philosophy of lean production management, it will introduce lean production tools and methods in a graded and categorised manner and build the base and pillar for lean production, so as to promote lean production management among all employees while speeding up the monetization of lean production value. Furthermore, the Group will strengthen the integration of lean production projects and business management, to form an agile model of one ideology, one goal, one set of standards, one set of processes and one team.

## **Empowering Business with Digitalisation**

The Group will continue to optimize its digital strategic blueprint and embark on the path of comprehensive digital transformation. On the one hand, the Group will concentrate resources to build industry-leading intelligent farms, and based on demands, promote and popularise digital construction in a low-cost and phased manner. On the other hand, taking Chilechuan Farm as a benchmark, the Group will build digital-empowered intelligent farms to set an example for the industry, and then share technology and programs at each farm at low cost. With the goal of reducing costs, improving efficiency, and increasing profits, the Group will digitally empower raw milk, feed, and supply chain in steps, promote projects in an orderly and efficient manner, and timely and fully monetize such value. The Group will adhere to the principle of adding value into business segments through digital empowerment, and eliminate the pursuit of digitalization for the sake of digitalization.

## **Talent Development and Culture**

The Group has established a basic model of organizational development that regards all employees as talents, cultivates employees, develops employees, adds value to employees and helps employees achieve their success, to build an open, fair and just talent development system. The Group has set a clear goal for developing talents from quantity level to quality level, from post knowledge and competency model to certification, promotion, and further to salary, incentive and long-term incentive. The Group has also implemented a talent cultivation mode of practice and training integration to cultivate and develop a talent team with a sustained and high level of working competence and the ability to create sustainability and high value. The Group aims to develop a team of talents who are all operators and leaders, with strong individual working competence and stronger team working competence.

## **Green and Sustainable Development**

The Group has established a green and sustainable development strategy system in a professional and systematic manner, benchmarking itself against international standards, to ensure its leading position in strategy implementation. The Group has also implemented a sustainable development strategy for all employees by providing training and guidance to promote conservation, eliminate waste, cherish resources, and protecting the environment in work and life. The Group will accelerate the development and application of green energy, and reduce the use of fossil energy across the Group. The Group will expedite the construction of resource development and application models for ecological cycles, reduce the use of water, electricity, gasoline, oil (gas), and other energy through technology and management, and improve the recycling rate.

Looking forward to the future, the Group will continue to consolidate and expand its long-term advantages of “the most comprehensive industry chain, the largest scale, the best structure and layout and high-efficiency operation” and implement the six core strategic initiatives to promote the sustainable and high-quality development of the Group and to create value for customers, shareholders, employees and the society, thus contributing to the revitalisation of China’s dairy industry.



## FINANCIAL REVIEW

### Revenue

Our revenue increased by 17.6% from RMB15,346 million for the period of 2021 to RMB18,051 million for the Reporting Period.

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

	For the year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw milk	<b>10,853,917</b>	9,537,814
Comprehensive ruminant farming solutions	<b>7,196,844</b>	5,808,353
Total	<b><u>18,050,761</u></b>	<b><u>15,346,167</u></b>

The increase in our total revenue was primarily due to the growth of raw milk business and comprehensive ruminant farming solutions business. Our revenue generated from raw milk increased by 13.8% from RMB9,538 million for the period of 2021 to RMB10,854 million for the Reporting Period, which was mainly because the Group's raw milk sales volume increased by 19.6% from 1,947,226 tons for the period of 2021 to 2,328,512 tons for the Reporting Period. By virtue of the unique nutrition and functional value of specialty raw milk, and excellent physical and chemical indicators of premium raw milk, the average unit price of raw milk of the Group was RMB4.66/kg for the Reporting Period, as compared to RMB4.90/kg for the period of 2021.

Our revenue generated from comprehensive ruminant farming solutions increased by 23.9% from RMB5,808 million for the period of 2021 to RMB7,197 million for the Reporting Period, which was mainly due to the fact that during the Reporting Period, the Group continued to promote the technology empowerment in development and production; innovated and upgraded existing products, strengthened service capabilities and continued to consolidate the "product + service" business model; strengthened brand building and expanded its pipeline; vigorously explored the development of the online platform, Jumuc.com, and offline pick-up store channels to implement the grid-based sales management measures and focus on building the value-based marketing capability and promoting rapid business growth.

## Cost of sales

Our cost of sales increased by 18.3% from RMB14,333 million for the period of 2021 to RMB16,959 million for the Reporting Period.

The following table sets forth a breakdown of our cost of sales before fair value adjustments by our product types for the periods indicated:

	For the year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw milk	7,441,870	5,585,284
Comprehensive ruminant farming solutions	<u>6,385,169</u>	<u>5,066,404</u>
Total	<u><u>13,827,039</u></u>	<u><u>10,651,688</u></u>

The increase was primarily due to the growth of raw milk business and ruminant feed solutions business and the effect of agricultural produce fair value adjustments.

Cost of sales for raw milk business before raw milk fair value adjustments increased by 33.2% from RMB5,585 million for the period of 2021 to RMB7,442 million for the Reporting Period, which was primarily due to new dairy farms being put into operation, the increase in the number of dairy cows, and the increase in raw material prices.

During the Reporting Period, the Group's average feed cost of premium raw milk and specialty raw milk was RMB2.48/kg, representing an increase of 14.3% from the period of 2021, which was primarily due to the increase in feed ingredients and forage grass costs. During the Reporting Period, the average price of soybean meal rose by 23.2% from that in the period of 2021, and corn price also remained high with average price up by 1.5% from that in the period of 2021, according to the data from the Ministry of Agriculture and Rural Affairs. According to customs statistics, during the Reporting Period, China imported a total of 1,787.7 thousand tons of alfalfa hay, representing an increase of 0.4% from that in the period of 2021, at an average CIF (i.e. cost, insurance and freight) price of US\$517.88 per ton, rising by 35.6% from that in the period of 2021. The Group imported alfalfa hay of approximately 380,000 tons during the Reporting Period, representing an increase of 3.9% from that in the period of 2021 and accounting for approximately 21.2% of the total import of alfalfa hay in China. Confronted with the severe situation of the rising feed cost, the Group took the following measures to mitigate the cost pressure: (i) deeply implementing the strategy of purchasing bulk raw and ancillary materials. The Group took advantage of the cooperation with strategic suppliers to conduct scale purchasing and improve its trading capacity; and (ii) applying innovative and technical means to continuously reduce cost and increase efficiency. During the Reporting Period, the Group established a research and development platform focused on cow nutrition and health, and in order to respond to the high price of soybean meal, corn and alfalfa hay, the Group adopted bionic testing technology to optimize diet formula of cows, conducted a study on "undegradable protein portfolios" to produce new feed products and improve the processing technique of forage grass, enrich the offerings of raw materials and forage grass and achieve precise nutrition, and applied the amino acid balance technique to increase the average milk yield of dairy cows and improve the feed conversion efficiency.



Cost of sales of comprehensive ruminant farming solutions business before forage grass fair value adjustments increased by 26.0% from RMB5,066 million for the period of 2021 to RMB6,385 million for the Reporting Period, which was primarily due to the growth of feed and ruminant farming products marketplace business.

Fair value adjustments for agricultural produce included in cost of sales decreased by 14.9% from RMB3,682 million for the period of 2021 to RMB3,132 million for the Reporting Period.

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

Our gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest were RMB3,682 million for the period of 2021 and RMB3,132 million for the Reporting Period, respectively, mainly due to the combined effect of the decline in the selling price of raw milk, the rise of price of bulk raw materials and the increase in sales volume. According to the requirements of IFRSs, agriculture products shall be initially recognised at fair value less costs of sales at the point of harvest and the difference between fair value less costs of sales and the actual cost incurred shall be recognized in profit or loss.

### **Gross profit and gross profit margin**

As a result of the foregoing, we recorded a gross profit of RMB4,694 million for the period of 2021, representing a gross profit margin of 30.6%, and a gross profit of RMB4,224 million for the Reporting Period, representing a gross profit margin of 23.4%.

The following table sets forth a breakdown of our gross profit and gross profit margin by raw milk business and comprehensive ruminant farming solutions business for the periods indicated:

	<b>For the year ended December 31,</b>			
	<b>2022</b>		<b>2021</b>	
	<i>RMB'000 (except for percentage)</i>			
	<b>Gross profit</b>	<b>Gross profit margin</b>	Gross profit	Gross profit margin
Raw milk	<b>3,412,047</b>	<b>31.4%</b>	3,952,530	41.4%
Comprehensive ruminant farming solutions	<b>811,675</b>	<b>11.3%</b>	741,949	12.8%
<b>Total</b>	<b><u>4,223,722</u></b>	<b><u>23.4%</u></b>	<b><u>4,694,479</u></b>	<b><u>30.6%</u></b>

The decrease in the gross profit margin was primarily due to the general increase in the price of raw materials such as protein feed, corn and forage grass and the slight decrease in the sales price of raw milk in the Reporting Period as a result of the impact of the pandemic and the international situation.

The gross profit of the raw milk business decreased from RMB3,953 million for the period of 2021 to RMB3,412 million for the Reporting Period. The gross profit margin of the raw milk business decreased from 41.4% for the period of 2021 to 31.4% for the Reporting Period, mainly due to the pressure on the gross profit margin of the Group's raw milk business as a result of the increase in raw material prices and the decrease in the sales price of raw milk. Under the circumstance that the gross profit margin of the raw milk industry was generally affected, the Group managed to control the decline in the gross profit margin of raw milk through optimizing product structure.

The gross profit of the comprehensive ruminant farming solutions business increased from RMB742 million for the period of 2021 to RMB812 million for the Reporting Period. The gross profit margin of the comprehensive ruminant farming solutions business decreased from 12.8% for the period of 2021 to 11.3% for the Reporting Period, mainly because of the increase in raw material prices resulting in the decrease in the gross profit margin of sales of feeds.

### **Gain/loss arising from changes in fair value less costs of sales of biological assets**

Our gain/loss arising from changes in fair value less costs to sell of biological assets increased from the fair value loss of RMB407 million for the period of 2021 to the fair value loss of RMB1,617 million for the Reporting Period, which was primarily due to the decrease in the valuation of a single milkable cow resulted from various market factors such as the increase in raw material prices and the decline in the sales price of raw milk during the year, as well as the increase in feeding cost of reserve cows.

### **Other income**

Our other income increased by 138.8% from RMB152 million for the period of 2021 to RMB363 million for the Reporting Period, which was primarily due to the increases in (i) government grants transferred from deferred income from RMB58 million for the period of 2021 to RMB146 million for the Reporting Period; and (ii) incentive subsidies from RMB40 million for the period of 2021 to RMB155 million for the Reporting Period.

### **Impairment loss under expected credit loss model, net of reversal**

Our impairment loss under expected credit loss model, net of reversal increased by 163.2% from RMB12 million for the period of 2021 to RMB33 million for the Reporting Period, which was primarily due to the recoverability of certain receivables from a few customers.

### **Other gains and losses**

Our other gains and losses changed from a loss of RMB53 million for the period of 2021 to a gain of RMB48 million for the Reporting Period, which was primarily due to the reversal of provision for the previous litigation event as no further payments were made offset by the losses on commodity forward contracts trading caused by market fluctuations.

## **Selling and distribution expenses**

Our selling and distribution expenses increased by 6.0% from RMB557 million for the period of 2021 to RMB590 million for the Reporting Period, which was primarily due to the increase in loading, unloading and transportation costs resulted from the increase in sales volume, as well as the increase in employees' remuneration resulted from the increased headcount. The proportion of selling and distribution expenses in our revenue decreased from 3.6% for the period of 2021 to 3.3% for the Reporting Period, mainly due to the underperformance of the growth of selling and distribution expenses over that of revenue.

## **Administrative expenses**

Our administrative expenses decreased by 13.6% from RMB835 million for the period of 2021 to RMB722 million for the Reporting Period. The decrease in proportion of administrative expenses in our revenue from 5.4% for the period of 2021 to 4.0% for the Reporting Period was primarily due to the efficient operation and management and outstanding performance of cost control of the Company.

## **Other expenses**

Our other expenses increased from RMB3 million for the period of 2021 to RMB65 million for the Reporting Period, which was primarily due to a year-on-year increase in the expenditure as a result of more investment in R&D.

## **Finance costs**

Our finance costs increased by 49.8% from RMB732 million for the period of 2021 to RMB1,097 million for the Reporting Period, which was primarily due to the increased interests recognised for more convertible notes measured at amortised cost during the Reporting Period as compared to the period of 2021, and increased interests for bank borrowings.

## **Profit before tax**

As a result of the foregoing, we had a profit before tax of RMB2,095 million for the period of 2021, compared with a profit before tax of RMB475 million for the Reporting Period.

## **Income tax expense**

We recorded a 6.5% decrease in income tax expense from RMB74 million for the period of 2021 to RMB69 million for the Reporting Period, which was primarily attributable to the decrease in income tax payable resulted from the consolidation of the Group's frozen bovine semen business.

## **Profit for the year**

As a result of the foregoing, we generated a profit of RMB2,021 million for the period of 2021 and generated a profit of RMB406 million for the Reporting Period, primarily due to (i) the general increase in the prices of raw materials such as protein feed, corn and forage grass during the Reporting Period, coupled with the decline in the sales price of raw milk as a result of the impact of the pandemic and the international situation, resulting in a decline in the gross profit margin of milk; (ii) the younger herd structure with less milkable cows achieved by reproduction in self-owned dairy farms and import of quality heifers in new dairy farms, as the Group took advantages of resources and policy opportunities; (iii) the increase in the loss as a result of the change in fair value of biological assets; and (iv) the increase in the investment in the short term based on the strategic layout of the Group, resulting in the increase in financing amount and finance cost.

## **Adjusted profit attributable to owners of the Company**

To supplement our consolidated financial information which are presented in accordance with IFRSs, we also use adjusted profit attributable to owners of the Company which is not required by, or presented in accordance with, IFRSs. We believe that this non-IFRSs measure provides useful information to investors and others in understanding and evaluating our consolidated financial results in the same manner as our management.

Adjusted profit represents profit attributable to owners of the Company, after adjusting: (i) the difference between the fair value loss on convertible notes and the total interest of 4% of the nominal interest rate of nil for the Reporting Period (for the period of 2021: RMB104 million); (ii) the difference between the effective interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate of RMB524 million for the Reporting Period (for the period of 2021: RMB292 million); (iii) the Listing expenses of nil for the Reporting Period (for the period of 2021: RMB18 million); (iv) the litigation losses regarding the adjustments made to the consideration for acquisition of SKX of nil for the Reporting Period (for the period of 2021: 69 million); and (v) the reversal of litigation losses regarding the adjustments made to the consideration for acquisition of SKX of RMB49 million for the Reporting Period (for the period of 2021: Nil).

The use of this non-IFRSs measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Group's results of operations or financial condition as reported under IFRSs. The Company's presentation of such adjusted figure may not be comparable to a similar measure presented by other companies. However, the Company believes that this measure is a reflection of the Group's normal operating results by adjusting for the potential impacts of certain non-recurring items, and thus facilitate comparisons of operating performance from period to period and company to company to the extent applicable.

The following table reconciles adjusted profit attributable to owners of the Company from the most directly comparable financial measure calculated and presented in accordance with IFRSs (profit attributable to owners of the Company).

	<b>For the year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Profit attributable to owners of the Company</b>	<b>414,771</b>	1,558,016
Add: the difference between the fair value loss on convertible notes and the interest calculated at 4% of the nominal interest rate	–	103,696
Add: the difference between the interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate	<b>523,801</b>	291,799
Add: the listing expenses	–	17,848
Add: loss on arbitration regarding the adjustments made to the consideration for acquisition of SKX	–	69,041
	<hr/>	<hr/>
Less: the reversal of loss on arbitration regarding the adjustments made to the consideration for acquisition of SKX	<b>49,234</b>	–
	<hr/>	<hr/>
<b>Non-IFRSs measure:</b>		
<b>Adjusted profit attributable to owners of the Company</b>	<b>889,338</b>	<b>2,040,400</b>
	<hr/> <hr/>	<hr/> <hr/>

## Liquidity and Capital Resources

During the Reporting Period, the Group funded its cash requirements principally through a combination of cash generated from operating activities, bank borrowings and net proceeds from the Global Offering of the Company.

The following table sets forth our cash flows for the periods indicated:

	<b>For the Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Net cash generated from operating activities	<b>2,547,778</b>	2,266,010
Net cash used in investing activities	<b>(10,783,819)</b>	(8,696,940)
Net cash generated from financing activities	<b>8,051,843</b>	5,424,302
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	<b>(184,198)</b>	(1,006,628)
Effects of foreign exchange rate changes	<b>9,031</b>	14,935
Cash and cash equivalents at the beginning of the year	<b>1,627,420</b>	2,619,113
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<b>1,452,253</b>	1,627,420
	<hr/> <hr/>	<hr/> <hr/>

## **Net Cash Generated from Operating Activities**

During the Reporting Period, net cash generated from operating activities was RMB2,548 million. For the period of 2021, net cash generated from operating activities was RMB2,266 million.

## **Net Cash Used in Investing Activities**

During the Reporting Period, net cash used in investing activities was RMB10,784 million, which was mainly attributable to (i) payments for biological assets of RMB5,152 million, (ii) payments for investments in associates of RMB1,158 million, and (iii) payments for property, plant and equipment of RMB3,472 million, partially offset by the proceeds from the disposal of biological assets of RMB1,038 million.

For the period of 2021, net cash used in investing activities was RMB8,697 million, which was mainly attributable to (i) payments for biological assets of RMB3,773 million, (ii) payments for acquisition of subsidiaries of RMB2,379 million, and (iii) payments for property, plant and equipment of RMB3,536 million, partially offset by the proceeds from the disposal of biological assets of RMB1,168 million.

## **Net Cash Generated from Financing Activities**

During the Reporting Period, net cash generated from financing activities was RMB8,052 million, which was mainly attributable to (i) new bank and other borrowings of RMB25,179 million; (ii) payment for the early redemption of convertible notes of RMB2,185 million; and (iii) repayment of bank and other borrowings of RMB14,205 million.

For the period of 2021, net cash generated from financing activities was RMB5,424 million, which was mainly attributable to (i) proceeds from the Global Offering of RMB2,855 million; and (ii) new bank and other borrowings of RMB14,987 million, partially offset by repayment of bank and other borrowings of RMB11,734 million.

## Indebtedness

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Bank borrowings	<u>20,559,056</u>	<u>9,456,114</u>
Unsecured	<b>18,838,786</b>	7,490,367
Secured	<u>1,560,901</u>	<u>1,965,747</u>
Other borrowings	<u>159,369</u>	<u>–</u>
	<u>20,559,056</u>	<u>9,456,114</u>
The carrying amounts of the above borrowings are repayable		
Within one year	<b>13,827,675</b>	5,412,175
More than one year but within two years	<b>1,349,477</b>	1,944,053
More than two years but within five years	<b>3,892,704</b>	1,667,913
More than five years	<u>1,489,200</u>	<u>431,973</u>
	<b>20,559,056</b>	9,456,114
Less: amounts due within one year shown under current liabilities	<u>(13,827,675)</u>	<u>(5,412,175)</u>
Amount shown under non-current liabilities	<u>6,731,381</u>	<u>4,043,939</u>
Lease liabilities	<u>1,556,991</u>	<u>1,317,399</u>
Less: Amount due for settlement within 12 months shown under current liabilities	<u>(131,604)</u>	<u>(51,009)</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>1,425,387</u>	<u>1,266,390</u>
Other liabilities at amortised cost	<b>14,252</b>	20,845
Portion classified under current liabilities	<u>(6,942)</u>	<u>(6,593)</u>
Portion classified under non-current liabilities	<u>7,310</u>	<u>14,252</u>

## Contingent Liabilities

Save as disclosed in this announcement, as at the end of the Reporting Period, the Group had no significant contingent liability.



## **Capital Commitment**

As at December 31, 2022, the Group's capital commitment for the acquisition of property, plant and equipment and purchase of biological assets was RMB2,998 million (as at December 31, 2021: RMB2,506 million), representing an increase of 19.6% compared with that of December 31, 2021, which was mainly due to the purchase of assets for new construction by the Group.

## **Pledge of Assets**

As at December 31, 2022, certain of the Group's bank and other borrowings had been secured by the pledge of the Group's assets, including 51.73% shares of SKX, 60.59% shares of Shanxi Youran Tianhe Dairy Co., Ltd. and 61.44 % shares of Tangshan Youran Dairy Co., Ltd. held by a wholly-owned subsidiary of the Company for a loan of the Group, and pledged and restricted bank deposits in the carrying amount of RMB8 million.

## **Foreign Exchange Risk**

The Group operates mainly in the PRC and majority of revenue and costs of goods sold and operations are denominated in RMB. Almost all of the revenue and costs are denominated in the Group entities respective functional currency.

Several subsidiaries of the Company have foreign currency bank balances which expose the Group to foreign currency risk. In addition, the Company has intra-group balances denominated in foreign currency with a subsidiary which also exposes the Group to foreign currency risk.

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

## **Significant Investments**

Save as disclosed in this announcement, the Group did not make or hold any significant investments (including any investment in an investee company representing 5%, or more of the Company's total assets as at December 31, 2022) during the Reporting Period.

## **Future Plans for Material Investments and Capital Assets**

Save as disclosed in this announcement, as of December 31, 2022, the Group did not have other plans for material investments and capital assets.



## **Material Acquisitions and/or Disposals of Subsidiaries and Affiliated Companies**

### **i. Acquisition of 27.16% equity interest in Wholesome Harvest Limited**

On March 2, 2022, the Company, YeGu Investment Company Limited and Mr. Zhang Jianshe entered into a share transfer agreement, pursuant to which the Company conditionally agreed to purchase, and YeGu Investment Company Limited conditionally agreed to sell, 707,878,000 ordinary shares of Wholesome Harvest Limited at a consideration of HK\$1,206,380,000. Wholesome Harvest Limited wholly owns China YouYuan, which in turn wholly owns YouYuan Farm that operates a total of nine dairy farms in China with approximately 75,000 dairy cows. The transaction would enable the Group to invest in additional dairy farms and to explore potential collaboration opportunities in the future, which will be favorable for the Group's long-term development. For further details, please refer to the announcements of the Company dated March 2, 2022, March 23, 2022 and the circular of the Company dated March 4, 2022.

On March 31, 2022, the Group completed the acquisition of 27.16% equity interest in Wholesome Harvest Limited.

### **ii. Investment cooperation agreement with Rixin**

On June 17, 2022, Inner Mongolia Youran and Inner Mongolia Rixin Investment (Group) Limited\* (內蒙古日信投資(集團)有限公司) (“**Rixin**”) entered into an investment cooperation agreement, pursuant to which Inner Mongolia Youran and Rixin established a company for the investment in new dairy farms in the upstream dairy industry chain in the PRC. The registered capital of the company is RMB1 billion, of which Inner Mongolia Youran and Rixin contributed RMB510,000,000 and RMB490,000,000, respectively. For further details, please refer to the announcement of the Company dated June 17, 2022.

Save as disclosed above, the Group did not conduct any material acquisitions and/or disposals of subsidiaries and affiliated companies and joint ventures during the Reporting Period.

## Employee and Remuneration Policy

The following table sets forth the numbers of full-time staff dedicated to our business and operations by function as at December 31, 2022.

<b>Function</b>	<b>Number of Staff</b>	<b>% of Total</b>
Management personnel	1,360	11.9%
Administrative personnel	1,486	13.0%
Technicians	2,468	21.6%
Salespersons	356	3.1%
Skilled workers	4,863	42.5%
Housekeepers	916	8.0%
<b>Total</b>	<b>11,449</b>	<b>100.0%</b>

### Notes:

- (1) Administrative personnel primarily include staff who are responsible for human resources, finance and other corporate administrative functions.
- (2) Skilled workers primarily include electricians, maintenance workers, vehicle drivers in connection with our dairy farming activities and chefs that support our daily operations.
- (3) Housekeepers primarily include cleaning operatives.

Our success depends on our ability to attract, retain and motivate qualified employees. In this regard, the Group adhered to “building an efficient talent supply chain”, and made an overall plan on personnel security, capacity building, vitalizing, cultural construction, remuneration management and the improvement of labor efficiency to attract and retain excellent employees and maintain a stable core management and technical team for the Group. In particular:

- i. Personnel security: the Group established cooperation relationships with colleges to achieve the integration of industry, teaching and research and continuously introduce quality industry talents. We built a versatile management team comprising members with the same major and multiple skills, continued to improve the dual-track promotion mechanism of management and specialty, and upgraded the qualification management system to enhance the support of the career development of employees on our strategy.
- ii. Capacity building: in order to build a strategic talent team, the Group opened a career development path integrated with employee development and talent cultivation, strengthened the “combination of training and practice”, and based on a perfect talent cultivation system, cultivated elite employees in various forms, such as rotation training, online classes, offline special classes, talent cooperation and overseas study, to establish a hierarchical, branded and digitalized talent cultivation system. At the same time, the Group provided regular training and evaluation to its employees to enhance their performance. During the Reporting Period, the Group was awarded the best talent education award of the Executive Education Programme of Business School of Renmin University of China and the “Excellence Award for E-learning Operation” of Times Bright CreSuccess.

- iii. Initiating organization and incentive for change: during the Reporting Period, we initiated the strategic performance and organizational change program, and initiated the organization from definite value output requirements in different business stages/different role positionings, enhancing the undertaking of strategic/organizational key value and motivating employees to become outstanding value creators. Meanwhile, we made incentives in innovation, revenue generation and cost reduction to improve non-material incentive programs.
- iv. Cultural construction: through the leadership of senior management, strategic guidance, in-depth training, system integration, assessment management and innovation optimization, the Group has established a culture assessment mechanism, strengthened the recognition and incentive system, enhanced cultural integration and cultural influence, and promoted the incorporation of corporate culture into the whole process of the Company's operation and management to create the consistency in the understanding and cognition of culture and behavioral standards in the team, and build its irreproducible core competitiveness.
- v. Remuneration management and the improvement of labor efficiency: the Group carried out position value and salary matching from four perspectives, namely position, performance, personnel ability and market condition, and implemented a comprehensive remuneration management system based on market changes, continued to review and analyze the efficiency of job positions, and further improved the Group's per capita labor efficiency through taking measures such as the introduction of automated equipment and the change of management mode.

The total remuneration expenses, excluding share-based payments expenses and contributions to pension plans, were RMB1,012 million for the Reporting period, as compared to RMB901 million for the year ended December 31, 2021, representing a year-on-year increase of 12.3%.

### **Significant Events after the Reporting Period**

On November 28, 2022, the Company entered into the Shared Financial Services Framework Agreement (the "**Shared Financial Services Framework Agreement**") with Yili. The Shared Financial Services Framework Agreement shall be effective from January 1, 2023 until December 31, 2025, pursuant to which Yili shall provide accounting related shared financial services to the Group.

In view of the expiry of the Feed and Other Materials Supply Framework Agreement on December 31, 2022, the Group is expected to continue the transactions contemplated thereunder upon the expiry, and the Company has entered into the Purchase and Sale Framework Agreement (the "**Purchase and Sale Framework Agreement**") with YouYuan Farm on November 28, 2022. The Purchase and Sale Framework Agreement shall be effective for a period of three years commencing from January 1, 2023, pursuant to which YouYuan Farm shall purchase comprehensive ruminant farming solutions products and services from the Group.

For further details, please refer to the Company's announcement dated November 28, 2022.

Save as disclosed in this announcement, there are no other significant events that might affect the Group since December 31, 2022 up to the date of this announcement.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company was incorporated in the Cayman Islands on August 21, 2020 with limited liability, and the Shares of the Company were listed on the Main Board of the Stock Exchange on June 18, 2021 (the “**Listing Date**”).

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company’s corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board to all Shareholders of the Company. The Company had complied with all the applicable code provisions as set out in the Corporate Governance Code contained in Part 2 of Appendix 14 to the Listing Rules.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of the Company.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the Reporting Period.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors’ dealings in the securities of the Company. Having made specific enquiry of all the Directors, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code for the Reporting Period.

## **AUDIT COMMITTEE**

The Company has established the audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group. The Audit Committee comprises three members, namely Ms. Xie Xiaoyan (謝曉燕), Mr. Yao Feng (姚峰) and Mr. Qiu Zhongwei (邱中偉), with Ms. Xie Xiaoyan (謝曉燕) (being our independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise) as chairperson of the Audit Committee.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the Reporting Period and discussed matters with respect to the accounting policies and practices as well as internal control adopted by the Company with senior management members and the auditor of the Company.

## **OTHER BOARD COMMITTEES**

In addition to the Audit Committee, the Company has also established a nomination committee and a remuneration committee.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

As at November 30, 2022, the Company had redeemed 70% of the outstanding Convertible Notes held by PAG III and all the outstanding Convertible Notes held by Victory Ride Holdings Limited and Good Virtue Limited (嘉煌有限公司). For further details, please refer to the section headed "History, Reorganization and Group Structure – The Pre-IPO Investments – Issuance of Convertible Notes" of the Prospectus and the announcement of the Company dated November 28, 2022.

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the Reporting Period.

## **FINAL DIVIDEND**

In accordance with the Board resolution passed on March 30, 2023, the Board proposed to pay a final dividend for the year ended December 31, 2022 to Shareholders in cash at RMB0.022 per Share (including tax) (the "**Proposed Final Dividend**") (2021: Nil). The Proposed Final Dividend is expected to be paid to the Shareholders on or before June 15, 2023 if such proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company (the "**AGM**"). To determine the list of Shareholders entitled to receive the Proposed Final Dividend, the register of members of the Company will be closed from Wednesday, May 24, 2023 to Thursday, May 25, 2023 (both days inclusive), during which no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on Thursday, May 25, 2023 shall be entitled to receive the Proposed Final Dividend. To be eligible to receive the Proposed Final Dividend, all transfer documents shall be delivered, no later than 4:30 p.m. on Tuesday, May 23, 2023, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far Fast Finance Centre, 16 Harcourt Road, Hong Kong.

## **CLOSURE OF REGISTER OF MEMBERS**

The AGM will be held on Wednesday, May 17, 2023. The register of members of the Company will be closed from Friday, May 12, 2023 to Wednesday, May 17, 2023, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far Fast Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Thursday, May 11, 2023.

## USE OF PROCEEDS

The Shares of the Company were listed on the Main Board of the Stock Exchange on June 18, 2021. The net proceeds from the Global Offering, was approximately HK\$3,270 million, after deducting the underwriting commissions and offering expenses paid or payable, which will be gradually utilised for the following purposes as set out in the Prospectus:

There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus. Set out below is the status of the use of proceeds from the Global Offering as at December 31, 2022.

Purpose	% of use of proceeds	Net proceeds (RMB million)	Utilised amount up to December 31, 2022 (RMB million)	Utilised amount for the Reporting Period (RMB million)	Unutilised amount up to December 31, 2022 (RMB million)
Funding our investment projects over the next two years, including building our dairy farms under construction, new dairy farms and a feed mill and purchasing necessary facilities and equipment, to meet our increasing business demands and achieve sustainable growth through economies of scale	75%	2,033	1,573	442	460
Purchasing dairy cows for our dairy farms	15%	407	407	-	-
Working capital and general corporate purposes	10%	271	271	-	-
<b>Total</b>	<b>100%</b>	<b>2,711</b>	<b>2,251</b>	<b>442</b>	<b>460</b>

The Company expects to gradually apply the remaining unutilised net proceeds in the manner set out below:

- RMB460 million for the investment in construction projects, including dairy farms under construction, new dairy farms and feed mills, by December 31, 2023.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on March 30, 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at <https://www.yourandairy.com>, respectively. The annual report of the Group for the Reporting Period will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Shareholders in due course.

### DEFINITIONS

“Board” or “Board of Directors”	the board of Directors
“Bright Dairy Group”	the group of companies comprising Shanghai Bright Dairy & Food Co., Ltd. (上海光明乳業股份有限公司), a company incorporated in the PRC, and its subsidiaries, as a group being one of our customers
“China” or the “PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“China YouYuan”	China YouYuan Dairy Holdings Company Limited (中國優源牧業控股有限公司) (formerly known as China ZhongDi Dairy Holdings Company Limited (中國中地乳業控股有限公司)), an exempted company with limited liability incorporated in the Cayman Islands
“CNAS”	China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
“Company” or “our Company”	China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company with limited liability incorporated in the Cayman Islands on August 21, 2020
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Convertible Note(s)”	the convertible notes issued by the Company to each of the noteholders, particulars of which are set out in the Prospectus
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of our Company
“Feed and Other Materials Supply Framework Agreement”	the feed and other materials supply framework agreement entered into between Inner Mongolia Youran and China YouYuan on September 4, 2020



“Fonterra China Farms Group”	Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on December 14, 2010, and Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on February 11, 2014, both of which were wholly-owned subsidiaries of Fonterra Group before they were acquired by us in April 2021
“Fonterra Group”	Fonterra Co-operative Group Limited, a New Zealand based dairy cooperative company incorporated with limited liability under the laws of New Zealand on October 16, 2001
“Global Offering”	the Hong Kong Public Offering and the International Offering as defined in the Prospectus
“Group”, “we”, “us” or “our”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRSs”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Inner Mongolia Youran”	Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司), a company established under the laws of the PRC on August 1, 2007 and a subsidiary of the Company
“Junlebao Dairy”	the group of companies comprising Shijiazhuang Junlebao Dairy Co., Ltd. (石家莊君樂寶乳業有限公司), a company incorporated in the PRC, and its subsidiaries, as a group being one of our customers
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“PAG III”	PAGAC Yogurt Holding III Limited, an exempted company incorporated under the laws of the Cayman Islands on October 4, 2019, and a Controlling Shareholder of the Company



“period of 2021”	the year ended December 31, 2021
“Prospectus”	prospectus of the Company dated June 7, 2021
“Reporting Period”	the year ended December 31, 2022
“RMB”	Renminbi, the lawful currency of PRC
“Share(s)”	ordinary share(s) in the issued share capital of our Company with a par value of US\$0.00001 each
“Shareholder(s)”	holder(s) of the Share(s)
“SKX”	Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技術(集團)股份有限公司), a company established under the laws of the PRC and whose shares are listed on the National Equities Exchange and Quotations (stock code: 834179) which has been a subsidiary of the Company since January 8, 2020
“SOP”	Standard Operation Procedures
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TPM”	Total Productive Maintenance
“US\$” or “USD”	United States dollars, the lawful currency of the United States
“Yili”	Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company established under the laws of the PRC in June 1993 and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of our Controlling Shareholders
“YouYuan Farm”	Beijing YouYuan Farm Technology Corporation (北京優源牧業科技集團有限公司) (formerly known as ZhongDi Farm Technology Corporation (中地牧業科技集團有限公司)), a company established in April 2014 under the laws of PRC which is indirectly owned as to 72.84% by a wholly-owned subsidiary of Yili and as to 27.16% by the Company indirectly
“%”	per cent.

By order of the Board  
**China Youran Dairy Group Limited**  
**Zhang Yujun**  
*Chairman and Non-executive Director*

Hong Kong, March 30, 2023

*As at the date of this announcement, the executive Directors are Mr. Yuan Jun and Mr. Dong Jiping, the non-executive Directors are Mr. Zhang Yujun, Mr. Xu Jun, Mr. Xu, Zhan Kevin and Mr. Qiu Zhongwei, and the independent non-executive Directors are Ms. Xie Xiaoyan, Mr. Yao Feng and Mr. Shen Jianzhong.*