



優然牧業

YOURAN DAIRY

China Youran Dairy Group Limited

中國優然牧業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9858



優然牧業
YOURAN DAIRY



2022
ANNUAL REPORT

Company Profile

The Company was listed on the Stock Exchange of Hong Kong Limited on June 18, 2021 (stock code: 9858.HK). The Group is a leader in China's upstream dairy market with business covering the entire upstream dairy industry chain from breeding, feed to raw milk production, and has achieved a leading position in all business segments.

As of December 31, 2022, the Group operated 78 dairy farms, 15 feed mills, 14 forage grass plantation bases and 3 key breeding bases, with a herd size of dairy cows of nearly 500,000 heads. For the year ended December 31, 2022, the Group's raw milk production was approximately 2.38 million tons and the sales volume of concentrated feed of the Group was more than 1.09 million tons, making the Group the first company in China with external sales volume of ruminant concentrated feed over 1 million tons in the industry. The quality of the Group's self-produced alfalfa grass all reached Grade 1 and above, reaching the top level of alfalfa grass in the United States. The Group further strengthened the deep strategic partnership for its ruminant farming products marketplace business with 13 domestic and foreign well-known suppliers, including Diamond V, and developed products under its own brand of "Muyuanyouneng (牧元優能)", "Juyoudian (聚優典)", and "Chuweishi (芻衛士)". The sales volume of the Group's breeding products reached 1.23 million straws/units, and the Group produced nearly 14,000 sex-sorted breeding embryos, making us one of the dairy breeding companies in China that pioneered the large-scale production and commercial application of high-yield dairy cow sex-sorted embryos.

The Group is the first dairy farming company in the world to adopt the TPM system to establish a sustainable and standardized management model with industrial characteristics. Certified by the world's leading food safety and quality management system, the SQF Certification, the Group produced raw milk and feed products in accordance with the highest standards recognized worldwide. The Group is determined to lead the Chinese dairy farming industry in terms of quality development, and is committed to manufacturing and offering high-quality products, technologies and services, as well as improving its comprehensive competitiveness, repaying customers and Shareholders with superior products and excellent performance for their support for the Group, and continuously contributing to the healthy development of the Chinese dairy farming industry.





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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Xiaodong (張小東) (*President*)
(resigned on July 22, 2022)

Mr. Yuan Jun (袁軍) (*President*)
(appointed on July 22, 2022)

Mr. Dong Jiping (董計平)

Non-Executive Directors

Mr. Zhang Yujun (張玉軍) (*Chairman*)

Mr. Xu Jun (徐軍)

Mr. Xu, Zhan Kevin (許湛)

Mr. Qiu Zhongwei (邱中偉)

Independent Non-executive Directors

Ms. Xie Xiaoyan (謝曉燕)

Mr. Yao Feng (姚峰)

Mr. Shen Jianzhong (沈建忠)

AUDIT COMMITTEE

Ms. Xie Xiaoyan (謝曉燕) (*Chairman*)

Mr. Yao Feng (姚峰)

Mr. Qiu Zhongwei (邱中偉)

REMUNERATION COMMITTEE

Mr. Shen Jianzhong (沈建忠) (*Chairman*)

Ms. Xie Xiaoyan (謝曉燕)

Mr. Xu Jun (徐軍)

NOMINATION COMMITTEE

Mr. Yao Feng (姚峰) (*Chairman*)

Mr. Shen Jianzhong (沈建忠)

Mr. Xu, Zhan Kevin (許湛)

COMPANY SECRETARY

Ms. Yu Wing Sze (余詠詩)

AUTHORISED REPRESENTATIVES

Mr. Dong Jiping (董計平)

Ms. Yu Wing Sze (余詠詩)

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

Registered Public Interest Entity Auditor

REGISTERED OFFICE

89 Nexus Way

Camana Bay, Grand Cayman

KY1-9009, Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 169, Hexi Road, Saihan District

Hohhot, Inner Mongolia

China



Highlights

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

Note 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.

Note 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); (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).

Note 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.

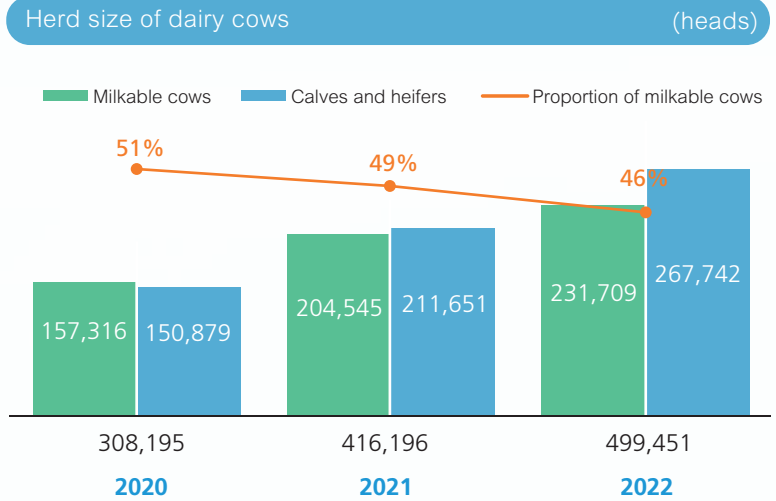
Note 4 It represents profit for the year excluding loss/gain arising from changes in fair value less costs to sell of biological assets.

Note 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.

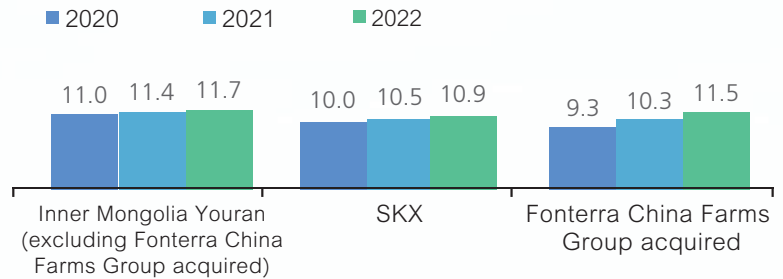
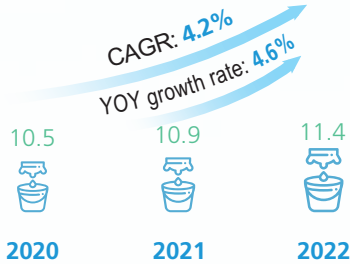
Shareholders and potential investors of the Company should note that the adjusted profit attributable to owners of the Company is not a measure required by or presented in accordance with the IFRSs.

Highlights

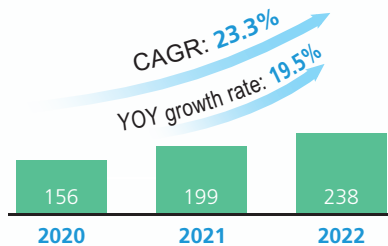
Raw Milk Business



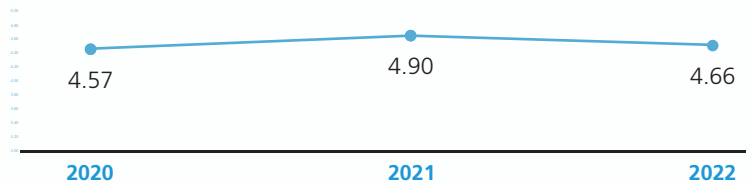
Annualised average milk yield per milkable cow (excluding Jerseys) (tons/head/year)



Raw milk production volume (0'000 tons)



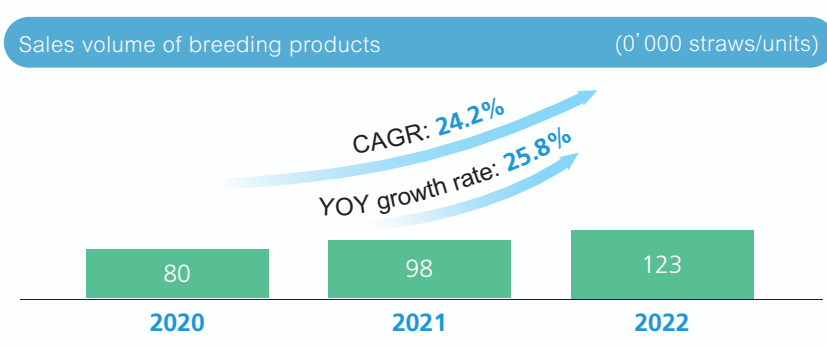
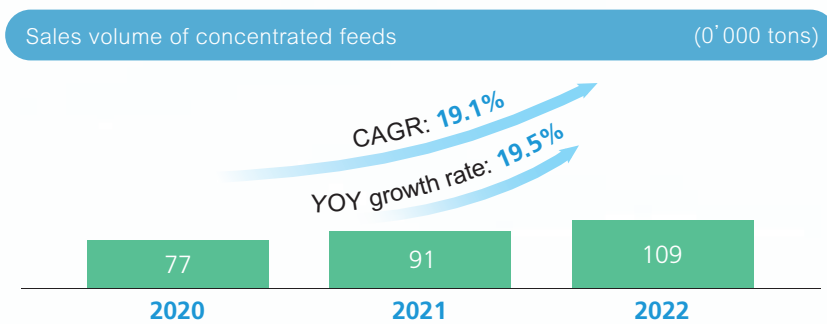
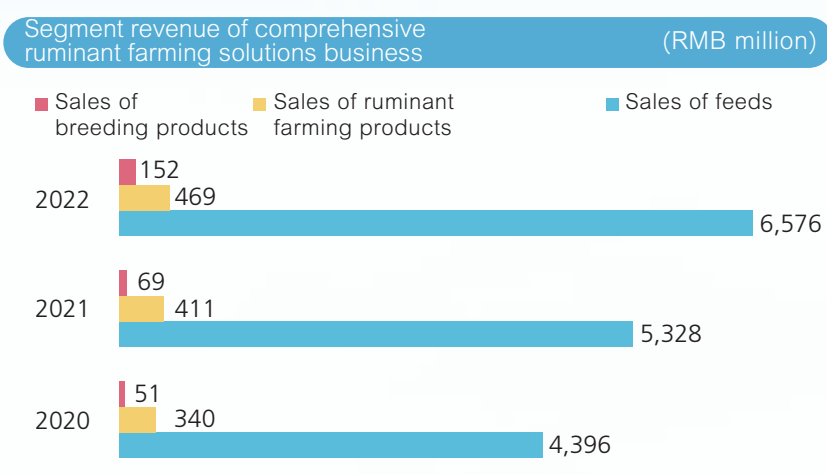
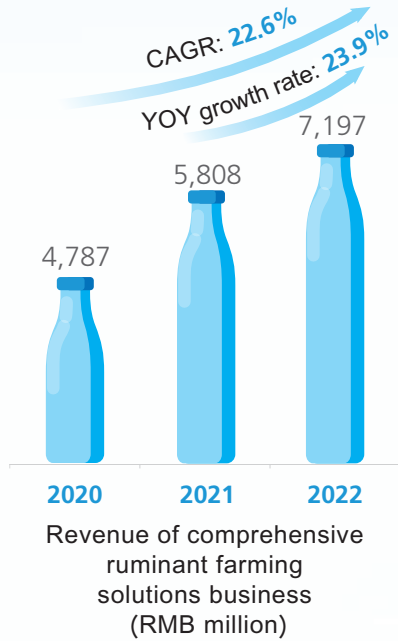
Average unit selling price of raw milk (RMB/kg)





Highlights

Comprehensive Ruminant Farming Solutions Business



Distribution Map of Production Bases



78 self-operated dairy farms

Covering 16 provinces, municipalities and autonomous regions with a herd size of nearly 500,000 dairy cows



15 feed mills

Covering 25 provinces, municipalities and autonomous regions, and serving around 1,500,000 ruminants



14 forage grass plantation bases

Having built forage grass plantation bases centered on Ar Horqin Banner, the China's "Grass Capital", for producing premium forage grass



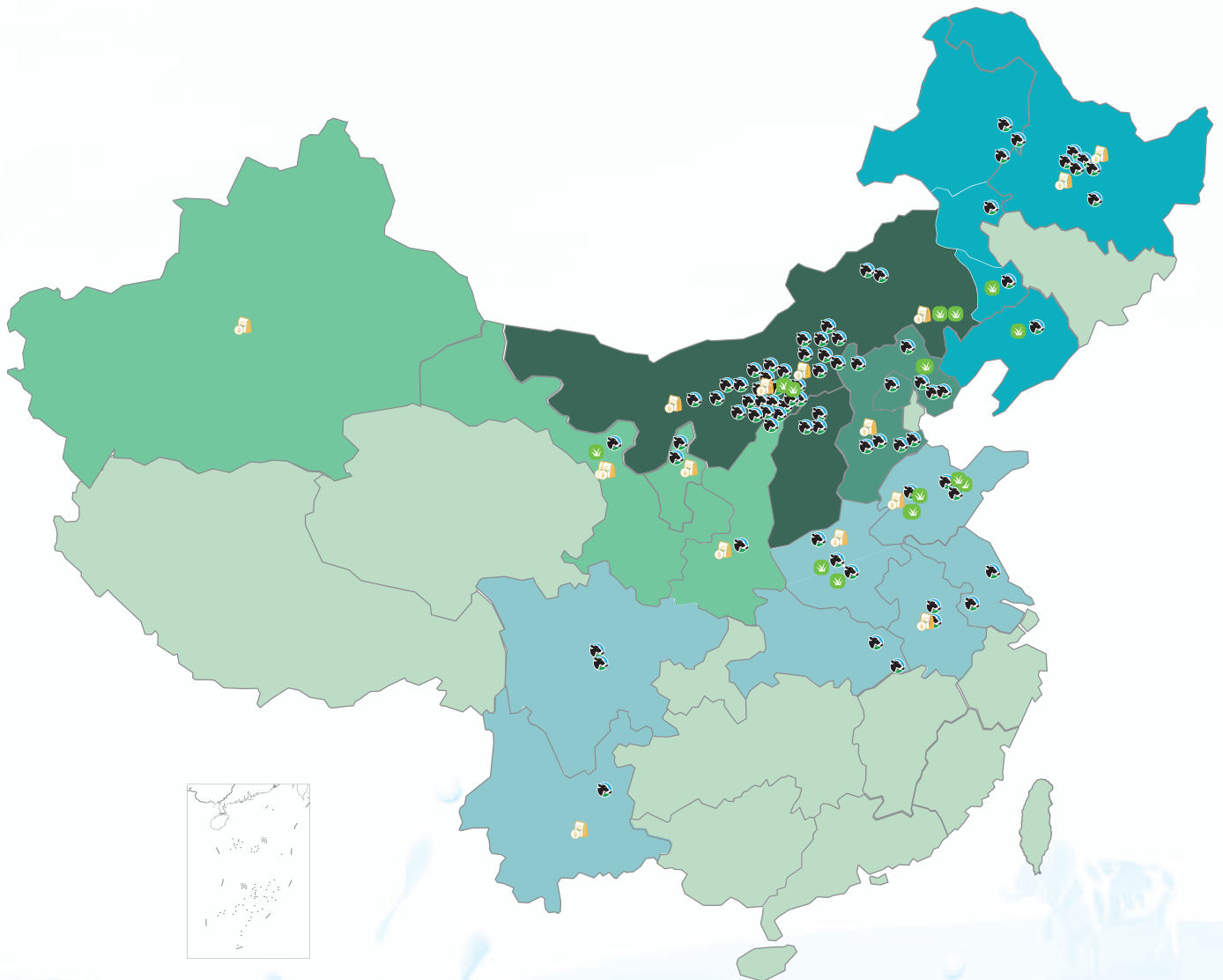
3 key breeding bases

The United States: Wisconsin
China: Horing and Qingshuihe



1 dairy industry chain platform

Industry chain financial center, warehousing and logistics center, cloud sharing center and global procurement center



Legend : self-operated dairy farms feed mills forage grass plantation bases



President's Statement

On behalf of the Board of China Youran Dairy Group Limited, I am pleased to present the results review and outlook of the Group for the year ended December 31, 2022 to all Shareholders.

Looking back at 2022, faced with the COVID-19 pandemic, the fragile recovery of the global economy, the outstanding challenges of climate change and complicated geopolitics, China responded calmly, maintained economic resilience and achieved continuous growth. Thanks to the growing consumer demand and power on domestic dairy products, the support of relevant policies on the industry as well as the struggling spirit and unremitting efforts of all staff of the Group with the spirit of "second entrepreneurship", the Group achieved steady growth in revenue from all businesses. It recorded total revenue of RMB18,051 million in the Reporting Period, representing an increase of 17.6% as compared with the period in 2021. However, due to the hiking prices of certain main raw materials and forage grass, the declining raw milk price and other factors, the profit attributable to owners of the Company was RMB415 million in the Reporting Period, representing a decrease of 73.4% as compared with the period in 2021.



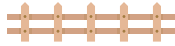
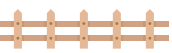


President's Statement

The Group focused on improving the quality and competitiveness of products with innovative technology, continuously advanced the reserve of core technological research and development talents, constantly expanded specialty raw milk category and enriched comprehensive ruminant farming solutions. It has successively developed and launched 7 specialty raw milk and proprietary concentrated feed products, such as structural calf feed, rumen bypass soybean meal, premixes and anti-heat stress feed and perinatal feed. The Group also established a leading ruminant nutrient database in China, developed leading genetic improvement technology and sex-sorting technology, continuously 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 has established extensive cooperation with well-known universities and research institutions, actively participated in the construction of the "Cows Breeding and Farming Technological Research Center", one of national dairy technological innovation centers, and undertook the program of "selecting the best candidates to undertake key research projects" for significant demonstration projects in "Rejuvenating Inner Mongolia Autonomous Region with Science and Technology". With the focus on cows breeding and farming, the exploration of quality breed of cows, alfalfa selection and selective breeding and other key technical issues in the upstream industrial chains of the dairy industry, the Group promoted studies on the transformation and application of technology and research and development results.

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, all the Group's products have passed the sampling inspection of quality conducted by national supervision and inspection authorities at all levels.





President's Statement

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 Internet of Things 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.

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 joined the United Nations Global Compact (UNGC), vigorously undertook more industrial responsibilities and social missions and contributed more intelligence and effort to the global sustainable development. The Group actively advanced the carbon neutrality strategy, proposed to achieve carbon peaking and carbon neutrality by 2030 and 2050, respectively, and took active actions to facilitate the implementation of measures under the carbon neutrality strategy. During the Reporting Period, the Group introduced photovoltaic energy to generate green power for self-consumption, and actively promoted the application of new energy and intelligent equipment to replace manual operation and accelerate the transformation of its energy structure. In the meantime, the Group increased energy-saving and transformation efforts to improve energy efficiency by replacing biomass boilers with air-source heat pumps and recovering waste heat in dairy farms and other measures. In addition, the Group developed and introduced core technologies for carbon reduction from ruminants, and made substantial progress in the research and development of reducing methane emissions from dairy cows' intestines. The Group continued to put the sustainable development strategy into practice by taking full advantage of the synergy between the business segments of dairy farming and forage grass plantation, and building ancillary forage grass plantation bases nearby its dairy farms. It actively cooperated with silage suppliers, and the actual land area under the integrated plantation and dairy farming model was approximately 2,502,000 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. It improved the quality of agricultural products and agricultural output, enhanced the production benefit and self-development ability of farmers and actively participated in the prevention and control of the pandemic. In addition, the Group continuously promoted animal protection, established the efficient clone technology system on cows, deer, dairy goats and other animals and constantly improved the genetic resources of animals on Mongolian Plateau.





President's Statement

2022 is the first year for the strategic upgrading of the Group. Facing various uncertainties in the future, the Group actively responded to challenges in the industry, seized opportunities and embraced certainties in high-quality development. It has embarked on the journey of technological and strategic transformation and set the strategic targets of "achieving breakthroughs through technological empowerment and improving efficiency with revenue doubled". It continuously advanced the implementation of six strategic measures, namely technology-driven innovation, platform synergy and scalability, lean production management, business empowerment with digitalization, talent development as well as green and sustainable development, to facilitate the high-quality and sustainable development of the Group. In addition, the Group released six business philosophies and relevant codes of conduct in line with the strategies during the Reporting Period, laying the cultural foundation for the high-quality and sustainable development.

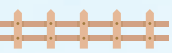
The Group will live up to expectations, continuously practice technological and strategic transformation, consolidate the long-term advantages of the Group and lead the Chinese dairy farming industry with high-quality development. The Group will always be committed to producing and providing quality products, technology and services to enhance its comprehensive competitiveness, reward customers and Shareholders with quality products and outstanding performance, and contribute its continuous efforts to the healthy development of the Chinese dairy industry.

Finally, on behalf of the Board, I would like to express our gratitude to the Shareholders who have always trusted and supported the Group. In a complicated and volatile market environment, the trust and recognition of Shareholders is our motivation to move forward, and I would like to sincerely thank the Board, the management team and all staff for their unwavering dedication in the past year.

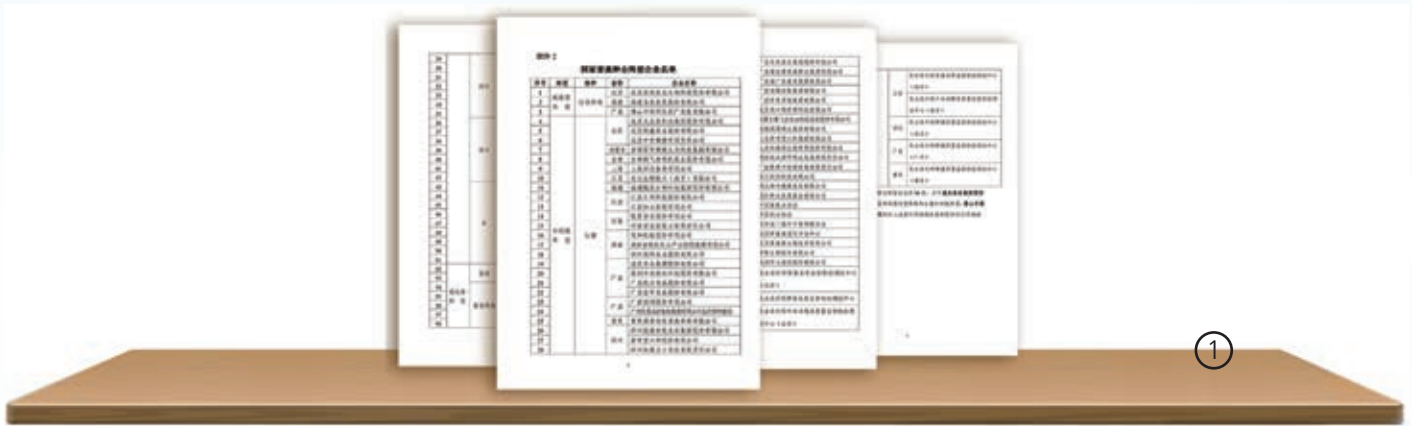
Yuan Jun

President





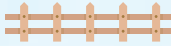
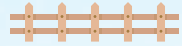
Awards and Recognition



No.	Awarded/Recognized Units	Names and Dates of Awards/Recognitions	Awarding/Recognizing Units
1	SKX	National Livestock and Poultry Breeding Industry Enterprise July 2022	The Ministry of Agriculture and Rural Affairs of the People's Republic of China



No.	Awarded/Recognized Units	Names and Dates of Awards/Recognitions	Awarding/Recognizing Units
2	SKX	National Dairy Technology Innovation Center-Cow Breeding and Farming Technology Research Center September 2022	National Dairy Technology Innovation Center
3	Inner Mongolia Youran	Selected Enterprise in Excellence Case Collections of Digital Transformation of the Dairy Industry of China September 2022	Dairy Association of China



Awards and Recognition



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No.	Awarded/Recognized Units	Names and Dates of Awards/Recognitions	Awarding/Recognizing Units
4	Inner Mongolia Youran	Selected Enterprise in the Research Report on Cow Welfare at China's Dairy Farms September 2022	Dairy Association of China
5	Inner Mongolia Youran	2022 Outstanding Dairy Product Processing Enterprise September 2022	Dairy Association of China

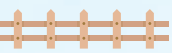


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No.	Awarded/Recognized Units	Names and Dates of Awards/Recognitions	Awarding/Recognizing Units
6	Inner Mongolia Youran	Science and Technology Innovation Award July 2022	Dairy Association of Inner Mongolia
7	Inner Mongolia Youran	2022 Best Talent Education Award for Renmin Business School EE Program December 2022	Renmin Business School



Awards and Recognition



No.	Awarded/Recognized Units	Names and Dates of Awards/Recognitions	Awarding/Recognizing Units
8	Inner Mongolia Youran	No.12 among the Top 100 Private Enterprises in Inner Mongolia December 2022	Inner Mongolia Federation of Industry and Commerce Inner Mongolia Development and Reform Commission
9	Inner Mongolia Youran	2022 Advancement Award for Animal Welfare Science September 2022	China Animal Health and Food Safety Alliance
10	The Company	Annual Sustainability Award of GuruClub Greater China Best Listed Company Awards December 2022	Gelonghui



No.	Awarded/Recognized Units	Names and Dates of Awards/Recognitions	Awarding/Recognizing Units
11	The Company	The 12th Golden Bauhinia Awards of China Securities—The Best Listed Company for ESG Practice December 2022	The Listed Companies Association of Beijing, the Hong Kong Chinese Enterprises Association, the Chinese Securities Association of Hong Kong and the Chinese Financial Association of Hong Kong
12	The Company	2022 Contribution Award for Double Carbon Action at the 12th Philanthropy Festival December 2022	syobserve.com
13	The Company	2022 Top 100 Listed Companies with Great Potential December 2022	xueqiu.com



Management Discussion and Analysis

INDUSTRY REVIEW

During the Reporting Period, despite the on-going impact of the 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.

Management Discussion and Analysis

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 from large-scale farms, 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.



Management Discussion and Analysis

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
Raw milk	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.
Comprehensive ruminant farming solutions	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.

Management Discussion and Analysis

Business Segments	Business Lines	Business Introduction	Operations	Revenue
	Ruminant farming products marketplace business	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>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 (犇衛士)", providing support for clients to reduce cost and improve efficiency.</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.
	Breeding business	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.	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.	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.



Management Discussion and Analysis

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:

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

Note 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.

Note 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.

Management Discussion and Analysis

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.

▼ Smart equipment in Chilechuan intelligent dairy farm





Management Discussion and Analysis

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.

▼ Youran Dairy’ six standards for the welfare of dairy cows





Management Discussion and Analysis

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;





Management Discussion and Analysis

- 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.

Management Discussion and Analysis

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.

▼ Organic Jersey calves



(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.



Management Discussion and Analysis

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.

Management Discussion and Analysis

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.



Management Discussion and Analysis

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 "rumen bypass protein portfolio 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.

▼ Eight concentrated feed brands



▼ Strategic cooperation with Dr. Mike Hutjens



Management Discussion and Analysis

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.





Management Discussion and Analysis

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.

▼ Homemade baled alfalfa silage



Management Discussion and Analysis

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 equipment 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 "Muyuanyoung" (牧元優能) fat powder, "Juyoudian" (聚優典) medical bath fluid, and "Chuweishi" (蜀衛士) 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.



Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

▼ Cloned cows “Youyou” and “Xingxing” produced by SKX during the Reporting Period





Management Discussion and Analysis

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 anti-heat stress feed and 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.

Management Discussion and Analysis

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 China GAP (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.



Management Discussion and Analysis

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. 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.

Management Discussion and Analysis

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.



Management Discussion and Analysis

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.

Management Discussion and Analysis

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.



Management Discussion and Analysis

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.

Management Discussion and Analysis

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 RMB'000	2021 RMB'000
Raw milk	10,853,917	9,537,814
Comprehensive ruminant farming solutions	7,196,844	5,808,353
Total	18,050,761	15,346,167

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.



Management Discussion and Analysis

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 RMB'000	2021 RMB'000
Raw milk	7,441,870	5,585,284
Comprehensive ruminant farming solutions	6,385,169	5,066,404
Total	13,827,039	10,651,688

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 "rumen bypass protein portfolio products" 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.

Management Discussion and Analysis

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:

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

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.



Management Discussion and Analysis

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.

Management Discussion and Analysis

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.



Management Discussion and Analysis

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: RMB69 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).

Management Discussion and Analysis

	For the year ended December 31,	
	2022 RMB'000	2021 RMB'000
Profit attributable to owners of the Company	414,771	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	523,801	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
Less: the reversal of loss on arbitration regarding the adjustments made to the consideration for acquisition of SKX	49,234	–
Non-IFRSs measure:		
Adjusted profit attributable to owners of the Company	889,338	2,040,400

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:

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



Management Discussion and Analysis

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.

Management Discussion and Analysis

Indebtedness

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

Contingent Liabilities

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

Net Gearing Ratio

As at December 31, 2022, the Group's net gearing ratio was 135.0%, representing an increase of 66.4 percentage points as compared to 68.6% as at December 31, 2021, mainly due to the increase in bank and other borrowings as a result of the centralized construction of various dairy farms by the Group on the golden milk source belt. Net gearing ratio is calculated as net debt (equivalent to bank and other borrowings, plus convertible notes, less bank balances and cash, and less pledged and restricted bank deposits and deposits placed with a related party under current assets) divided by total equity and multiplied by 100%.



Management Discussion and Analysis

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 annual report, 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 annual report, as of December 31, 2022, the Group did not have other plans for material investments and capital assets.

Management Discussion and Analysis

Material Acquisitions and/or Disposals of Subsidiaries and Affiliated Companies

i. Acquisition of 27.16% equity interest in Wholesome Harvest Limited (“Wholesome Harvest”)

Details of this transaction are set out in the section headed “Connected Transactions” in this annual report.

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.

Function	Number of Staff	% of Total
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%
Total	11,449	100.0%

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.



Management Discussion and Analysis

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%.

Report of Directors

The Board of the Company is pleased to present this report of Directors together with the consolidated financial statements of the Group for the year ended December 31, 2022.

Directors

The Directors who held office during the year ended December 31, 2022 and up to the Latest Practicable Date are:

Executive Directors:

Mr. Zhang Xiaodong (張小東) (*President*) (*resigned on July 22, 2022*)

Mr. Yuan Jun (袁軍) (*President*) (*appointed on July 22, 2022*)

Mr. Dong Jiping (董計平)

Non-Executive Directors

Mr. Zhang Yujun (張玉軍) (*Chairman*)

Mr. Xu Jun (徐軍)

Mr. Xu, Zhan Kevin (許湛)

Mr. Qiu Zhongwei (邱中偉)

Independent Non-executive Directors

Ms. Xie Xiaoyan (謝曉燕)

Mr. Yao Feng (姚峰)

Mr. Shen Jianzhong (沈建忠)

Biographical details of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 70 to 76 of this annual report.

In accordance with Article 108 of the Articles of Association, Mr. Zhang Yujun, Mr. Xu, Zhan Kevin and Ms. Xie Xiaoyan shall retire at the AGM. In accordance with Article 112 of the Articles of Association, Mr. Yuan Jun shall retire at the AGM. All of the above Directors, being eligible, will offer themselves for re-election at the AGM.



Report of Directors

Changes in Director's Information

Changes in Director's information are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Name of Director	Details of Change
Mr. Zhang Xiaodong	Resigned as an executive Director and the president of the Company with effect from July 22, 2022.
Mr. Yuan Jun	Appointed as an executive Director and the president of the Company with effect from July 22, 2022.

Save as disclosed above, the Company is not aware of other changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

General Information

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

Principal Activities

Through its two business segments, namely, raw milk and comprehensive ruminant farming solutions, the Group primarily provides premium raw milk to large-scale dairy manufacturers and offers ruminant farming products and services to dairy farms in the PRC. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

Results

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 99 of this annual report.

Business Review

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance and an indication of likely future developments in the Group's business, is set out in the sections headed "Management Discussion and Analysis" of this annual report. Events affecting the Company that have occurred since the end of the financial year are set out in the section headed "Significant Events After the Reporting Period" in this report. An account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company is set out in the sections headed "Relationship with Suppliers", "Relationship with Customers" and "Relationship with Employees" of this annual report. These discussions form part of this annual report. Further information regarding the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company has been included in the Environmental, Social and Governance Report published by the Company on April 24, 2023.

Report of Directors

Environmental Policies and Performance

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and contributing to the development of the community and achieving sustainable growth. Details are set out in the “Environmental, Social and Governance Report” published on April 24, 2023, and printed copies will only be provided upon specific request.

Compliance with the Relevant Laws and Regulations

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended December 31, 2022, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

Major Customers and Suppliers

Customers

The Group’s customers mainly include dairy manufacturers and dairy farms. In particular, Yili Group (Yili and its subsidiaries and associates from time to time, collectively “**Yili Group**”) is, and has been, a major customer, and the Group’s success partially depends on its long-term and stable cooperation with Yili, which is a controlling shareholder.

During the Reporting Period, revenue generated from the Group’s top five customers was RMB11,544 million (2021: RMB9,563 million), representing 64.0% (2021: 62.3%) of the Group’s total revenue. During the same period, the Group generated revenue of RMB10,485 million (2021: RMB8,757 million) from sales of raw milk to Yili Group, our largest customer, representing 96.6% (2021: 91.8%) of our total raw milk revenue during the Reporting Period.

As at the Latest Practicable Date, Yili was a controlling shareholder of the Company. Save for the aforementioned, none of the Group’s Directors, their respective close associates, or any Shareholder who, to the best knowledge of the Directors, own more than 5% of the Company’s issued capital, had any interest in any of the Group’s five largest customers during the Reporting Period.

As disclosed on page 297 of the Prospectus, in respect of the comprehensive ruminant farming solutions business segment of the Group, a number of customers who make purchases from the Group are also raw milk suppliers of Yili Group (the “**Overlapping Parties**”). Since 2013, the Group, Yili Group and the Overlapping Parties have been entering into certain entrusted payment arrangements, pursuant to which the Overlapping Parties would generally enter into a tripartite agreement with Yili Group and the Group and entrust Yili Group to pay to the Group the amount payable by such Overlapping Parties to the Group, after which Yili Group shall deduct the relevant amount from the balance of the amount owed by Yili Group to such Overlapping Parties. During the Reporting Period, the revenue contribution from the Overlapping Parties as at December 31, 2022 to the Group’s total revenue amounted to approximately 1.3%. Further details of the Overlapping Parties and the Group’s arrangements with the Overlapping Parties are set out in the Prospectus.



Report of Directors

Suppliers

The Group's suppliers primarily include suppliers of feed ingredients and forage grass, ruminant farming products and farm construction services and equipment.

The purchases from the Group's top five largest suppliers accounted for less than 30% of the total purchases of the Group during the Reporting Period.

Relationship with Customers

The Group is committed to providing premium raw milk and comprehensive ruminant farming solutions to its customers. To achieve the Group's strategic goals, and to consolidate the Group's long-term advantages of "the most comprehensive upstream dairy industry chain, the largest scale, the best structure and layout, and the efficient operation", the Group will aim to continuously improve its products and services, and provide our customers with timely, convenient and diversified premium products, solutions and services to better satisfy customers' needs, and empower the revitalisation of China's dairy industry.

Relationship with Suppliers

The Group has implemented strict procurement policies for selecting and managing cooperative suppliers to ensure safe, reliable and high-quality supplies. The Group evaluates suppliers based on their market reputation and ranking, industry experience, quality control system, and source control measures, and conducts thorough sample tests or on-site inspections on feed ingredients and forage grass suppliers to ensure that suppliers and their products meet the quality standards of the Group. The Group also enhances the capability of its suppliers through various means to achieve the long-term stable cooperation between the Group and its suppliers. In addition, the Group actively explores value-added business opportunities with strategic partners, enhances its relationships with suppliers to create a "sustainable win-win ecosystem". The Group has incorporated human rights principles into our Supplier Code of Conduct, and requires suppliers not to discriminate on the grounds of race, colour, disability, nationality or sexuality in hiring and employment matters.

Report of Directors

Relationship with Employees

The Group always adheres to the people-oriented concept, strictly complies with the requirements of national laws and regulations, formulates sound internal management systems and procedures, and actively safeguards the rights and interests of employees in employment and recruitment, remuneration and welfare, working hours and holidays, etc. The Group supports and respects human rights principles and rights that are internationally recognised, such as the International Bill of Human Rights, the International Labour Conventions, the Declaration on Fundamental Principles and Rights at Work and Guiding Principles for Business and Human Rights. We also formulated and made public the Human Rights Policy, committing to adhering to the United Nations' sustainable development goals in its business operation. The immutable goal of its human rights development is to safeguard the employees' interest, with an aim to promote the openness, inclusiveness and prosperity of the value chain. The Group conducts business operations with integrity, openness and respect for human rights to contribute to the realization of the United Nations' sustainable development goals and to avoid infringing on other persons' human rights. Meanwhile, the Group puts emphasis on production safety and employee health, and actively establishes sound production safety and occupational health management systems, striving to create a safe and healthy working environment for employees. In addition, the Group attaches great importance to the cultivation of talents, and continuously improves the management on employee training, to promote the long-term development of employees and the Company; and to practice our caring for employees, the Group also implements work priorities in employee care, featured activities, democratic communications and other work and improves its labour union management platform, faithfully caring for employees. For the details of the relationship between the Group and its employees, please refer to the section headed "Employee and Remuneration Policy" and "Diversity of the Board and Employees" in this report.

Financial Summary

A summary of the audited consolidated results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 213 of this annual report. This summary does not form part of the audited consolidated financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

Tax Relief and Exemption

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



Report of Directors

Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 53 to the consolidated financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the Reporting Period are set out in Note 17 to the consolidated financial statements.

Share Capital and Shares Issued

Details of movements in the share capital of the Company during the Reporting Period and details of the Shares issued during the Reporting Period are set out in Note 41 to the consolidated financial statements.

Donation

During the Reporting Period, the Group made charitable donations of approximately RMB3 million (2021: RMB3 million).

Debenture Issued

The Group did not issue any debenture during the Reporting Period.

Equity-linked Agreements

No equity-linked agreements were entered into by the Group, or existed during the Reporting Period.

Dividends

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 to be held on Wednesday, May 17, 2023, the dividend is expected to be paid on or before Thursday, June 15, 2023 to Shareholders whose names appear on the register of members of the Company on Thursday, May 25, 2023. The final dividend shall be declared in RMB and paid in HKD. The final dividend payable in HKD will be converted from RMB to HKD at the average exchange rate of HKD against RMB to be announced by the People's Bank of China on May 17, 2023.

No Shareholder has waived or agreed to waive any dividends for the Reporting Period.

Report of Directors

Permitted Indemnity

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force during the Reporting Period. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

Distributable Reserves

The Company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business.

As at December 31, 2022, the Company had distributable reserves of RMB6,025 million (2021: RMB6,727 million).

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2022 are set out in the consolidated statement of changes in equity on page 102 and in Note 54 to the consolidated financial statements, respectively.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at December 31, 2022 are set out in Note 35 to the consolidated financial statements.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with our Company. The initial term of their respective service contract shall commence from the date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice.

Each of the non-executive Directors has entered into a service contract and each of the independent non-executive Directors has entered into an appointment letter with our Company. The initial term for their service contracts or appointment letters shall commence from the date of their appointment for a period of three years until terminated in accordance with the terms and conditions of the service contract or appointment letter or by either party giving to the other not less than one month's prior notice in writing.

The above appointments are always subject to the provisions of retirement and re-election of Directors under the Articles of Association.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



Report of Directors

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in the Prospectus and in this annual report, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the Reporting Period.

Contracts with Controlling Shareholder

As at the Latest Practicable Date, each of Yili and PAG was a controlling shareholder of the Company. Save as disclosed in the Prospectus and in this annual report, to the best knowledge and belief of our Directors, Yili and PAG have no contracts of significance with us.

Management Contracts

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Reporting Period.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any of Its Associated Corporations

As at December 31, 2022, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

Report of Directors

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at December 31, 2022, so far as is known to any Directors or chief executive of the Company, the following parties (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Number of Shares ⁽¹⁾	Percentage of issued share capital (%) ⁽²⁾
Yili ⁽³⁾	Interest in controlled corporations	1,320,800,000(L)	34.80(L)
China Youran Dairy Holding Limited ⁽³⁾	Beneficial interest	800,000,000(L)	21.08(L)
Jingang ⁽³⁾	Beneficial interest	520,800,000(L)	13.72(L)
PAG ⁽⁴⁾	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
Pacific Alliance Group Limited ⁽⁴⁾	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
Shan Weijian ⁽⁴⁾	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
PAG Capital Limited ⁽⁴⁾	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
PAG Dairy GP I Limited ⁽⁴⁾	Interest in controlled corporations	1,044,550,742(L)	27.52(L)
PAG Dairy I LP ⁽⁴⁾	Interest in controlled corporations	1,044,550,742(L)	27.52(L)
PAG II ⁽⁴⁾	Beneficial interest	822,602,530(L)	21.67(L)
PAG III ⁽⁴⁾	Beneficial interest	221,948,212(L)	5.85(L)
PAG Asia Capital GP I Limited ⁽⁴⁾	Interest in controlled corporations	371,583,651(L)	9.79(L)
PAG Asia I LP ⁽⁴⁾	Interest in controlled corporations	371,583,651(L)	9.79(L)
PAG I ⁽⁴⁾	Beneficial interest	371,583,651(L)	9.79(L)
Meadowland Investment Limited Partnership ⁽⁵⁾	Beneficial interest	564,982,819(L)	14.89(L)

Notes:

1. The letter "L" denotes the Shareholder's long position in such Shares.
2. The percentages are calculated on the basis of 3,795,404,000 Shares in issue as at December 31, 2022.



Report of Directors

3. China Youran Dairy Holding Limited directly held 800,000,000 Shares and Jingang directly held 520,800,000 Shares. Each of China Youran Dairy Holding Limited and Jingang is a wholly-owned subsidiary of Yili. Accordingly, Yili was deemed to be interested in an aggregate of 1,320,800,000 Shares.
4. PAGAC Yogurt Holding I Limited ("PAG I") directly held 371,583,651 Shares in the long position, and PAGAC Yogurt Holding II Limited ("PAG II") held 822,602,530 Shares in the long position. In addition, PAG III was interested in 221,948,212 Shares by way of subscription of Convertible Notes in the amount of US\$99 million. PAG I, PAG II and PAG III are each wholly-owned subsidiaries of funds managed by PAG Capital Limited. PAG I is a wholly-owned subsidiary of PAG Asia I LP, whose general partner is PAG Asia Capital GP I Limited. Accordingly, PAG Asia I LP and PAG Asia Capital GP I Limited were deemed to be interested in 371,583,651 Shares. PAG II and PAG III are each wholly-owned subsidiaries of PAG Dairy I LP, whose general partner is PAG Dairy GP I Limited. Accordingly, PAG Dairy I LP and PAG Dairy GP I Limited were deemed to be interested in an aggregate of 1,044,550,742 Shares. PAG Capital Limited is indirectly held as to 100% by Pacific Alliance Group Limited, which is in turn indirectly held as to 100% by PAG. PAG is indirectly held as to 35.21% by Mr. Shan Weijian. Accordingly, PAG Capital Limited, Pacific Alliance Group Limited, Mr. Shan Weijian and PAG were deemed to be interested in an aggregate of 1,416,134,393 Shares in the long position.
5. Meadowland Investment Limited Partnership is an exempted limited partnership established under the laws of the Cayman Islands.

Save as disclosed above, as at December 31, 2022, so far as the Directors are aware, no other parties had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to section 336 of the SFO.

Directors' Rights to Acquire Shares or Debenture

Save as disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

Emolument Policy and Directors' Remuneration

In compliance with Rule 3.25 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in Note 14 to the consolidated financial statements.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

For the Reporting Period, the aggregate amount of remuneration (including basic salaries, housing allowances, other allowances, and benefits in kind, contributions to pension plans and discretionary bonuses) for our Directors was approximately RMB3 million (as set out in Note 14 to the consolidated financial statements).

Report of Directors

Directors' Interests in Competing Business

During the Reporting Period, none of our Directors controlled a business similar to principal business of the Group that competes or is likely to compete, either directly or indirectly, with our Group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

Connected Transactions

Set out below are the details in relation to connected transactions entered into by the Group during the Reporting Period and are required under the Listing Rules to be disclosed in the annual report and consolidated financial statements of the Company.

1. Disclosable and connected transaction in relation to the acquisition of 27.16% of the total issued share capital of Wholesome Harvest

On March 2, 2022, the Company, YeGu Investment Company Limited ("Yegu") and Mr. Zhang Jianshe entered into a share transfer agreement, pursuant to which the Company conditionally agreed to purchase, and YeGu conditionally agreed to sell, approximately 27.16% of the authorised issued and outstanding shares of Wholesome Harvest for a consideration of HK\$1,206,380,000.

Yili, through Jingang, holds approximately 72.84% of the authorised issued and outstanding shares of Wholesome Harvest, and Yili is the controlling shareholder of the Company. Accordingly, the share transfer constitutes a connected transaction of the Company under Rule 14A.28 of the Listing Rules.

Wholesome Harvest wholly owns China YouYuan, which in turn wholly owns YouYuan Farm that operates dairy farms in China. The transaction would enable the Group to invest in additional dairy farms and to explore potential collaboration opportunities in the future, which will be favourable 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.

2. Connected transaction in relation to the establishment of a joint venture

On October 26, 2022, Inner Mongolia Youran, Yili, Inner Mongolia Dairy Technology Research Institute Co., Ltd. ("Dairy Technology Research Institute"), Ausnutria Dairy (China) Co., Ltd. ("Ausnutria"), and BIOFLAG CO., LTD. ("Bioflag") entered into the capital contribution agreement (the "Capital Contribution Agreement"), pursuant to which Inner Mongolia Youran and the other joint venture parties established a joint venture for the innovation, research and development of the businesses related to dairy products, raw milk and comprehensive ruminant farming solutions in the PRC. The joint venture shall be established with effect from the date of issuance of the business licence and shall operate for a period of 30 years.



Report of Directors

The registered capital of the joint venture will be RMB100,000,000, which shall be contributed by Inner Mongolia Youran and the other joint venture parties as follows:

Yili	RMB73,000,000
Inner Mongolia Youran	RMB10,000,000
Dairy Technology Research Institute	RMB10,000,000
Ausnutria	RMB5,000,000
Bioflag	RMB2,000,000

Yili is a controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. In addition, Dairy Technology Research Institute is a wholly-owned subsidiary of Yili and Ausnutria is a non-wholly-owned subsidiary of Jingang, which is in turn a wholly-owned subsidiary of Yili. Therefore, each of Dairy Technology Research Institute and Ausnutria is an associate of Yili and also a connected person of the Company under the Listing Rules.

For further details, please refer to the announcement of the Company dated October 26, 2022.

Continuing Connected Transactions

Set out below is a table in relation to continuing connected transactions conducted by the Group during the Reporting Period and are required under the Listing Rules to be disclosed in the annual report and consolidated financial statements of the Company.

Continuing Connected Transactions	Proposed Annual Cap in 2022/ Maximum daily balance of deposits (including the interest accrued thereon) (RMB million)	Actual Transaction Amount in 2022 (RMB million)
<i>Partially-exempt continuing connected transactions</i>		
Feed and Other Materials Supply Framework Agreement		
Supply of materials (including but not limited to feed, veterinary drugs and bath fluid) to YouYuan Farm	350	132.7
Dairy Products Purchase Framework Agreement		
Purchase of dairy products from Yili	90	52.5
Financial Services Framework Agreement		
Provision of deposit services by Yili Finance Company to the Group	750	719.6
<i>Non-exempt continuing connected transactions</i>		
Raw Milk Purchase and Sale Framework Agreement		
Sale of raw milk to Yili Group	12,500	10,485.1

Report of Directors

Partially exempt continuing connected transactions

Set out below is a summary of the continuing connected transactions of the Group which are subject to the reporting, annual review and announcement requirements but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

1. Feed and Other Materials Supply Framework Agreement

The Group has been supplying YouYuan Farm with various types of feed and ruminant farming materials in the past. In view of the continuous demand for feed and ruminant farming materials from YouYuan Farm, on September 4, 2020, Inner Mongolia Youran, entered into the Feed and Other Materials Supply Framework Agreement with China YouYuan, pursuant to which Inner Mongolia Youran and its subsidiaries and associates would supply materials (including but not limited to feed, veterinary drugs and bath fluid) to YouYuan Farm. China YouYuan is an associate of Yili, the controlling shareholder of the Company and accordingly a connected person of the Company.

The term of the Feed and Other Materials Supply Framework Agreement is from December 2, 2020 to December 31, 2022.

Further details of the Feed and Other Materials Supply Framework Agreement are set out in the Prospectus.

2. Dairy Products Purchase Framework Agreement

In order to ensure business operations in the foreseeable future, the Company and Yili entered into a dairy products purchase framework agreement on May 17, 2021, pursuant to which Yili Group would supply dairy products, such as milk powder, feed-grade milk powder, etc. to the Group on a long-term basis. Yili is a controlling shareholder of the Company and accordingly a connected person of the Company.

The Dairy Products Purchase Framework Agreement has a term of three years commencing from the Listing Date.

Further details of the Dairy Products Purchase Framework Agreement are set out in the Prospectus and the announcement of the Company dated August 29, 2022.

3. Financial Services Framework Agreement

On September 28, 2021, the Company entered into the Financial Services Framework Agreement with Yili Finance Company, pursuant to which Yili Finance Company agreed to provide a range of financial services to the Group, including the deposit services, settlement services (including collection, payment or internal settlement services and other settlement services approved by the CBIRC), and other financial services (including financial and financing consulting services, credit certification and related consulting and agency services, and other services approved by the CBIRC), for a term commencing from September 28, 2021 to December 31, 2023. As Yili is a controlling shareholder of the Company, Yili and its associates are connected persons of the Company under the Listing Rules. As Yili Finance Company is a subsidiary of Yili, Yili Finance Company is an associate of Yili and accordingly a connected person of the Company under the Listing Rules.

Further details of the Financial Services Framework Agreement are set out in the announcement of the Company dated September 28, 2021.



Report of Directors

Non-exempt continuing connected transactions

Set out below is a summary of the continuing connected transaction of the Group which is subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Raw Milk Purchase and Sale Framework Agreement

In order to secure uninterrupted supply of high-quality raw milk in the foreseeable future, on May 17, 2021, our Company and Yili entered into the Raw Milk Purchase and Sale Framework Agreement, pursuant to which our Group would provide long-term supply of raw milk to Yili Group. Yili is a controlling shareholder of the Company and accordingly a connected person of the Company under the Listing Rules.

The Raw Milk Purchase and Sale Framework Agreement shall have a term of three years commencing from the Listing Date.

Further details of the Raw Milk Purchase and Sale Framework Agreement are set out in the Prospectus.

Confirmation from Independent Non-Executive Directors

All the above continuing connected transactions for the Reporting Period have been reviewed by the independent non-executive Directors. The independent non-executive Directors have confirmed that each of the continuing connected transactions has been entered into: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmations from the Auditor

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the Reporting Period: (a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board; (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (d) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Report of Directors

A summary of all significant transactions with related parties (the “**Related Party Transactions**”) entered into by the Group during the Reporting Period is contained in note 48 to the consolidated financial statements. During the Reporting Period, other than the continuing connected transactions of the Group set out above which are disclosed pursuant to the Listing Rules, no Related Party Transactions disclosed in note 48 to the consolidated financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the Reporting Period.

Convertible Notes

In November 2020, the Company issued the Convertible Notes in the aggregate principal amount of US\$460 million to several pre-IPO investors with a conversion price of US\$0.44605 per Share.

As of 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 ICBC and BOC in the principal amount of US\$286 million. The redemption price paid by the Company was determined with reference to the principal amount of the redeemed Convertible Notes, together with the applicable interest accrued thereon up to the date of the redemption. Save for the aforesaid, none of the Convertible Notes has been converted, redeemed, repurchased or cancelled during the Reporting Period.

As of December 31, 2022, the principal amount of outstanding Convertible Notes was US\$174 million.

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, the announcement of the Company dated November 28, 2022 and note 40 to the consolidated financial statements.

Purchase, Sale or Redemption of the Company’s Listed Securities

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.

Material Litigation

On September 5, 2019, SKX brought a contractual claim against Guangming Dairy Company Limited (“**Bright**”), claiming damages for the late payment and price difference under a raw milk purchase and sale agreement and seeking termination of such agreement pursuant to the terms therein. The final judgments in Bright’s litigations against SKX and SKX’s litigations against Bright were rendered on June 20, 2022 and June 22, 2022, respectively. Pursuant to the judgments of Bright’s litigation against SKX, SKX shall pay Bright liquidated damages of approximately RMB8.8 million, and pursuant to the judgments of SKX’s litigations against Bright, Bright shall pay SKX milk price of approximately RMB9 million.

For further details, please refer to the section headed “Business – Legal proceedings – Litigations between SKX and Guangming” as disclosed in the Prospectus.

Save as disclosed above, the Company was not involved in any material litigation or arbitration during the Reporting Period and the Directors are also not aware of any material litigation or claims that were pending or threatened against the Group during the Reporting Period.



Report of Directors

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	–	–
Total	100%	2,711	2,251	442	460

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.

PUBLIC FLOAT

As disclosed in the Prospectus, the Stock Exchange has granted the Company a waiver (the “Waiver”) from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules, which requires that at least 25% of an issuer’s total issued share capital must be held at all times by the public. Pursuant to the Waiver, the Company’s minimum public float shall be 18.85% of the Company’s total issued share capital.

Report of Directors

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the Latest Practicable Date, the Company had maintained the aforementioned prescribed percentage of minimum public float under the Waiver. For further information on the Waiver, please refer to pages 101 and 102 of the Prospectus and the company information sheet of the Company dated March 30, 2022.

AUDITOR

The consolidated financial statements of the Group have been audited by Deloitte Touche Tohmatsu, Registered Public Interest Entity Auditors, who will retire and, being eligible, offer themselves for re-appointment at the AGM.

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 annual report, no significant events affecting the Company occurred since the end of the Reporting Period and up to the Latest Practicable Date.

By order of the Board

Zhang Yujun

Chairman and Non-executive Director

Hong Kong

March 30, 2023



Biographical Details of Directors and Senior Management

The Board consists of two executive Directors, four non-executive Directors and three independent non-executive Directors.

Directors

Executive Directors

Mr. Yuan Jun (袁軍), aged 43, has been appointed as an executive Director and the president of the Company with effect from July 22, 2022. Mr. Yuan has over 24 years of experience in dairy industry and is primarily responsible for our Group's overall operation and management.

Mr. Yuan joined Yili in July 1998 and has over 24 years of experience in the dairy industry. He started his career in the liquid milk division (液態奶事業部) of Yili, and then served as the production manager, assistant to the factory head, assistant to the general manager and general manager of various subsidiaries under the liquid milk division and the cold drink division (冷飲事業部) of Yili from May 2000 to February 2011. Mr. Yuan successively served as the production manager, assistant to the general manager and deputy general manager of the production management department under the cold drink division of Yili from February 2011 to July 2016. He successively served as the deputy general manager of the raw milk division, deputy general manager and senior deputy general manager of the liquid milk division of Yili (in charge of the overall raw milk business of Yili) from August 2016 to July 2022.

Mr. Yuan has also served as a director and president of Inner Mongolia Youran, the Company's major operating subsidiary in the PRC, and he served as non-executive director of SKX, a subsidiary of the Company in the PRC, since February 2020.

Mr. Yuan graduated from Tianjin University of Science & Technology (天津科技大學) in 2005, majoring in food science and engineering.

Mr. Dong Jiping (董計平), aged 42, joined our Group since November 2015, and was appointed as Director of our Company on August 24, 2020 and designated as an executive Director and appointed as vice president on November 15, 2020. Mr. Dong has over 18 years of experience in dairy industry and is primarily responsible for the management of our Group's legal compliance and external relations.

Mr. Dong joined Yili in July 2004. He started his career at the liquid milk division (液態奶事業部) of Yili responsible for the procurement business and worked as the secretary to the president's office of Yili from June 2005 to April 2012. Subsequently, he worked as the planning director (企劃總監) of strategy management department of Yili from April 2012 to November 2015.

Mr. Dong is also a director and the vice president of Inner Mongolia Youran, the Company's principal operating subsidiary in the PRC and a director of Inner Mongolia Shengde Hetai Business Co., Ltd., a subsidiary of the Company.

Mr. Dong obtained his bachelor's degree in biotechnology from Northeast Forestry University (東北林業大學) in July 2004.

Biographical Details of Directors and Senior Management

Non-executive Directors

Mr. Zhang Yujun (張玉軍), aged 53, was appointed as a Director of our Company on August 24, 2020 and designated as a non-executive Director and appointed as the chairman of the Board on November 15, 2020. Mr. Zhang has over 27 years of experience in dairy industry and is primarily responsible for strategic planning of our Group and the management of the Board.

Mr. Zhang joined Yili in July 1995. He started his career in the frozen products division (冷凍公司) of Yili and served as a squad leader from July 1995 to September 1996. He served as the department head of production department at the mineral drink division (礦飲公司) of Yili from October 1996 to December 1999. He further served as the general manager of mineral drinking division (礦飲公司) of Yili from January 2000 to September 2001. Subsequently, he worked at the powdered milk division (奶粉事業部) of Yili, served as the assistant to general manager from October 2001 to December 2005 and the vice general manager of milk powder sales and marketing division (奶粉事業部) from December 2005 to June 2007. Mr. Zhang worked as the vice general manager in sales and marketing department directly under the liquid milk division (液態奶事業部) from July 2007 to June 2016. He further served as the vice general manager in sales and marketing department at yogurt division (酸奶事業部) of Yili from June 2016 to July 2017. From July 2017 to August 2019, he served as the general manager of liquid milk division (液態奶事業部) of Yili. Since August 2019, Mr. Zhang has worked as the assistant to the president of Yili and the general manager of liquid milk division (液態奶事業部) of Yili.

Mr. Zhang is also a director and the chairman of Inner Mongolia Youran, our principal operating subsidiary in the PRC. He has also served as the chairman of SKX, a subsidiary of our Company in the PRC, since February 2020.

Mr. Zhang obtained his bachelor's degree in philosophy from Inner Mongolia University (內蒙古大學) in July 1995. Mr. Zhang was awarded the qualification as an intermediate economist (中級經濟師) in December 2003.

Mr. Xu Jun (徐軍), aged 51, joined our Group since November 2015, and was appointed as a Director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Xu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Xu joined Yili in August 1996. He worked as a director of the corporate management division of the dairy food limited (奶食品有限責任公司) from February 1998 to May 2000, as a director of the corporate management division of the department and a human resource director of the human resource division of liquid milk division (液態奶事業部) from June 2000 to March 2005, as the vice general manager of the strategic sourcing department (戰略採購部) from April 2005 to December 2005, as the general manager of the cold drink department (冷飲事業部) from January 2006 to September 2012, as the president of the milk powder department (奶粉事業部) from September 2012 to December 2016, as the general manager of the human resource department (人力資源部) from December 2016 to July 2017. Subsequently, he has been the assistant to the president (總裁助理) of Yili since August 2017.

Mr. Xu is also a director of Inner Mongolia Youran, our principal operating subsidiary in the PRC.

Mr. Xu obtained his bachelor's degree in economic management from the University of Inner Mongolia (內蒙古大學) in July 1996.



Biographical Details of Directors and Senior Management

Mr. Xu, Zhan Kevin (許湛), aged 41, was appointed as a Director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr Xu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Xu served at Morgan Stanley Asia Limited from January 2006 to August 2007. He served as an associate at TPG Capital Limited from August 2007 to June 2009, a senior associate at Apax Partners Hong Kong Limited from November 2009 to August 2011, and a managing director at PAG Asia Capital since September 2011. Mr. Xu serves as a non-executive director of Alphamab Oncology (康寧傑瑞生物製藥), a company listed on the Stock Exchange (stock code: 9966) since November 2018.

Mr. Xu is also a director of Inner Mongolia Youran, our principal operating subsidiary in the PRC.

Mr. Xu obtained his bachelor's degree in electronic engineering from Zhejiang University (浙江大學) in June 2003 and his master's degree of management science and engineering from Stanford University in January 2006.

Mr. Qiu Zhongwei (邱中偉), aged 54, was appointed as a Director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Qiu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Qiu started his career at China Huaneng Group Corporation (中國華能集團公司), a company listed on the Shanghai Stock Exchange (stock code: 600011). From March 2000 to October 2004, he served as the vice president and chairman of Yintai Holdings Limited (銀泰控股公司), from January 2005 to March 2015, he served as the managing director of the management committee and general manager of the strategic research and business development department of Beijing Hony Yuanfang Investment Consultant (北京弘毅遠方投資顧問). He has been the president and managing director of PAG Asia Capital since April 2015. Mr. Qiu has served as a director of Beijing Investment Development Co. Ltd. (京投發展股份有限公司) a company listed on the Shanghai Stock Exchange (stock code: 600683) since December 2017.

Mr. Qiu is also a director of Inner Mongolia Youran, our principal operating subsidiary in the PRC, and he has also served as director of SKX, a subsidiary of the Company in the PRC, since February 2020.

Mr. Qiu obtained his bachelor's degree in engineering from Xi'an Jiaotong University (西安交通大學) in July 1990 and his master's degree in business administration from Northwestern University and Hong Kong University of Science and Technology in November 2003.

Independent Non-executive Directors

Ms. Xie Xiaoyan (謝曉燕), aged 52, has been an independent non-executive Director of the Company since June 7, 2021. Ms. Xie is primarily responsible for supervising and providing independent judgment to our Board.

Ms. Xie worked at Inner Mongolia Dahua Certified Public Accountant (內蒙古大華會計師事務所, previously known as Inner Mongolia Certified Public Accountant (內蒙古會計師事務所)) as auditor, project manager, principal accountant and senior accounting manager from January 1997 to July 2006. Ms. Xie has been working at Inner Mongolia University of Technology (內蒙古工業大學) responsible for the teaching and research works for undergraduate and graduate students since August 2006 and is currently a professor of the Department of Accounting of School of Economic and Management of Inner Mongolia University of Technology (內蒙古工業大學).

Biographical Details of Directors and Senior Management

Ms. Xie has served as an independent director of Inner Mongolia Junzheng Energy & Chemical Group Co. Ltd. (內蒙古君正能源化工集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 601216.SH)) from June 2014 to June 2020; and an independent director of Inner Mongolia Jinyu Group Co., Ltd. (內蒙古金宇集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600201.SH)) from May 2007 to May 2013. She has also served as an independent director of Inner Mongolia Datang Pharmaceutical Co. (內蒙古大唐藥業股份有限公司) (a company listed on the Beijing Stock Exchange (stock code: 836433)) since April 14, 2020, and Jinhe Biotechnology CO., LTD. (金河生物科技股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002688.SZ)) since April 2020.

Ms. Xie is a national advanced accountant (全國先進會計工作者), and obtained the Second Prize of Government Award for Outstanding Achievements in Philosophy and Social Sciences (哲學社會科學優秀成果政府獎二等獎) presented by the government of Inner Mongolia Autonomous Region. Ms. Xie is currently a Chinese certified public accountant, certified tax agent, senior accountant and qualified with a certificate of independent directorship.

Ms. Xie graduated from the University of Inner Mongolia (內蒙古大學) in 2003, and obtained a master degree in political economics from the Normal University of Inner Mongolia (內蒙古師範大學) in 2006 and a doctor degree of agricultural economic management from the Agricultural University of Inner Mongolia (內蒙古農業大學) in 2010.

Mr. Yao Feng (姚峰), aged 62, has been an independent non-executive Director of the Company since June 7, 2021. Mr. Yao is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Yao held the position of deputy director at the integrated planning department of the Ministry of Finance of the PRC, a vice president of the securities department and general manager of enterprise management department of China Economic Development Trust & Investment Corporation (中國經濟開發信託投資公司) from March 1993 to April 1997, a vice president of the financial and securities department of China National Travel Service (HK) Group Corporation (香港中旅(集團)有限公司) from April 1997 to July 1998, and a vice general manager of China Travel Financial Investment Holdings Co., Limited (香港中旅金融投資有限公司) from July 1998 to June 1999.

Mr. Yao successively served in various positions of the China Securities Regulatory Commission from June 1999 to May 2013, including the director of institution regulatory department, a party committee member and deputy officer of Guangzhou Securities Regulatory Office, a party committee member and deputy director of Guangzhou Regulatory Bureau, a deputy officer of the risk management office for securities companies, and an inspector and deputy officer of the accounting department from January 2001 to September 2011, and a commissioner of Shanghai Supervision Office of the Commissioner from September 2011 to May 2013. Mr. Yao successively served in China Association of Public Companies (中國上市公司協會) from May 2013 to April 2016 as the secretary of the party committee, the executive vice-chairman and legal representative. Mr. Yao served as the vice-chairman and legal representative of China Association of Public Companies from April 2016 to April 2017. Mr. Yao served as the deputy mayor of Hangzhou Municipal People's Government from June 2017 to October 2019. Mr. Yao served as the deputy secretary of the party committee and the head of supervisors of China Association of Public Companies from June 2019 to September 2019. Mr. Yao has served as an independent non-executive director of Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) (a company listed on the Stock Exchange (stock code: 1905)) from March 2020.



Biographical Details of Directors and Senior Management

Mr. Yao was a member of the first session of self-regulatory committee of the Shenzhen Stock Exchange from December 2014 to December 2017 and an adjunct professor of China University of Political Science and Law (中國政法大學) from June 2015 to June 2018. Mr. Yao has been a council member of the Business School of China University of Political Science and Law since May 2017.

Mr. Yao obtained a bachelor's degree in national economic planning from Hubei Institute of Finance and Economics (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1983 and a masters' degree in economics from Zhongnan University of Finance and Economics (中南財經大學) (currently known as Zhongnan University of Economics and Law) in June 1997.

Mr. Shen Jianzhong (沈建忠), aged 59, has been an independent non-executive Director since June 7, 2021. Mr. Shen is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Shen has been working at China Agricultural University since 1988 and is currently the dean of the school of veterinary medicine (動物醫學院) of China Agricultural University (中國農業大學), a director of the national assessment center for safety of animal drugs (國家獸藥安全評價中心), a director of the national laboratory on standards of residual veterinary drugs (國家獸藥殘留基準實驗室), and an expert of the Joint FAO and WHO Expert Committee on Food Additives (世界糧農組織和世衛組織食品添加劑聯合專家委員會會議).

Mr. Shen was awarded the second prize of the National Award for Progress in Science and Technology (國家科技進步二等獎) in 2006 and the second prize of the National Award for Technological Invention (國家技術發明二等獎) in 2015 and was elected as an academician of the Chinese Academy of Engineering (中國工程院院士) in 2015.

Mr. Shen obtained a master's degree of agriculture from Beijing Agricultural University (北京農業大學) in 1988 and a doctorate degree of science from China Agricultural University (中國農業大學) in 1997.

Senior Management

Mr. Yuan Jun (袁軍), aged 43, is the executive Director and president of our Company. Please see above for further details.

Mr. Dong Jiping (董計平), aged 42, is the executive Director and vice president of our Company. Please see above for further details.

Mr. Jiang Guangjun (姜廣軍), aged 49, joined our Group in December 2019, and was appointed as the vice president of our Company on November 15, 2020. Mr. Jiang has over 24 years of experience in dairy industry and is primarily responsible for the Group's quality, safety and environmental management and the operation and management of some farms.

Biographical Details of Directors and Senior Management

Mr. Jiang started his career at the cold drink division (冷飲事業部) of Yili in July 1998 and served as a quality inspector at the chocolate egg roll workshop (巧克力蛋捲車間) from July 1998 to January 2000. He then worked at the No.2 workshop of Jinchuan Factory (金川廠) under liquid milk division (液態奶事業部) of Yili for various positions, including as section chief from January 2000 to January 2001, as production manager from January 2001 to September 2002, and as the assistant to the factory head from September 2002 to February 2004. He then served as the general manager at Xilinhot Branch of liquid milk division (液態奶事業部) of Yili from February 2004 to September 2004, the general manager at Qiqihar Branch of liquid milk division (液態奶事業部) of Yili from October 2004 to September 2005, the general manager at Baotou Yili Dairy Co., Ltd. (包頭伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from October 2005 to November 2010. He was the president of Ningxia Yili Dairy Co., Ltd. (寧夏伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from November 2010 to August 2012, and was then promoted and worked as its senior president from August 2012 to August 2013. He served at the supply department in liquid milk division (液態奶事業部) of Yili, as the deputy supervisor in supply (person in charge) from August 2013 to February 2018, and as the supervisor in supply from February 2018 to December 2018. He worked as the vice president at the liquid milk division (液態奶事業部) of Yili from December 2018 to December 2019.

Mr. Jiang is the vice president of Inner Mongolia Youran, the Company's principal operating subsidiary in the PRC, since December 2019, and he has been director of SKX, a subsidiary of the Company in the PRC, since September 2020, and he has also been director of Youmu Investment Management since June 2022.

Mr. Jiang obtained his bachelor of engineering degree, majoring in food science and engineering from Inner Mongolia Agriculture University (內蒙古農業大學) in July 1998.

Mr. Xu Yanfei (許燕飛), aged 42, joined our Group in August 2008 and was appointed as a vice president of our Company on November 15, 2020. Mr. Xu has over 16 years of experience in farm management, and is responsible for overseeing and managing the overall operations of our Group's farms.

Mr. Xu started his career in Yili's raw milk division and served as the quality controller and system operator of the raw milk division from 2006 to 2007; and as the general manager of project management department of the raw milk division from 2007 to 2008. From 2008 to 2017, he served as a veterinarian, the group leader of the milking department, the deputy manager of the milking department, the manager of the milking department, the manager of the feeding department, the assistant to dairy farm manager and the dairy farm manager, during which he was assigned to study for one year at a farm of 10,000 cows in Florida, U.S. from 2011 to 2012. From July 2017 to December 2018, he served as the assistant general manager of the husbandry unit of Inner Mongolia Youran, a principal operating subsidiary of the Company in China; the vice president of Inner Mongolia Youran and was responsible for husbandry business from December 2018 till now.

Mr. Xu is also a director of a number of subsidiaries of Inner Mongolia Youran, the Company's principal operating subsidiary in the PRC.

Mr. Xu obtained his bachelor's degree in agriculture from the Agricultural University of Inner Mongolia (內蒙古農業大學) in June 2006, majoring in animal medicine. He was awarded May 1 Labour Medal in the Inner Mongolia Autonomous Region (內蒙古自治區五一勞動獎章) and "Labour Model of Hohhot" (呼和浩特市勞動模範), and was the torchbearer for the Beijing Winter Olympics in 2022.



Biographical Details of Directors and Senior Management

Mr. Yang Ming (楊明), aged 43, joined our Group in 2002 and was appointed as the vice president of our Company on November 15, 2020. Mr. Yang has over 20 years of experience in the ruminant feed industry, and is responsible for overseeing and managing overall operation of our Group's feed business.

Mr. Yang started his career in Inner Mongolia Muquan Yuanxing Feed Co., Ltd. ("**Yuanxing Feed**") in 2002 and worked on procurement business. From 2002 to 2008, he served at multiple positions including production director, production manager, the manager of marketing department, regional manager and other positions in Yuanxing Feed. He was promoted as the deputy general manager of Yuanxing Feed in 2008 and in charge of its operations in 2014. Since July 2015, he has served as the vice president of Inner Mongolia Youran, our principal operating subsidiary in the PRC and is in charge in feed business.

Mr. Yang is also a director of a number of subsidiaries of Inner Mongolia Youran, the Company's principal operating subsidiary in the PRC.

Mr. Yang completed his junior college education in the Agricultural University of Inner Mongolia (內蒙古農業大學) in July 2002, majoring in animal husbandry and medicine and completed undergraduate study in the Agricultural University of Inner Mongolia in July 2005, majoring in animal medicine.

Mr. Lv Xiongyu (呂雄宇), aged 51, joined our Group since January 2022 and was appointed as the vice president and the secretary to the Board of our Group. Mr. Lv has more than 20 years of experience in dairy industry, and is primarily responsible for the work related to the Board office of our Group while in charge of investor affairs and financial management.

From July 1994 to March 2003, Mr. Lv worked in Armed Police of China 5303 Factory (武警五三零三工廠), holding various positions such as statistics, auditing, comprehensive operation and management, etc. From March 2003 to March 2015, he worked in Yili, successively serving as the auditor of liquid milk division (液態奶事業部) of Yili, the financial manager of Shuozhou Yili Dairy Co., Ltd. (朔州伊利乳業有限責任公司) and Hefei Yili Dairy Co., Ltd. (合肥伊利乳業有限責任公司), the marketing and finance director of the finance department and the assistant to the chief financial officer at liquid milk division (液態奶事業部) of Yili; and the deputy marketing and finance director and the budget management director of the financial management department of Yili. From April 2015 to August 2019, Mr. Lv worked in our Group, successively serving as the chief financial officer of Inner Mongolia Youran (a principal operating subsidiary of the Company in the PRC) and the assistant deputy director of finance of SKX. He was concurrently appointed as the secretary to the Board of Inner Mongolia Youran since May 2016, and also serving as a director of Inner Mongolia Youran from November 2015 to December 2019; and from August 2019 to January 2022, he worked in Yili as the head of its M&A department.

Mr. Lv has also been director of Youmu Investment Management, a subsidiary of the Company, since June 2022.

Mr. Lv graduated from Inner Mongolia Forestry College in July 1994, majoring in forestry economics and management. He was qualified as an intermediate auditor in October 1998.

Corporate Governance Report

The Board of Directors is pleased to present the corporate governance report for the Company for the Reporting Period.

Corporate Governance Practices

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

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. The Company has adopted the principles set out in the Corporate Governance Code in Appendix 14 to the Listing Rules as its own corporate governance code and applied them to its corporate governance structure and practices. Please refer to this Corporate Governance Report for the application of these principles.

During the Reporting Period, the Company had complied with all the applicable code provisions as set out in the CG Code.

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

Model Code for Securities Transactions

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 during the Reporting Period.

Board of Directors

Board Composition

During the Reporting Period and as at the Latest Practicable Date, the Board comprised two executive Directors, four non-executive Directors and three independent non-executive Directors.



Corporate Governance Report

The composition of the Board is as follows:

Executive Directors

Mr. Zhang Xiaodong (張小東) (*President*) (*resigned on July 22, 2022*)

Mr. Yuan Jun (袁軍) (*President*) (*appointed on July 22, 2022*)

Mr. Dong Jiping (董計平)

Non-executive Directors

Mr. Zhang Yujun (張玉軍) (*Chairman*)

Mr. Xu Jun (徐軍)

Mr. Xu, Zhan Kevin (許湛)

Mr. Qiu Zhongwei (邱中偉)

Independent non-executive Directors

Ms. Xie Xiaoyan (謝曉燕)

Mr. Yao Feng (姚峰)

Mr. Shen Jianzhong (沈建忠)

The biographical details of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 70 to 76 of this annual report, in which a diversity of skills, expertise, experience and qualifications of the Directors is contained.

There are no financial, business, family or other material/relevant relationships between the members of the Board.

Chairman and President

The positions of Chairman and President are held by Mr. Zhang Yujun and Mr. Yuan Jun, respectively. The Chairman provides leadership and is responsible for the management of the Board. The President focuses on the Company’s overall operation and management.

Corporate Governance Report

Board Meetings, Committee Meetings and General Meetings

During the Reporting Period, the Board held eight meetings, and the attendance of Directors at Board meetings, committee meetings, the annual general meeting and the extraordinary general meeting, whether in person or by means of electronic communication, is detailed in the table below:

Name of Director	Board	Remuneration Committee	Nomination Committee	Audit Committee	General Meeting
Executive Directors:					
Mr. Zhang Xiaodong (<i>for the period from January 1, 2022 to July 22, 2022</i>)	5/5	N/A	N/A	N/A	2/2
Mr. Yuan Jun (<i>for the period from July 22, 2022 to December 31, 2022</i>)	4/4	N/A	N/A	N/A	N/A
Mr. Dong Jiping	8/8	N/A	N/A	N/A	2/2
Non-executive Directors:					
Mr. Zhang Yujun	8/8	N/A	N/A	N/A	1/2
Mr. Xu Jun	8/8	1/1	N/A	N/A	2/2
Mr. Xu, Zhan Kevin	8/8	N/A	1/1	N/A	1/2
Mr. Qiu Zhongwei	7/8	N/A	N/A	3/3	1/2
Independent Non-executive Directors:					
Ms. Xie Xiaoyan	8/8	1/1	N/A	3/3	2/2
Mr. Yao Feng	8/8	N/A	1/1	3/3	2/2
Mr. Shen Jianzhong	8/8	1/1	1/1	N/A	1/2

Apart from regular Board meetings, the Chairman of the Board also held meetings with the independent non-executive Directors without the presence of other Directors during the Reporting Period.

Independence of Independent Non-Executive Directors

During the Reporting Period, the Board at all times met the requirements under Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Board has received from each of the independent non-executive Directors a written annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules.



Corporate Governance Report

Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service agreement with the Company. The initial term of their respective service contract is from the date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice. Each of the non-executive Directors has entered into a service contract and each of the independent non-executive Directors has entered into an appointment letter with our Company. The initial term for their service contracts or appointment letters is from the date of their appointment for a period of three years until terminated in accordance with the terms and conditions of the service contract or the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

All the Directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles of Association.

At every annual general meeting of the Company, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. Any Directors appointed by the Board to fill a casual vacancy shall hold office only until the first annual general meeting of the Company after his/her appointment and be subject to re-election at such meeting. Accordingly, Mr. Zhang Yujun, Mr. Yuan Jun, Mr. Xu, Zhan Kevin and Ms. Xie Xiaoyan shall retire at the forthcoming AGM and be eligible, and they will offer themselves for re-election.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors, officers and senior management of the Company arising out of corporate activities.

Corporate Governance Report

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees") as detailed in this report.

Board Committees

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee, and the Nomination Committee for overseeing particular aspects of the Company's affairs. Each of these committees is established with defined written terms of reference.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG 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, Mr. Yao Feng and Mr. Qiu Zhongwei. Mr. Qiu Zhongwei is a non-executive Director and each of Ms. Xie Xiaoyan and Mr. Yao Feng is an independent non-executive Director. Ms. Xie Xiaoyan, being our independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise, is the chairperson of the Audit Committee.



Corporate Governance Report

The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

During the Reporting Period, the Audit Committee held three meetings to review the Company's annual results and annual report for the year ended December 31, 2021 and the interim results and interim report for the six months ended June 30, 2022 and the appointment of external auditors to provide non-audit services and its scope of work. During the meetings, the Audit Committee also reviewed the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, and the appointment of external auditors and relevant scope of works.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee consists of three Directors, namely Mr. Shen Jianzhong, Ms. Xie Xiaoyan and Mr. Xu Jun. Mr. Xu Jun is a non-executive Director and each of Mr. Shen Jianzhong and Ms. Xie Xiaoyan is an independent non-executive Director. Mr. Shen Jianzhong is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include, among other things (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management, including fixed pay, annual bonuses, shares or other incentive awards, benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment or alternatively, making recommendations to the Board on such remuneration packages; and (iii) reviewing performance-related elements of the total remuneration package for executive Directors to align their interests with those of Shareholders.

The terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

During the Reporting Period, the Remuneration Committee held one meeting to review the remuneration policy and structure of the Company and make recommendation to the Board on the remuneration packages of individual executive Directors and senior management.

Details of the Directors' remuneration for the year ended December 31, 2022 are set out in Note 14 to the consolidated financial statements.

The remuneration of the senior management (other than Directors) of the Group by band for the Reporting Period is set out below:

Remuneration bands (HKD)	Number of persons
HK\$1,000,001-HK\$1,500,000	4
HK\$1,500,001-HK\$2,000,000	1
Total	5

Corporate Governance Report

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of three members, namely, Mr. Yao Feng, Mr. Shen Jianzhong and Mr. Xu, Zhan Kevin. Mr. Xu, Zhan Kevin is a non-executive Director and each of Mr. Yao Feng and Mr. Shen Jianzhong is an independent non-executive Director. Mr. Yao Feng is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession.

The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

During the Reporting Period, the Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and consider the qualifications of the retiring Directors standing for election at the forthcoming AGM and Board diversity policy and its implementation.

Diversity of the Board and Employees

The Board

In order to enhance the effectiveness of the Board and to maintain the high standard of corporate governance, the Company adopted the board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of the Board. The Company believes that increasing diversity at the Board level is the basic element to support the attainment of the Company’s strategic objectives and sustainable development. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors when selecting the candidates to the Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution that the selected candidates will bring to the Board.

The Board currently consists of one female Director and eight male Directors. The Nomination Committee considers that the Board is diverse in terms of gender taking into account the business needs of the Company, and has the Directors have a balanced mix of knowledge and skills, including but not limited to business management, veterinary medicine, biotechnology and financial management. They obtained degrees in various majors including economics, engineering and management. The Board of Directors are of the view that the Board satisfies the Board Diversity Policy. The Nomination Committee is responsible for ensuring the diversity of our Board members when identifying people suitably qualified to become Board members, having evaluated the scope and responsibility of the required position. Different means will be used by the Nomination Committee in the identification of candidates, including recommendations from members of the Board, use of independent recruitment consultants and any other means or channels that it deems appropriate. During the Reporting Period, the Board conducted a review of the implementation and effectiveness of the Board Diversity Policy, and considered that the experience and competence of the Directors in all aspects and areas could enable the Company to maintain operation at a high standard.



Corporate Governance Report

Employees

The Group is committed to promoting diversity in its workforce, providing an open and inclusive work environment with equal opportunities and protecting the rights of women and minorities. We prohibit any form of harassment or discrimination on the basis of race, colour, age, gender, sexuality, gender identity or expression, disability, pregnancy, religion, political affiliation, veteran status, labour union membership, and the discrimination in hiring or employment practices with respect to marital status, promotion, awards or access to training. The Group embraces people of all genders. The Group recruitment strategy is to hire the right person for the right job, regardless of gender. The Group is committed to providing equal opportunities for its employees in recruitment, training and development, position promotion and remuneration. In addition, the Group is committed to value creation, promotes the 4P remuneration philosophy and implements the “broadband remuneration” plan. Workers with the same level of skill and labour proficiency are paid for the same work, regardless of gender, age, ethnicity, disability, region, etc., as long as they can provide the same amount of labour in different ways.

As at December 31, 2022, female employees represented 28% of the total workforce (including senior management) and 11% of the Board seats. Going forward, we will continue to work towards enhancing gender diversity of the Board and the Group’s employees and when recruiting staff at mid to senior level so that we will have a pipeline of female senior management and potential successors to the Board.

Director Nomination Policy

The Company has adopted a director nomination policy (the “**Director Nomination Policy**”) in accordance with the CG Code. The Director Nomination Policy sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company’s business.

The Nomination Committee shall identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

The Director Nomination Policy sets out the non-exhaustive factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Integrity and reputation;
- Educational background, professional qualifications and work experience (including part-time jobs);
- Whether or not they have the necessary skills and experience;
- Whether or not they are able to spend sufficient time and energy to handle the Company’s affairs;

Corporate Governance Report

- Whether or not they will promote the diversity of the Board in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and term of office;
- Whether or not the candidates for independent non-executive Directors meet the requirements for independence under Rule 3.13 of the Listing Rules; and
- Any other relevant factors as determined by the Nomination Committee or the Board from time to time.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the Director Nomination Policy, from time to time and as appropriate, to ensure its effectiveness.

Corporate Governance Function

The Board is responsible for performing the functions set out in code provision A.2.1 of the CG Code.

The Board would review the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the CG Code and disclosure in its Corporate Governance Report.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

Dividend Policy

The Company has adopted a dividend policy on payment of dividends in accordance with code provision F.1.1 of the CG Code.

According to the dividend policy, payment of dividends depends on a number of factors, including but not limited to the following:

- general business conditions of the Company;
- financial results of the Company;
- capital requirements of the Company;
- interests of the Shareholders; and
- any other factors which the Board may deem relevant.

Dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.



Corporate Governance Report

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

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

The statement of the Auditor about its reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 95 to 98 of this annual report.

Continuous Professional Development of Directors

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant.

Every newly appointed Director should receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for the Directors would be arranged and reading material on relevant topics would be provided to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, the Company provided a series of trainings and relevant reading materials to the Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company. The Directors have attended seminars and training sessions arranged by relevant business and professional/financial institutions/law firms, and have read relevant materials relating to regulatory updates, business and industry development, corporate governance, accounting, financial or professional skills and directors' duties. The relevant details are set out below:

Name of Director	Training Areas		
	Corporate Governance	Legal and Regulatory	Business and Industry Development
Executive Directors:			
Mr. Zhang Xiaodong (for the period from January 1, 2022 to July 22, 2022)	√	√	√
Mr. Yuan Jun (for the period from July 22, 2022 to December 31, 2022)	√	√	√
Mr. Dong Jiping	√	√	√
Non-executive Directors:			
Mr. Zhang Yujun	√	√	√
Mr. Xu Jun	√	√	√
Mr. Xu, Zhan Kevin	√	√	√
Mr. Qiu Zhongwei	√	√	√
Independent Non-executive Directors:			
Ms. Xie Xiaoyan	√	√	√
Mr. Yao Feng	√	√	√
Mr. Shen Jianzhong	√	√	√

Corporate Governance Report

Auditors' Responsibility and Remuneration

The Company appointed Deloitte Touche Tohmatsu as the external auditor for the Reporting Period. A statement by the Auditor about its reporting responsibilities for the financial statements is included in the Independent Auditors' Report on pages 95 to 98 of this annual report.

Details of the fees in respect of the audit and non-audit services provided by the Auditor for the Reporting Period are set out in the table below:

Services rendered for the Company	Total fees paid and payable RMB'000
Audit services	5,250
Non-audit services (interim results review)	1,700
Total	6,950

Board Independence Mechanism

During the Reporting Period, the Board reviewed the implementation and effectiveness of the mechanisms in place to ensure that independent views and opinions are available to the Directors. Having considered the following aspects, the Board considered that the Company maintained an effective mechanism to ensure a potent and sufficient element of independence in the Board:

- there are three independent non-executive Directors in the Board (representing one-third of the Board), all of whom continued to devote sufficient time to the Company; other Board committees are also comprised of sufficient number of independent non-executive Directors to ensure that independent views are available to each Board committee;
- the Board reviews its structure, size and composition (including skills, knowledge, experience, gender balance and length of tenure) and the implementation and effectiveness of the diversity policy at least annually to maintain a balanced Director composition in the Board;
- the Nomination Committee assesses the independence of all independent non-executive Directors annually in accordance with the independence standards set out in the Listing Rules to ensure that they are always able to exercise independent judgment;
- all Directors (including independent non-executive Directors) have equal opportunities and multiple channels to convey and express their independent views and input to the Board and Board committees;
- all Directors (including independent non-executive Directors) may request further data and documentation from the management of the Company on matters discussed at Board meetings;
- all Directors may seek assistance from the secretary to the Board and the company secretary and seek external independent professional advice at the Company's expense;



Corporate Governance Report

- all Directors (including independent non-executive Directors) shall not vote on any Board resolution approving any contract or arrangement in which he/she or any of his/her associates has a material interest nor shall he/she be counted in the quorum of the meeting; and
- the chairman of the Board should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors to discuss matters and address concerns.

Risk Management and Internal Control

The Board attaches great importance to and is fully responsible for maintaining a sound and effective risk management and internal control system for the Group. To discharge its responsibilities, the Board, on an ongoing basis, oversees the design, implementation and monitoring of the risk management and internal control systems by management. The Audit Committee, on behalf of the Board, on a semi-annual basis, reviews the development, implementation and oversight of the risk management and internal control systems by management, and reviews the effectiveness of the risk management and internal control systems on an annual basis.

In order to ensure the effectiveness of the risk management and internal control system, the Group has adopted the “Three Defence Lines” model for internal control and risk management, established a risk management and internal control framework under the supervision and guidance of the Board, taking into account the actual situation of the Company, and the Board has established a multi-level organisation, including the Audit Committee under the Board of Directors, the internal control and risk management committee at the management level, the functional supervision and support departments, and the operating business departments, to achieve a joint supervision function.

The system of “Three Defence Lines” for risk management and internal control is designed to manage, rather than completely eliminate, the risks that may prevent the Company from achieving its business strategies, to provide reasonable but not absolute assurance against material misstatement or loss, and to provide assurance that the Company’s strategic business objectives are being achieved.

Risk Management

The Group has established a risk management system, including the establishment of the aforementioned “Three Defence Lines” model for internal control and risk management and the clarification of internal control and risk management responsibilities at various levels, as well as the formulation of risk management-related policies and the establishment of risk management processes. The Group’s internal audit department organizes each business and functional department to regularly identify and evaluate risks that may affect the achievement of objectives on an annual basis, comprehensively identifies and evaluates risks in the strategy, market, finance, operation and legislation fields of the Group, focuses on the implementation of control of major risks at the Group level, and the Group’s internal control and risk management committee reaches a conclusion on and formulates the corresponding risk response strategies, clarifies the main responsible departments and responsible persons, formulates appropriate risk coping measures or contingency plans, and effectively reduces and circumvents the adverse impact of major risks on the Group’s strategic objectives and sustainable development.

Corporate Governance Report

Major Risks

The major risks to which the Company may be exposed and the risk management measures that have been implemented are summarized as below.

Strategic Risks

The Directors and management of the Group have developed a short and long-term strategic plan based on their extensive experience and knowledge in the dairy industry. Based on these strategies, the Group will seize market opportunities and continue to enhance its operational capabilities by making timely investments in quality farms, feed mills, breeding farms and forage grass plantation bases to meet market demand and expectations. Specifically, the Group will continue to develop products and technologies, build a win-win ecological service platform for the industry chain, effectively promote lean production management, continue to drive digitalization and intelligence in production management, and practise green and low-carbon sustainable development. The Group will also closely review and monitor the progress of the implementation of the relevant strategies, take proper risk mitigation measures and make appropriate strategic adjustments, so as to provide consumers and customers with premium raw milk and comprehensive ruminant farming solutions.

Market Risks

In recent years, the international market conditions and regulatory environment have been increasingly affected by competition among countries and geopolitical conflict. Uncertainties in the economic situation, geopolitics and extreme weather may cause changes in external market conditions, which may in turn lead to risks of economic losses towards the Company, such as fluctuations in milk prices, increases in raw material costs and interest rate risks. The Group actively seeks business development opportunities to address fluctuations in milk prices through product innovation and maintaining long-term stable win-win partnerships with major customers; maintaining precise feeding and formula upgrades to deal with rising raw material costs; and optimizing stock loans, adjusting debt structure and improving capital yields to mitigate interest rate risks.

Financial Risks

The Group is exposed to credit, liquidity and other risks in the ordinary course of business. The Group's overall risk management strategy aims to minimize potential adverse effects on the Group's financial performance.

Operational Risks

The Group's operations may be affected by certain specific risk factors such as disruptions in the operation of production facilities and actual or alleged food safety issues, which are mitigated and controlled by the Group's internal control system as detailed in the section headed "Risk Management and Internal Control – Internal Control" in this annual report.



Corporate Governance Report

Legal Risks

As new laws and regulations continue to be issued and the Group's business continues to expand, the Group's operations require to obtain various approvals, licenses and permits to be in compliance with the applicable laws and regulations.

The Group has taken practical measures to invest substantial resources in various aspects to ensure compliance with regulatory requirements, established professional departments and teams, engaged external professional consultants, maintained close contact and communication with business management at all times, communicated with regulatory authorities in a timely manner and actively paid attention to changes in relevant laws and regulations in a timely manner, adjusted strategies and adopted countermeasures accordingly, enhanced internal interpretation and training on revised laws and regulations. We have also improved our management mechanism to ensure that the Company would comply with the relevant laws and regulations.

Internal Control

The Board is responsible for establishing the internal control system and reviewing its effectiveness.

The Group has established an internal control system, including the establishment of the aforesaid "Three Defence Lines" model for internal control and risk management, and clarification of internal control and risk management responsibilities at various levels, as well as the formulation of internal control-related policies and the establishment of internal control management processes. The internal audit department of the Group conducts annual evaluation of the overall internal control of the Company in accordance with the "Basic Standards for Enterprise Internal Control" and its "18 Practice Notes for Enterprise Internal Control" and other national laws and regulations as well as rules and regulations, and reports to the Audit Committee.

The Group's internal control system clearly defines the management responsibilities, authorization and approval of each party in respect of critical controls, establishes clear policies and procedures for important business processes and emphasizes the importance of the internal control system to employees. The Group's policies are the management standards for each business process, covering all aspects of finance, legal and operations, and shall be strictly enforced by all employees.

To further strengthen management's responsibility for the Group's internal control system and to properly validate the effectiveness of the internal control system by management, the management of each business unit and functional division conducts self-assessment and validation of the internal controls of the business departments and functional divisions within its responsibility on a quarterly basis. The internal audit department assists the management in preparing a template for the "Internal Control Evaluation Test for Critical Control Points" in accordance with the "Basic Standards for Enterprise Internal Control" and its "18 Practice Notes for Enterprise Internal Control", and guides each business department and functional department in conducting self-evaluation and collecting, reviewing and summarizing the results of internal control evaluation. The internal audit department then, in combination with the problems found by it, determines the results of internal control evaluation at the company level. In addition, the internal audit department will also issue a report on the overall operation of the Group's internal control system and conduct independent supervision and evaluation. The Chief Executive Officer of the Company will also review the self-evaluation of each business department and functional department to appraise the effectiveness of the Company's internal control system in general.

Corporate Governance Report

Anti-fraud

Anti-fraud System and Whistleblowing Policy

The Company has adopted an anti-fraud system and whistleblowing policy, and pays high attention to the management of anti-corruption and promotion of honesty by continuously improving its anti-fraud ecosystem to ensure all the staff “don’t dare to, are unable to and have no desire to commit acts of corruption”, and develop a clean and upright working environment. The Company has an internal audit department to manage risk assessment and investigate into complaints, thereby guaranteeing its lawful operation free of corruption. The relevant provisions include a series of internal rules such as the Punishment Measures for Fraudulent Behaviours (《舞弊行為懲處辦法》), Measures for the Administration of Anti-Fraud Work (《反舞弊工作管理辦法》), Youran Dairy’s Code of Business Conduct (《優然商業行為準則》), Youran Dairy’s Bottom Line System (《優然高壓線》) and Youran Dairy’s Relevant Regulations on Cultivating a Culture of Honest and Upright (《優然牧業推動落實廉潔新風的相關規定》). In addition, the Group’s internal audit department also conducts internal audit as part of its regular routine monitoring and reports the same to the management. Our staff are continuously reminded on the importance of anti-corruption and anti-fraud through training.

Access and safeguards for reporting

The Group has established multiple whistleblower channels to enable our employees, customers and suppliers to raise concerns in confidence and anonymously with the Audit Committee about possible misconduct in any matter relating to the Company in order to mitigate any suspected incidents of corruption or malpractice. Whistleblowers may report in real-name or anonymous manner; they may report their own concerns or those of others they have seen; and they must act in good faith and be truthful about their concerns.

The Group’s internal audit department will evaluate the feedback and make a decision to investigate the matter or hand over to the relevant departments. For real-name reports on fraud issues, the audit department will respond within 24 hours, register them, hand them over to the relevant departments and initiate the investigation process within 5 working days. The investigation of complaints will be conducted in accordance with the principles of fairness, impartiality and confidentiality, and the information about the whistleblower and the content reported will be kept strictly confidential. If the complainant has been retaliated against, he/she can provide the relevant information to the audit department in a timely manner and the Group’s internal audit department will further investigate and resolve the matter in accordance with the relevant system.

For those employees and partners who are found to have committed irregular and fraudulent acts, the Group will punish the responsible personnel or related parties in accordance with the relevant system, including but not limited to, for employees, detention, suspension, demotion, transfer, salary reduction, termination of labour relations and, for suppliers, termination or prohibition of cooperation, etc.



Corporate Governance Report

Risk Management and Internal Control Effectiveness

During the Reporting Period, the Group invested more resources in the development of risk management and internal control systems, and employees' awareness of risk management continued to increase. The internal control function continued to reach the front end of the business and was more proactive in supporting the healthy development of the business and enhancing risk management. The internal control and risk management group continued to drive the development of various special audits and continuous audits to better provide effective and timely independent evaluations. The anti-fraud investigation team is responsible for receiving reports through multiple channels and following up and investigating suspected fraudulent incidents in a timely manner. It also assists the management in promoting the value of "Self-reflection" and "Youran Dairy's Code of Business Conduct 《優然商業行為準則》" to all employees. The linkage of the "Three Defence Lines" has been further strengthened in order to support the development of the Company more effectively.

The Company's handling and release of insider information is governed by the various insider information disclosure procedures, which ensure that insider information remains confidential until disclosure is properly approved and that such information is released efficiently and on an ongoing basis.

The Audit Committee is responsible for assisting the Board in leading the management and monitoring and overseeing the risk management and internal control systems through the internal audit department, reporting and making recommendations to the Board in a timely manner. Under the supervision of the Audit Committee, the internal audit department oversees the risk management and internal control systems and conducts independent audits on the effectiveness and integrity of the risk management and internal control systems. The internal audit department identifies significant risks and coordinates with the internal control and risk management committee to issue recommendations on internal control and risk improvement plans and corrective measures, and conducts follow-up audits on issues identified to ensure proper implementation of planned remedial measures. The internal audit department operates independently of the Company's business centres and departments and reports audit findings and follow-ups to the Audit Committee on a half-yearly basis.

During the Reporting Period, the Board reviewed the effectiveness of the Company's risk management and internal control systems and considered them to be effective and adequate. The review covered all material controls, including financial, operational and compliance controls.

Company Secretary

Ms. Yu Wing Sze ("Ms. Yu"), is the company secretary of the Company. Ms. Yu is a manager of the listing services department of TMF Hong Kong Limited, a company secretarial service provider, and is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, and the applicable laws, rules and regulations were followed.

Her primary corporate contact person in the Company is Ms. Wu Di, the manager of Hong Kong office of the Company who is primarily responsible for internal compliance and company secretarial matters of our Group.

Ms. Yu has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the Reporting Period.

Corporate Governance Report

Shareholders' Rights

Convening of Extraordinary General Meetings ("EGM") by Shareholders and Putting Forward Proposals at General Meetings

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. EGMs shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings, on a one vote per share basis in the share capital of the Company, and the foregoing Shareholders shall be able to add resolutions to the meeting agenda. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Detailed procedures for Shareholders to propose a person for election as a Director of the Company are published on the Company's website.

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company, for the attention of the Board by mail to No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China or by e-mail to YouranIR@yourandairy.com. The Company will endeavour to respond to their queries in a timely manner. Shareholders may also make enquiries with the Directors at the general meetings of the Company. The Company will not normally deal with verbal or anonymous enquiries.



Corporate Governance Report

Communication with Shareholders and Investors Relations

The Company has prepared a shareholder communication policy and maintained it in force, and details of the policy are available on the Company's website. The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies, and endeavours to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the forthcoming AGM, Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries. Regular meetings are held with institutional investors and financial analysts to ensure two-way communications on the Company's performance and development. When the Company announces its interim and annual results, earnings conferences are conducted to apprise investors, analysts and the press of the Group's operating results as well as business strategies and outlook. Investor relations website is updated on a timely basis to ensure that investors are able to have access to the Company's information, latest news and reports.

The Company discloses information and publishes periodic reports and announcements to the public in accordance with the Listing Rules, the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions.

The Board reviewed the Group's shareholders and investor engagement and communication activities conducted during the Reporting Period and was satisfied with the implementation and effectiveness of the shareholder communication policy.

Changes in Constitutional Documents

On May 27, 2022, the Company adopted a new Articles of Association in order to bring the then existing Articles of Association in line with the amendments made to Appendix 3 to the Listing Rules which became effective on January 1, 2022 and the applicable laws of the Cayman Islands and to incorporate certain housekeeping amendments.

A latest version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

Independent Auditor's Report

Deloitte.

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To the Shareholders of China Youran Dairy Group Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Youran Dairy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 99 to 212, which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



Independent Auditor's Report

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Mak Chi Lung.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 30, 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2022

	NOTES	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Revenue	6	18,050,761	15,346,167
Cost of sales	7	(16,958,848)	(14,333,273)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	22	3,131,809	3,681,585
Gross profit		4,223,722	4,694,479
Loss arising from changes in fair value less costs to sell of biological assets	22	(1,617,116)	(407,440)
Other income	8	362,890	151,974
Impairment loss under expected credit loss model, net of reversal	9	(32,739)	(12,438)
Other gains and losses	10	47,999	(52,618)
Fair value loss on convertible notes	40	–	(132,910)
Selling and distribution expenses		(590,016)	(556,699)
Administrative expenses		(721,535)	(835,399)
Other expenses		(64,923)	(3,348)
Listing expenses		–	(17,848)
Share of losses of associates	24	(35,531)	–
Share of profit of a joint venture		4	23
Finance costs	11	(1,097,485)	(732,443)
Profit before tax		475,270	2,095,333
Income tax expense	12	(69,284)	(74,117)
Profit for the year	13	405,986	2,021,216
Other comprehensive (expense)/income, net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive expense	25	(6,873)	(12,928)
Exchange differences arising on translation from functional currency to presentation currency		1,338,548	(352,491)
		1,331,675	(365,419)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(1,586,925)	436,402
Other comprehensive (expense)/income for the year, net of income tax		(255,250)	70,983
Total comprehensive income for the year		150,736	2,092,199
Profit/(loss) for the year attributable to:			
Owners of the Company		414,771	1,558,016
Non-controlling interests		(8,785)	463,200
		405,986	2,021,216
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		162,353	1,634,521
Non-controlling interests		(11,617)	457,678
		150,736	2,092,199
		RMB	RMB
Earnings per share	15		
Basic		0.11	0.44
Diluted		0.11	0.44

Consolidated Statement of Financial Position

At December 31, 2022

	NOTES	31/12/2022 RMB'000	31/12/2021 RMB'000
Non-current assets			
Property, plant and equipment	17	12,965,610	10,131,630
Investment properties	18	23,815	25,744
Right-of-use assets	19	2,455,583	2,186,585
Goodwill	20	792,980	792,980
Intangible assets	21	23,163	4,278
Biological assets	22	13,221,418	10,408,379
Deferred tax assets	23	24,345	17,751
Interest in a joint venture		4,758	496
Interests in associates	24	1,156,647	–
Equity instruments at fair value through other comprehensive income	25	28,066	24,812
Pledged and restricted bank deposits	31	11,667	10,250
Deposits paid for purchase of property, plant and equipment		708,316	467,916
Deposits paid for purchase of biological assets		459,138	423,020
Deposits paid for right-of-use assets		1,601	13,635
		31,877,107	24,507,476
Current assets			
Inventories	26	4,692,784	3,326,130
Trade receivables	27	1,312,099	1,189,240
Bills receivable		–	13,828
Contract assets	28	7,116	8,354
Biological assets	22	8,490	7,701
Prepayments, deposits and other receivables	29	858,465	467,554
Financial assets at fair value through profit or loss	30	1,919,338	–
Amounts due from related parties	48	917,568	780,392
Pledged and restricted bank deposits	31	401,097	33,544
Bank balances and cash	31	936,358	1,015,261
Deposits placed with a related party	48	515,895	612,159
		11,569,210	7,454,163
Current liabilities			
Trade and bills payables	32	2,688,578	1,878,597
Other payables and accruals	33	1,893,511	1,397,550
Contract liabilities	34	41,895	41,090
Amounts due to related parties	48	47,338	1,883
Bank and other borrowings	35	13,827,675	5,412,175
Lease liabilities	37	131,604	51,009
Other liabilities	38	6,942	6,593
Other provisions	39	19,807	82,056
Convertible notes	40	1,206,200	2,407,292
Income tax payable		32,734	29,741
		19,896,284	11,307,986
Net current liabilities		(8,327,074)	(3,853,823)
Total assets less current liabilities		23,550,033	20,653,653

Consolidated Statement of Financial Position

At December 31, 2022

	NOTES	31/12/2022 RMB'000	31/12/2021 RMB'000
Non-current liabilities			
Bank and other borrowings	35	6,731,381	4,043,939
Deferred tax liabilities	23	6,192	6,434
Deferred income	36	619,510	434,053
Lease liabilities	37	1,425,387	1,266,390
Other liabilities	38	7,310	14,252
Other provisions	39	9,124	8,674
		8,798,904	5,773,742
Net assets		14,751,129	14,879,911
Capital and reserves			
Share capital	41	251	251
Reserves		13,063,495	13,180,660
Equity attributable to owners of the Company		13,063,746	13,180,911
Non-controlling interests		1,687,383	1,699,000
Total equity		14,751,129	14,879,911

The consolidated financial statements on pages 99 to 212 were approved and authorised for issue by the board of directors on March 30, 2023 and are signed on its behalf by:

Yuan Jun
Director

Dong Jiping
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2022

	Attributable to owners of the Company											
	Share capital	Share premium	Convertible Other reserve	Convertible notes equity reserve	Investment Capital reserve	Investment revaluation reserve	Translation reserve	Statutory reserve	Retained profits	Subtotal	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000 (Note (iii))	RMB'000	RMB'000 (Note (i))	RMB'000	RMB'000	RMB'000 (Note (ii))	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2021	219	4,579,533	188,567	-	(4,922)	14,795	29	162,538	2,879,449	7,820,208	1,241,328	9,061,536
Profit and other comprehensive (expense)/income for the year	-	-	-	-	-	(7,545)	84,050	-	1,558,016	1,634,521	457,678	2,092,199
Shares issued pursuant to Initial Public Offering ("IPO") (Note 41)	32	2,854,769	-	-	-	-	-	-	-	2,854,801	-	2,854,801
Share issuance cost (Note 41)	-	(91,999)	-	-	-	-	-	-	-	(91,999)	-	(91,999)
Recognition of equity component of convertible notes (Note 40)	-	-	-	963,384	-	-	-	-	-	963,384	-	963,384
Statutory fund appropriation	-	-	-	-	-	-	-	235,838	(235,838)	-	-	-
Acquisition of additional interests in subsidiaries	-	-	-	-	(4)	-	-	-	-	(4)	(6)	(10)
Disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	(4,574)	-	-	4,574	-	-	-
At December 31, 2021	251	7,342,303	188,567	963,384	(4,926)	2,676	84,079	398,376	4,206,201	13,180,911	1,699,000	14,879,911
(Loss)/profit and other comprehensive (expense)/income for the year	-	-	-	-	-	(4,010)	(248,408)	-	414,771	162,353	(11,617)	150,736
Partial redemption of convertible notes (Note 40)	-	-	-	(286,303)	-	-	-	-	-	(286,303)	-	(286,303)
Statutory fund appropriation	-	-	-	-	-	-	-	199,508	(199,508)	-	-	-
Others	-	6,785	-	-	-	-	-	-	-	6,785	-	6,785
At December 31, 2022	251	7,349,088	188,567	677,081	(4,926)	(1,334)	(164,329)	597,884	4,421,464	13,063,746	1,687,383	14,751,129

Notes:

- (i) Capital reserve represents the differences between the amount by which non-controlling interests are adjusted and the fair value of consideration paid when the Group acquired partial interests in existing subsidiaries.
- (ii) The amount mainly represents statutory reserve fund. According to the relevant laws in the People's Republic of China (the "PRC"), each of the subsidiaries established in the PRC is required to allocate at least 10% of its profit after tax as per financial statements prepared in accordance with the relevant PRC accounting standards to statutory reserve fund until the reserve fund reaches 50% of the registered capital of respective subsidiary. The transfer to this fund must be made before the distribution of dividend to the equity owners. The statutory reserve fund can be used to make up previous years' losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.
- (iii) Other reserve represents the amounts arose from group reorganisation during 2015.

Consolidated Statement of Cash Flows

For the year ended December 31, 2022

	NOTES	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
OPERATING ACTIVITIES			
Profit before tax		475,270	2,095,333
Adjustments for:			
Share of profit of a joint venture		(4)	(23)
Share of losses of associates		35,531	–
Loss arising from changes in fair value less costs to sell of biological assets		1,617,116	407,440
Bank interest income	8	(16,514)	(27,670)
Interest income from Yili Group	48	(6,670)	(566)
Government grants	8	(145,875)	(58,228)
Finance costs	11	1,097,485	732,443
Exchange gain		(4,057)	–
Depreciation and amortisation	13	439,609	377,299
Write-down of inventories		1,863	4,602
Impairment loss on trade and other receivables under expected credit loss model, net of reversal	9	32,739	12,438
Loss on disposal of property, plant and equipment	10	2,000	7,658
Impairment loss on property, plant and equipment	10	3,522	–
Gain on termination of lease agreements	10	(673)	(1,857)
(Reversal of)/provision regarding the adjustments made to the consideration for acquisition of SKX	10	(49,234)	69,041
Gain on partial redemption of convertible notes	10	(901)	–
Fair value gains on financial assets at fair value through profit or loss	10	(19,338)	–
Fair value loss on convertible notes		–	132,910
Reversal of provision for litigations	10	(4,247)	–
Operating cash flows before movements in working capital		3,457,622	3,750,820
Increase in inventories		(1,290,073)	(1,153,886)
Increase in trade receivables		(156,309)	(226,861)
Decrease in bills receivable		13,828	13,252
Increase in prepayments and other receivables		(355,197)	(219,486)
Increase in amounts due from related parties		(137,176)	(224,716)
Decrease in contract assets		1,238	3,785
Increase in trade and bills payables		809,981	303,304
Increase in other payables and accruals		135,042	46,500
Increase in contract liabilities		3,833	2,323
Increase/(decrease) in amounts due to related parties		45,455	(12,374)
Decrease in other provisions		(8,768)	(5,531)
Increase in deferred income		78,245	30,690
Cash generated from operations		2,597,721	2,307,820
Interest received		23,184	28,236
Income taxes paid		(73,127)	(70,046)
Net cash from operating activities		2,547,778	2,266,010

Consolidated Statement of Cash Flows

For the year ended December 31, 2022

	NOTES	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
INVESTING ACTIVITIES			
Payments for property, plant and equipment		(3,471,559)	(3,535,950)
Payments for right-of-use assets		(45,765)	(490,014)
Payments for intangible assets		(7,982)	–
Proceeds from disposal of property, plant and equipment		43,990	39,333
Payments for biological assets		(5,152,172)	(3,772,880)
Proceeds from disposal of biological assets		1,037,515	1,167,781
Proceeds from disposal of equity instruments at fair value through other comprehensive income		–	34,300
Purchase of equity instruments at fair value through other comprehensive income		(10,127)	–
Purchase of financial assets at fair value through profit or loss		(1,900,000)	–
Investments in joint ventures		(4,186)	–
Investments in associates		(1,157,650)	–
Acquisitions of subsidiaries	44	–	(2,379,243)
Payments for consideration payable for the acquisition of SKX Group		–	(110,745)
Placement of pledged and restricted bank deposits		(403,458)	(37,326)
Withdrawal of pledged and restricted bank deposits		34,488	143,181
Receipt of government grants for assets		253,087	244,623
Net cash used in investing activities		(10,783,819)	(8,696,940)
FINANCING ACTIVITIES			
New bank and other borrowings raised		25,178,548	14,986,955
Repayments of bank and other borrowings		(14,204,626)	(11,733,824)
Interest paid for bank and other borrowings		(419,884)	(295,404)
Repayment of lease liabilities		(136,428)	(100,646)
Interest paid for lease liabilities		(68,542)	(56,218)
Repayment of other liabilities		(7,500)	(7,500)
Proceeds from issuance of ordinary shares		–	2,854,801
Payments of interest cost for convertible notes	40	(104,468)	(119,122)
Payments of partial redemption of convertible notes	40	(2,185,257)	–
Acquisition of additional interests in subsidiaries		–	(24,791)
Payments of share issue costs for the initial public offering		–	(79,949)
Net cash from financing activities		8,051,843	5,424,302
Net decrease in cash and cash equivalents		(184,198)	(1,006,628)
Cash and cash equivalents at beginning of the year		1,627,420	2,619,113
Effect of foreign exchange rate changes		9,031	14,935
Cash and cash equivalents at end of the year, represented by bank balances, cash and deposits placed with a related party		1,452,253	1,627,420

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 International Financial Reporting Standards (“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 IAS 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 IFRS Standards	<i>Annual Improvements to IFRS Standards 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

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.

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.

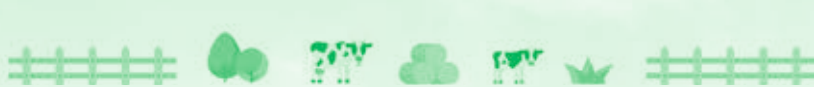
The consolidated financial statements has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values and biological assets at fair value less costs to sell, as explained in the accounting policies set out below.

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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

3. Basis of Preparation of Consolidated Financial Statements *(continued)*

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. Significant Accounting Policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- (i) has power over the investee;
- (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (iii) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

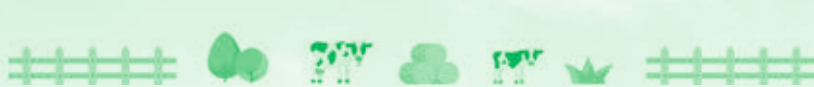
Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Business combinations *(continued)*

For business combinations in which the acquisition date is on or after January 1, 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting* issued by International Accounting Standards Board in March 2018 (the "Conceptual Framework") except for transactions and events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Investments in associates and joint ventures *(continued)*

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9 *Financial Instruments*. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Revenue from contracts with customers *(continued)*

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leases

Definition of a lease

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

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles, machinery and equipment and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Leases *(continued)*

The Group as a lessee *(continued)*

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Leases *(continued)*

The Group as a lessee *(continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease payments in relation to lease liability will be allocated into a principal and an interest portion which are presented as financing cash flows by the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Leases *(continued)*

The Group as a lessee *(continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Foreign currencies

In preparing the financial statements of individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the functional currency of the Company (i.e. USD) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Exchange differences relating to the retranslation of the Group's net assets in USD to the Group's presentation currency (i.e. RMB) are recognised directly in other comprehensive income and accumulated in translation reserve. Such exchange differences accumulated in the translation reserve are not reclassified to profit or loss subsequently.

The change in functional currency of the Company was applied prospectively from the date of change. All items were translated into USD at the exchange rate on that date. The cumulative currency translation differences which had arisen from the translation of foreign operations up to the date of the change in functional currency were not reclassified from equity to profit or loss until the disposal of the relevant operations.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Grants relating to biological assets

A government grant related to a biological asset measured at its fair value less costs to sell was recognised in profit or loss when, and only when, the conditions attaching to the government grant are met.

Government loan at a below-market rate

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Government grants *(continued)*

Other grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit under the state-managed retirement benefit scheme in the PRC are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Taxation *(continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are 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 asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of IAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost of the relevant property and the related accumulated depreciation and impairment loss (if any) (including the relevant leasehold land classified as right-of-use assets) are transferred to investment property at the date of transfer.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties also include leased properties which are being recognised as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

If an investment property becomes owner-occupied as evidenced by commencement of owner-occupation, the cost of the relevant investment property and the related accumulated depreciation and impairment loss (if any) are transferred to property, plant and equipment.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Impairment on property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, investment properties measured using the cost model, right-of-use assets, and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, investment properties, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units.

In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Impairment on property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of:

- (a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Biological assets

The Group's biological assets mainly include dairy cows, feeder cattle and breeding stock. Dairy cows (including milkable cows, calves and heifers), breeding stock, and feeder cattle are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of dairy cows, feeder cattle and breeding stock is determined based on their present location and condition and is determined independently by a professional valuer.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Agricultural produce

Agricultural produce represents raw milk, frozen bovine semen and forage grass, which are recognised at the point of harvest at fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (continued)

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of "investment revaluation reserve". Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any fair value gains or losses recognised in profit or loss.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets and other item subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables, bill receivables, deposits and other receivables, amounts due from related parties, pledged and restricted bank deposits, bank balances and deposits placed with a related party) and other items (including contract assets) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables (including trade receivables from related parties presented under amounts due from related parties) and contract assets. The ECL on these assets are assessed individually for debtors with significant balances or credit-impaired and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets and other item subject to impairment assessment under IFRS 9 (continued)

(i) Significant increase in credit risk *(continued)*

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets and other item subject to impairment assessment under IFRS 9 (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade and other receivables are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The ECL on trade receivables and contract assets, except for those assessed individually for debtors with significant balances or credit-impaired, is measured on a collective basis and those financial instruments are grouped under a provision matrix based on shared credit risk characteristics by reference to aging for the debtors.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, other payables, bank and other borrowings, amounts due to related parties, other liabilities and debt component of convertible notes, are subsequently measured at amortised cost, using the effective interest method.

Convertible notes

The whole convertible notes are designated as financial liabilities at FVTPL.

At the date of issue, both the debt component and derivative components are recognised at fair value and the convertible notes are designated as at FVTPL. In subsequent period, changes in fair value are recognised in profit or loss as fair value gain or loss except for changes in the fair value that is attributable to changes in the credit risk (excluding changes in fair value of the derivatives component) is recognised in other comprehensive income, unless the recognition of the effects of changes in the credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to the credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss, they are transferred to retained profits upon derecognition.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible notes (continued)

Convertible notes contain equity component

A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. When a change in functional currency occurs and, as a consequence, the conversion feature no longer meets the definition of financial liability, reclassification is considered.

The fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, if any, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group extinguishes convertible notes before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the Group allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible notes were issued. Any resulting gain or loss relating to the liability component is recognised in profit or loss and the amount of consideration relating to the equity component is recognised in equity.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

5. Key Sources of Estimation Uncertainty *(continued)*

Provision of 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 27 and 46.

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). Details are disclosed in Note 20.

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). Details are disclosed in Note 24.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

6. Revenue and Segment Information

(i) Disaggregation of revenue from contracts with customers

	2022 RMB'000	2021 RMB'000
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
	18,050,761	15,346,167
Timing of revenue recognition:		
A point in time	18,050,761	15,346,167

(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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

6. 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 RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
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)	–
	10,853,917	9,245,908	20,099,825	(2,049,064)	18,050,761
Segment results	2,712,863	414,232	3,127,095		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 (as defined in Note 20)					49,234
Unallocated other income and expenses					(145,508)
Unallocated finance costs					(922,246)
Profit before tax					475,270

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

6. Revenue and Segment Information *(continued)*

Segment revenue and results *(continued)*

For the year ended December 31, 2021

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
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)	-
	9,537,814	7,578,330	17,116,144	(1,769,977)	15,346,167
Segment results	3,040,390	337,633	3,378,023		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					2,095,333

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment results represent the profit before tax earned by each segment without allocation of central administration costs, 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

6. Revenue and Segment Information *(continued)*

Other segment information

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended December 31, 2022					
Amounts included in the measure of segment profit or loss:					
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
Amounts not included in the measure of segment profit or loss or segment assets					
Additions to non-current assets (Note)	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)



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

6. Revenue and Segment Information *(continued)*

Other segment information *(continued)*

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended December 31, 2021					
Amounts included in the measure of segment profit or loss:					
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
Amounts not included in the measure of segment profit or loss or segment assets					
Additions to non-current assets (Note)	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 (Note 44).

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

6. Revenue and Segment Information *(continued)*

Revenue from major customers

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

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

7. Cost of Sales

An analysis of cost of sales is as follows:

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

8. Other Income

An analysis of other income is as follows:

	2022 RMB'000	2021 RMB'000
Government grants released from deferred income (Note 36)	145,875	58,228
Incentive subsidies (Note (i))	155,316	39,985
Rental income	9,612	6,027
Bank interest income	16,514	27,670
Interest income from Yili Group (as defined in Note 48)	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	12,414	5,294
	362,890	151,974

Note:

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

9. Impairment Loss Under Expected Credit Loss Model, Net of Reversal

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

Details of impairment assessments are set out in Note 46.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

10. Other Gains and Losses

	2022 RMB'000	2021 RMB'000
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 (Note (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 (Note (ii))	4,247	–
Reversal of/(provision) regarding the adjustments made to the consideration for acquisition of SKX (Note (iii))	49,234	(69,041)
Recovery of pre-acquisition doubtful debt of SKX Group	3,447	11,366
Others	(215)	2,298
	47,999	(52,618)

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.

11. Finance Costs

	2022 RMB'000	2021 RMB'000
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 (Note 40)	628,269	382,551
	1,134,082	742,688
Less: Amounts capitalised to construction in progress	(36,597)	(10,245)
	1,097,485	732,443

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

12. Income Tax Expense

	2022 RMB'000	2021 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	80,320	82,395
Overprovision in prior periods:		
PRC EIT	(4,200)	(1,676)
Deferred tax (Note 23)	(6,836)	(6,602)
	69,284	74,117

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., Muquan Yuanxing Feeds, Ningxia Bio-Technology, Wulanchabu Muquan Yuanxing Feeds and Bayannur Muquan Yuanxing Feeds (as defined in Note 53) 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 Bio-Technology 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 Feeds 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%).

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 RMB'000	2021 RMB'000
Profit before tax	475,270	2,095,333
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	69,284	74,117

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

13. Profit for the Year

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

	2022 RMB'000	2021 RMB'000
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	2,441	748
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	(78,444)	(40,663)
Depreciation and amortisation charged directly to profit or loss	439,609	377,299
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	(888)	(391)
	21,367	15,006
Auditors' remuneration	6,950	4,000
Research and development costs recognised in profit or loss	58,691	48,310
Employee benefits expense (including directors' remuneration as disclosed in Note 14):		
Salaries and allowances	1,011,913	901,054
Retirement benefit scheme contributions	115,306	87,010
Total staff costs	1,127,219	988,064
Less: Capitalised in biological assets	(395,988)	(282,078)
	731,231	705,986

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

14. Directors', Chief Executive's and Employees' Emoluments

(a) Directors' emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company are as follows:

	Directors' fees RMB'000	Salaries and allowance RMB'000	Discretionary performance – related payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended December 31, 2022:					
<i>Executive directors:</i>					
Mr. Zhang Xiaodong (Note (i))	–	749	–	22	771
Mr. Yuan Jun (Note (i))	–	964	–	16	980
Mr. Dong Jiping	–	857	–	38	895
<i>Non-executive directors:</i>					
Mr. Zhang Yujun	–	–	–	–	–
Mr. Xu Jun	–	–	–	–	–
Mr. Xu, Zhan Kevin	–	–	–	–	–
Mr. Qiu Zhongwei	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Ms. Xie Xiaoyan	200	–	–	–	200
Mr. Yao Feng	200	–	–	–	200
Mr. Shen Jianzhong	200	–	–	–	200
	600	2,570	–	76	3,246
Year ended December 31, 2021:					
<i>Executive directors:</i>					
Mr. Zhang Xiaodong	–	1,710	–	34	1,744
Mr. Dong Jiping	–	985	–	34	1,019
<i>Non-executive directors:</i>					
Mr. Zhang Yujun	–	–	–	–	–
Mr. Xu Jun	–	–	–	–	–
Mr. Xu, Zhan Kevin	–	–	–	–	–
Mr. Qiu Zhongwei	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Ms. Xie Xiaoyan (Note (ii))	114	–	–	–	114
Mr. Yao Feng (Note (ii))	114	–	–	–	114
Mr. Shen Jianzhong (Note (ii))	114	–	–	–	114
	342	2,695	–	68	3,105

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

14. Directors', Chief Executive's and Employees' Emoluments (continued)

(a) Directors' emoluments (continued)

Notes:

- (i) Mr. Zhang Xiaodong resigned as executive director and the chief executive of the Company on July 22, 2022. Mr. Yuan Jun was appointed as executive director and the chief executive of the Company on July 22, 2022.
- (ii) Ms. Xie Xiaoyan, Mr. Yao Feng and Mr. Shen Jianzhong were appointed as independent non-executive directors of the Company on June 7, 2021.

The executive directors' emoluments shown above were for their services in connection with the management of affairs of the Group. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(b) Employees' emoluments

The five highest paid individuals of the Group included no (2021: two) directors for the year ended December 31, 2022, details of whose remuneration are set out above. The emoluments of the remaining five (2021: three) individuals for the year ended December 31, 2022 are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and allowances	6,088	4,485
Retirement benefit scheme contributions	182	100
	6,270	4,585

The number of the highest paid individuals who are not directors of the Company whose remuneration fell within the following bands is as follows:

	2022	2021
HK\$1,000,001 to HK\$1,500,000	4	–
HK\$1,500,001 to HK\$2,000,000	1	2
HK\$2,000,001 to HK\$2,500,000	–	1
	5	3

No remuneration was paid by the Group to any of the directors, the chief executive or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office for the year (2021: Nil). None of the directors and the chief executive has waived or agreed to waive any emoluments for the year (2021: Nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

15. Earnings Per Share

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

	2022 RMB'000	2021 RMB'000
Earnings for the purpose of basic earning per share	414,771	1,558,016
Effect of dilutive potential ordinary shares:		
Convertible notes	N/A	N/A
Earnings for the purpose of diluted earnings per share	414,771	1,558,016

	2022 '000	2021 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	3,795,404	3,566,951
Effect of dilutive potential ordinary shares:		
Convertible notes	N/A	N/A
	3,795,404	3,566,951

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.

16. 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

17. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Bearer plants RMB'000	Construction in progress RMB'000	Total RMB'000
COST:								
At January 1, 2021	5,490,440	12,907	1,330,787	228,588	139,922	35,928	463,775	7,702,347
Additions	31,345	-	277,122	111,785	26,969	8,630	3,035,543	3,491,394
Disposals	(15,025)	-	(45,487)	(12,569)	(9,339)	(5,431)	-	(87,851)
Transfer	1,057,852	-	100,146	-	204	-	(1,158,202)	-
Transferred to investment properties (Note 18)	(8,778)	-	-	-	-	-	-	(8,778)
Transferred from investment properties (Note 18)	4,493	-	-	-	-	-	-	4,493
Acquisition of subsidiaries (Note 44)	898,416	-	171,918	7,358	2,054	-	-	1,079,746
At December 31, 2021	7,458,743	12,907	1,834,486	335,162	159,810	39,127	2,341,116	12,181,351
Additions	13,937	279	364,977	93,926	25,048	5,490	3,141,930	3,645,587
Disposals	(3,447)	-	(23,184)	(7,739)	(3,089)	(6,464)	(67,458)	(111,381)
Transfer	2,127,185	-	240,007	440	2,397	-	(2,370,029)	-
Transferred to intangible assets (Note 21)	-	-	-	-	-	-	(13,344)	(13,344)
At December 31, 2022	9,596,418	13,186	2,416,286	421,789	184,166	38,153	3,032,215	15,702,213
ACCUMULATED DEPRECIATION:								
At January 1, 2021	913,334	1,054	426,784	73,972	43,792	25,492	-	1,484,428
Provided for the year	336,234	724	176,784	32,310	31,110	1,425	-	578,587
Transferred to investment properties (Note 18)	(3,529)	-	-	-	-	-	-	(3,529)
Transferred from investment properties (Note 18)	1,934	-	-	-	-	-	-	1,934
Disposals	(2,263)	-	(19,414)	(9,964)	(6,737)	(170)	-	(38,548)
At December 31, 2021	1,245,710	1,778	584,154	96,318	68,165	26,747	-	2,022,872
Provided for the year	420,797	599	224,401	40,088	26,151	1,676	-	713,712
Disposals	(195)	-	(19,017)	(7,202)	(2,602)	(531)	-	(29,547)
At December 31, 2022	1,666,312	2,377	789,538	129,204	91,714	27,892	-	2,707,037
ACCUMULATED IMPAIRMENT:								
At January 1, 2021	27,334	-	6,633	11	1	-	-	33,979
Disposals	-	-	(2,311)	-	(1)	-	-	(2,312)
Transferred to investment properties (Note 18)	(4,818)	-	-	-	-	-	-	(4,818)
At December 31, 2021	22,516	-	4,322	11	-	-	-	26,849
Provided for the year	3,422	-	100	-	-	-	-	3,522
Disposals	-	-	(805)	-	-	-	-	(805)
At December 31, 2022	25,938	-	3,617	11	-	-	-	29,566
CARRYING AMOUNTS:								
At December 31, 2022	7,904,168	10,809	1,623,131	292,574	92,452	10,261	3,032,215	12,965,610
At December 31, 2021	6,190,517	11,129	1,246,010	238,833	91,645	12,380	2,341,116	10,131,630

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For the year ended December 31, 2022

17. Property, Plant and Equipment *(continued)*

The above items of property, plant and equipment (other than construction in progress) after taking into account of their estimated residual values, are depreciated on a straight-line basis over the following periods:

Buildings	15 to 40 years
Leasehold improvements	Shorter of 5 to 10 years and the remaining terms of the lease
Machinery and equipment	5 to 10 years
Motor vehicles	5 to 10 years
Electronic equipment	5 years
Bearer plants (mainly alfalfa hay roots)	5 years

At December 31, 2022, building ownership certificates in respect of certain buildings of the Group with an aggregate carrying amount of RMB117,078,000 (2021: RMB42,945,000) had not been issued by the relevant PRC authorities.

18. Investment Properties

	2022 RMB'000	2021 RMB'000
COST:		
At the beginning of the year	54,296	50,011
Transferred from property, plant and equipment (Note 17)	–	8,778
Transferred to property, plant and equipment (Note 17)	–	(4,493)
At the end of the year	54,296	54,296
ACCUMULATED DEPRECIATION:		
At the beginning of the year	23,734	20,158
Provided for the year	1,929	1,981
Transferred from property, plant and equipment (Note 17)	–	3,529
Transferred to property, plant and equipment (Note 17)	–	(1,934)
At the end of the year	25,663	23,734
ACCUMULATED IMPAIRMENT:		
At the beginning of the year	4,818	–
Transferred from property, plant and equipment (Note 17)	–	4,818
At the end of the year	4,818	4,818
CARRYING AMOUNTS:		
At the beginning of the year	25,744	29,853
At the end of the year	23,815	25,744

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18. Investment Properties *(continued)*

The above investment properties are measured using the cost model and represent dairy farms located in Mainland China and are depreciated on a straight-line basis over 15 to 40 years.

The fair value of the Group's investment properties at December 31, 2022 was RMB32,251,000 (2021: RMB34,183,000) which has been arrived at on the basis of a valuation carried out as at that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"), independent qualified professional valuer which is not connected to the Group.

The fair value was determined based on the cost approach, which values the investment properties with reference to their depreciated replacement cost as at the valuation date. There has been no change in the valuation techniques from prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair values of the Group's investment properties as at December 31, 2022 are grouped into Level 3 of fair value measurement.

19. Right-of-Use Assets

	Leasehold lands RMB'000	Properties RMB'000	Machinery and equipment RMB'000	Total RMB'000
Carrying amounts as at January 1, 2021	1,183,412	135,184	2,700	1,321,296
Additions	952,290	1,503	24,742	978,535
Early termination of lease agreements	(88,728)	–	–	(88,728)
Depreciation provided for the year	(90,269)	(28,262)	(2,831)	(121,362)
Acquisition of subsidiaries (Note 44)	96,691	–	153	96,844
Carrying amounts as at December 31, 2021	2,053,396	108,425	24,764	2,186,585
Additions	400,161	6,658	34,379	441,198
Early termination of lease agreements	(649)	(6,015)	(42)	(6,706)
Depreciation provided for the year	(138,795)	(19,862)	(6,837)	(165,494)
Carrying amounts as at December 31, 2022	2,314,113	89,206	52,264	2,455,583

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19. Right-of-Use Assets *(continued)*

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Expense relating to short-term leases*	27,890	24,787
Variable lease payments not included in the measurement of lease liabilities* (Note (i))	8,418	3,268
Total cash outflow for leases	297,867	683,533

* Before capitalisation to biological assets and inventories

Note:

(i) Lease payments for certain machineries and equipment are variable payments, and determined based on the usage of the machineries and equipment, respectively, during the relevant lease periods.

The Group leases various lands, properties, machinery and equipment to operate its business. Lease contracts are entered into for fixed terms of 2 to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for motor vehicles, machinery and equipment and buildings. As at the end of the year, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Restrictions or covenants on leases

Lease liabilities of RMB1,556,991,000 (2021: RMB1,317,399,000) were recognised with related right-of-use assets with an aggregate carrying amount of RMB1,600,373,000 (2021: RMB1,323,611,000) as at December 31, 2022. These lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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For the year ended December 31, 2022

20. Goodwill

	2022 RMB'000	2021 RMB'000
CARRYING AMOUNT:		
At beginning of the year	792,980	762,741
Acquisition of subsidiaries (Note 44)	–	30,239
At the end of the year	792,980	792,980

For the purpose of impairment testing, goodwill has been allocated to two individual cash-generating units (“CGUs”). The Group’s goodwill of RMB762,741,000 arose from acquisition of Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技术(集團)股份有限公司) (“SKX”, together with its subsidiaries, collectively “SKX Group”) in 2020, and RMB30,239,000 arose from acquisition of Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd. (collectively as “Fonterra China Farms Group”) in 2021. SKX Group and Fonterra China Farms Group mainly engaged in dairy farming business.

The recoverable amount of the CGUs of SKX Group and Fonterra China Farms Group have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the CGUs covering the following 5 years. The discount rate used for the cash flow projection is the pre-tax rate of 13% (2021: 13%). The cash flows beyond the five-year period are extrapolated using 2.5% growth rate per annum (2021: 2.5%). Other key assumptions for the value in use calculations include selling price, volume of sale and gross profit margin which are determined based on the CGUs’ past performance and management expectations for the market development.

During the year ended December 31, 2022, management of the Group determines that there is no impairment on CGUs of SKX Group and Fonterra China Farms Group (2021: Nil).

As at December 31, 2022, the recoverable amount of SKX Group exceeds its carrying amount by RMB219,793,000. If the discount rate was changed to 13.23%, the growth rate beyond the five-year period were reduced by 0.28%, while other parameters remain constant, the recoverable amount of SKX Group would equal to its carrying amount.

The recoverable amount of Fonterra China Farms Group is significantly above its carrying amount. Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

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21. Intangible Assets

	Computer software RMB'000	Patents RMB'000	Total RMB'000
COST:			
At January 1, 2021	5,677	733	6,410
Acquisition of subsidiaries (Note 44)	92	–	92
At December 31, 2021	5,769	733	6,502
Additions	7,982	–	7,982
Transferred from property, plant and equipment (Note 17)	13,344	–	13,344
At December 31, 2022	27,095	733	27,828
ACCUMULATED AMORTISATION:			
At January 1, 2021	1,306	170	1,476
Provided for the year	575	173	748
At December 31, 2021	1,881	343	2,224
Provided for the year	2,268	173	2,441
At December 31, 2022	4,149	516	4,665
CARRYING AMOUNTS:			
At December 31, 2022	22,946	217	23,163
At December 31, 2021	3,888	390	4,278

The above intangible assets have finite useful lives, and are amortised on a straight-line basis over the following periods:

Computer software	10 years
Patents	10 to 15 years

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22. Biological Assets

A – Nature of activities

The biological assets of the Group are dairy cows held to produce raw milk (i.e. milkable cows, calves and heifers), feeder cattle and breeding stock to produce frozen bovine semen. The quantity of dairy cows and breeding stock owned by the Group at the end of the reporting period is shown below:

	31/12/2022	31/12/2021
	Heads	Heads
Calves and heifers	267,742	211,651
Milkable cows	231,709	204,545
Feeder cattle	1,434	2,331
Breeding bulls	86	102
Total	500,971	418,629

Milkable cows, calves and heifers are dairy cows of the Group for the purpose of production of raw milk and are classified as non-current assets. Feeder cattle include bull calves for sale to external customers and is classified as current assets.

The Group is exposed to financial risks arising from changes in price of the raw milk and frozen bovine semen. The Group does not anticipate that the price of the raw milk and frozen bovine semen will decline significantly in the foreseeable future and the management of the Group is of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the raw milk and frozen bovine semen.

In general, heifers are inseminated when they reached approximately 14 months old. After an approximately 285-day pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days to 340 days before approximately 60 days dry period. When a heifer begins to produce raw milk, it is transferred to the category of milkable cows based on the estimated fair value on the date of transfer.

The Group is exposed to a number of risks related to its biological assets as follows:

i. Regulatory and environmental risks

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

ii. Climate, disease and other natural risks

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

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22. Biological Assets *(continued)*

B – Quantity of the agricultural produce of the Group's biological assets

	Year ended 31/12/2022	Year ended 31/12/2021
Volume of raw milk produced for sale (Ton)	2,328,512	1,947,226
Volume of breeding products produced for sale (Straw/unit)	1,230,050	977,988

C – Value of biological assets

The fair value of biological assets at the end of the reporting period are set out below:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Dairy cows:		
Calves and heifers	5,931,614	3,675,802
Milkable cows	7,204,357	6,660,982
Feeder cattle	8,490	7,701
Breeding stock	85,447	71,595
Total	13,229,908	10,416,080
Less: current portion classified under current assets	(8,490)	(7,701)
Non-current portion classified under non-current assets	13,221,418	10,408,379

As at December 31, 2021, an aggregate carrying amount of RMB1,111,222,000 (2022: Nil) biological assets of the Group were pledged to secure certain bank facilities granted to the Group (Note 35).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

22. Biological Assets *(continued)*

C – Value of biological assets *(continued)*

The movements in biological assets are set out below:

	Calves and heifers RMB'000	Milkable cows RMB'000	Breeding stock RMB'000	Total non-current assets RMB'000	Feeder cattle RMB'000
At January 1, 2021	2,432,082	4,564,233	41,797	7,038,112	9,564
Purchase cost	674,753	–	2,654	677,407	–
Feeding and other related costs	3,035,835	–	8,941	3,044,776	110,788
Transfer	(2,744,632)	2,744,632	–	–	–
Transfer to feeder cattle	(881)	–	–	(881)	881
Decrease due to disposal/death	(202,578)	(823,611)	(5,595)	(1,031,784)	(133,818)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	125,888	(577,412)	23,798	(427,726)	20,286
Acquisition of subsidiaries (Note 44)	355,335	753,140	–	1,108,475	–
At December 31, 2021	3,675,802	6,660,982	71,595	10,408,379	7,701
Purchase cost	936,264	–	2,122	938,386	–
Feeding and other related costs	4,437,714	–	6,594	4,444,308	88,757
Transfer	(3,716,363)	3,716,363	–	–	–
Decrease due to disposal/death	(170,636)	(814,988)	(2,064)	(987,688)	(52,819)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	768,833	(2,358,000)	7,200	(1,581,967)	(35,149)
At December 31, 2022	5,931,614	7,204,357	85,447	13,221,418	8,490

The directors of the Company have engaged an independent valuer, Jones Lang LaSalle, independent qualified professional valuer which is not connected to the Group, to assist the Group in assessing the fair values of Group's biological assets. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in Note 47.

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23. Deferred Tax Assets/Liabilities *(continued)*

Pursuant to the EIT Law, withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008. At December 31, 2022 no deferred tax (2021: none) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, the Group is in a position to control the timing of the reversal of the temporary differences and it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

As at December 31, 2022, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB5,673,555,000 (2021: RMB4,530,840,000).

24. Interests In Associates

	31/12/2022 RMB'000
Cost of investment in associates	1,098,386
Share of post-acquisition loss	(35,531)
Exchange adjustments	93,792
	1,156,647

Details of each of the Group's associates at the end of the reporting period are as follows:

	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest	Proportion of voting rights held by the Group	Principal activity
Wholesome Harvest Limited ("Wholesome Harvest") (Note i)	Cayman Islands	PRC	27.16%	27.16%	Raising and breeding dairy cows and raw milk production
Jiangsu Nongken Youran Dairy Co., Ltd. ("Jiangsu Nongken") (Note ii)	PRC	PRC	20.00%	20.00%	Raising and breeding dairy cows and raw milk production

Notes:

- i. On March 2, 2022, the Company entered into a sale and purchase agreement with Ye Gu Investment Company Limited (the "Seller") and Mr. Zhang Jianshe, the sole shareholder of the Seller, pursuant to which the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell approximately 27.16% of the total issued share capital in Wholesome Harvest, which wholly owns China YouYuan Dairy Holdings Company Limited (formerly known as China ZhongDi Dairy Holdings Company Limited), at a total consideration of HK\$1,206,380,000 (equivalent to approximately RMB978,386,000). The transaction was completed on March 31, 2022. The directors of the Company consider that the Group is able to exercise significant influence over Wholesome Harvest and Wholesome Harvest is therefore accounted for as an associate of the Group.
- ii. During the current year, the Group made capital contribution of RMB120,000,000 in the establishment of Jiangsu Nongken, over which the Group is able to exercise significant influence and Jiangsu Nongken is therefore accounted for as an associate of the Group.

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24. Interests In Associates *(continued)*

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

Wholesome Harvest:

	31/12/2022 RMB'000
Current assets	1,054,319
Non-current assets	4,315,517
Current liabilities	(2,300,254)
Non-current liabilities	(227,454)

	From March 31, 2022 (date of acquisition) to December 31, 2022 RMB'000
Revenue	1,566,450
Loss for the period	(129,134)
Total comprehensive expense for the period	(129,134)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2022 RMB'000
Net assets of Wholesome Harvest	2,842,128
Proportion of the Group's ownership interest in Wholesome Harvest	27.16%
The Group's share of net assets of Wholesome Harvest	771,922
Goodwill	171,392
Exchange difference	93,792
Carrying amount of the Group's interest in Wholesome Harvest	1,037,106

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25. Equity Instruments at Fair Value Through Other Comprehensive Income

	31/12/2022 RMB'000	31/12/2021 RMB'000
Unlisted equity investments in the PRC, at fair value	28,066	24,812

The above unlisted equity investments represent the Group's equity investment in certain private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments at FVTOCI.

During the year, fair value loss of RMB6,873,000 was recorded and charged to other comprehensive income (2021: RMB12,928,000).

26. Inventories

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

27. Trade Receivables

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

Trade receivables from related parties are set out in Note 48.

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27. Trade Receivables *(continued)*

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

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

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

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

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.

Further details of impairment assessment of trade receivables under IFRS 9 are set out in Note 46.

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28. Contract Assets

	31/12/2022 RMB'000	31/12/2021 RMB'000
Dairy farm equipment: Classified under current assets	7,116	8,354

As at January 1, 2021, contract assets amounted to RMB12,139,000.

29. Prepayments, Deposits and Other Receivables

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

Details of impairment assessment of other receivables under IFRS 9 are set out in Note 46.

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30. Financial Assets at Fair Value Through Profit or Loss

	31/12/2022 RMB'000	31/12/2021 RMB'000
Negotiable certificate of deposits with certain banks, at fair value	1,919,338	–

During the year, the Group invested in certain negotiable certificate of deposits with certain banks in PRC. The negotiable certificate of deposits carry fixed interest rate which range from 3.10% to 3.35% per annum.

The directors of the Company determine the deposits are mainly for the purpose of short-term fund management, which will be sold in the secondary market within one year, therefore the deposits are classified as current assets.

31. Bank Balances and Cash, Pledged and Restricted Bank Deposits

Bank balances carry interest at prevailing market rates which range from 0.01% to 1.90% per annum as at December 31, 2022 (2021: 0.25% to 1.90%).

An analysis of pledged and restricted bank deposits is as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Deposits pledged to banks to secure banking facilities granted to the Group:		
Bills payables	8,001	30,000
Bank loans	100	166
Restricted bank deposits (Note (i))	404,663	13,628
	412,764	43,794
Less: classified under current assets	(401,097)	(33,544)
Non-current portion	11,667	10,250

Note:

- (i) The restricted bank deposits included deposits frozen under court orders in relation to ongoing litigations, deposits restricted to use for land rehabilitation and bank deposits that can be used only to finance the Group's investments in new dairy farms purpose.

The pledged and restricted bank deposits carry interest at prevailing market rates ranging from 0.25% to 3.03% per annum as at December 31, 2022 (2021: 0.25% to 3.03% per annum).

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32. Trade and Bills Payables

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

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

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

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

33. Other Payables and Accruals

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

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For the year ended December 31, 2022

34. Contract Liabilities

	31/12/2022 RMB'000	31/12/2021 RMB'000
Receipts in advance from customers for:		
Sales of raw milk	124	54
Sales of feeds	14,910	11,282
Sales of ruminant farming products	13,957	13,747
Sales of breeding products	4,768	4,843
Sales of feeder cattle	8,136	11,164
	41,895	41,090

As at January 1, 2021, contract liabilities amounted to RMB34,770,000.

Contract liabilities are expected to be settled within the Group's normal operating cycle and will be recognised as revenue when the related performance obligations are satisfied. The management of the Group expects the contract liabilities at the reporting period end will be recognised as revenue within one year.

Revenue recognised during the reporting period included the whole amount of contract liabilities at the beginning of the reporting period. There was no revenue recognised during the year that related to performance obligations that were satisfied in prior years.

35. Bank and Other Borrowings

	31/12/2022 RMB'000	31/12/2021 RMB'000
Bank borrowings:		
Unsecured	18,838,786	7,490,367
Secured (Note (i))	1,560,901	1,965,747
Other borrowings (Note (ii))	159,369	-
	20,559,056	9,456,114
Fixed rate borrowing	5,558,570	3,846,891
Floating rate borrowing	15,000,486	5,609,223
	20,559,056	9,456,114
The carrying amounts of the above borrowings are repayable*:		
Within one year	13,827,675	5,412,175
More than one year but within two years	1,349,477	1,944,053
More than two years but within five years	3,892,704	1,667,913
More than five years	1,489,200	431,973
	20,559,056	9,456,114
Less: Amounts due within one year shown under current liabilities	(13,827,675)	(5,412,175)
Amounts shown under non-current liabilities	6,731,381	4,043,939

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

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For the year ended December 31, 2022

35. Bank and Other Borrowings *(continued)*

The ranges of effective interest rates of the Group's borrowings are as follows:

	31/12/2022 %	31/12/2021 %
Effective interest rates:		
Floating rate borrowing	1.71 to 5.77	3.40 to 5.46
Fixed rate borrowing	2.35 to 4.10	2.00 to 6.00

Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China ("PBOC") and Secured Overnight Financing Rate ("SOFR").

Notes:

- (i) The secured bank loans of the Group are secured by 51.73% equity interest of SKX, 60.59% and 61.44% equity interest of two wholly-owned subsidiaries of the Group, and certain biological assets of the Group (Note 22).
- (ii) On August 30, 2022, the Group received a borrowing from the local government of approximately RMB216 million to finance the Group's investments in new dairy farms. The borrowing bears no interest in the first two years and bears a fixed interest of 2% per annum from the third year to the maturity date. The government loan with below-market rates of interest is initially measured at fair value based on prevailing market interest rate and the difference between proceeds received and the fair value of the loan is treated as a government grant.

36. Deferred Income

	2022 RMB'000	2021 RMB'000
Balance at beginning of the year	434,053	216,968
Government grants received	333,413	275,445
Released to other income (Note 8)	(145,875)	(58,228)
Others	(2,081)	(132)
Balance at end of the year	619,510	434,053

Deferred income arising from government grants of the Group represents:

- (i) the government grants received for capital expenditure incurred for the acquisition of property, plant and equipment and right-of-use assets. The amounts are deferred and are credited to the profit or loss on a systematic basis over the useful lives of the related assets.
- (ii) the government grant received for purchase of biological assets measured at its fair value less costs to sell. The amount is recognised in profit or loss when the conditions attaching to the government grant are met.

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37. Lease Liabilities

	31/12/2022 RMB'000	31/12/2021 RMB'000
Lease liabilities payable:		
Within one year	131,604	51,009
Within a period of more than one year but not more than two years	136,536	48,529
Within a period of more than two years but not more than five years	283,915	176,463
Within a period of more than five years	1,004,936	1,041,398
	1,556,991	1,317,399
Less: Amount due for settlement within 12 months shown under current liabilities	(131,604)	(51,009)
Amount due for settlement after 12 months shown under non-current liabilities	1,425,387	1,266,390

The Group leases various properties to operate its dairy farm business and these lease liabilities were measured at the present value of the lease payments that are not yet paid. As at December 31, 2022, the weighted average incremental borrowing rate applied ranging from 3.83% to 5.25% (2021: 4.89% to 5.25%) per annum.

The Group does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Group's treasury function. The lease liabilities of the Group were unguaranteed and secured by rental deposits.

38. Other Liabilities

	31/12/2022 RMB'000	31/12/2021 RMB'000
Other liabilities	14,252	20,845
Less: Portion classified under current liabilities	(6,942)	(6,593)
Portion classified under non-current liabilities	7,310	14,252

Other liabilities represent purchase consideration for dairy cows to be settled by instalments in five years and bear interest at 5.3% per annum.

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39. Other Provisions

	31/12/2022 RMB'000	31/12/2021 RMB'000
Classified under current liabilities		
Provisions for litigations	–	13,015
Provisions for arbitration regarding the adjustments made to the consideration for acquisition of SKX Group (Note 10)	19,807	69,041
	19,807	82,056
Classified under non-current liabilities:		
Provision for land rehabilitation	9,124	8,674
	28,931	90,730

40. Convertible Notes

In November 2020, several pre-IPO investors (the “Pre-IPO Investors”) entered into subscription agreements with the Company in relation to issue of convertible notes with an aggregate principal amount of USD460 million (equivalent to approximately RMB3,051 million). The convertible notes are subject to cash interest and pay-in-kind interest (the “PIK Interest”) on the outstanding principal amount at the rate of 4% per annum and 6% per annum, respectively. The cash interest is payable on the last day of each quarter in arrears commencing on December 31, 2021. The PIK Interest shall capitalise and be added into the then outstanding principal amount, whereupon PIK Interest shall accrue on the then outstanding principal amount plus any capitalised amount of PIK Interest at the same rate. Accrued and capitalised PIK Interest on any portion of the principal amount that is converted into ordinary shares of the Company shall be waived upon the completion of such conversion.

The key terms of the convertible notes are summarised as follows:

(a) Conversion option

The Pre-IPO Investors shall have the right, but not the obligation, to convert the outstanding principal amount into such number of ordinary shares of the Company at any time subject to and in accordance with terms and conditions attached to the convertible notes. The initial conversion price upon issuance shall be USD0.44605 per ordinary share. The conversion price shall increase at a rate of 2% per annum, or 0.5% per quarter, on each interest payment date, commencing on the interest payment date immediately following the third anniversary of the issuance date.



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For the year ended December 31, 2022

40. Convertible Notes *(continued)*

(b) Redemption on maturity

The convertible notes will be matured on the third anniversary of the issuance date and, at the sole discretion of the Pre-IPO Investors, may be extended to the fifth anniversary of the issuance date. Unless the entire principal amount of the convertible notes have been redeemed or converted earlier in accordance with the terms thereof, the Company shall redeem the entire outstanding principal amount of the convertible notes in full together with accrued interest. The Pre-IPO Investors may at any time after the occurrence of an event of default as stipulated in the convertible notes instruments require the Company to redeem the outstanding principal amount of the convertible notes or any portion thereof at the redemption price as defined in the convertible notes instruments.

(c) Early redemption

Upon the expiration of the fifteenth month of the issuance date, the Pre-IPO Investors has an one-off right to require the Company to redeem all outstanding principal amounts of this convertible notes (including the outstanding principal amount plus total accrued interest calculated at 10% per annum (cash interest and PIK Interest) on the principal), or any portion thereof. The early redemption right of the convertible notes was expired in February 2022.

The Group designated the convertible notes containing debt component and derivative component as financial liabilities at FVTPL at initial recognition, given the convertible notes are denominated in USD which is not in the then functional currency of the Company (RMB). The convertible notes were measured at fair value with changes in fair value recognised in profit or loss, except for changes in the fair value that is attributable to changes in the credit risk (excluding changes in fair value of the derivatives component) is recognised in other comprehensive income.

The Company's functional currency was changed from RMB to USD in 2021 as the Company commenced its trading business in the first quarter of 2021, with sales and purchases denominated and settled in USD. Following the change in functional currency, the conversion feature will be settled by the exchange of a fixed amount of functional currency cash (USD) for a fixed number of shares. The directors of the Company reassessed the liability/equity classification of convertible notes in 2021 and the conversion feature was reclassified to equity of approximately RMB963 million at its fair value. The debt component with fair value of approximately RMB2,183 million at the date of reclassification is subsequently measured at amortised cost using the effective interest rate method.

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For the year ended December 31, 2022

40. Convertible Notes *(continued)*

(c) Early redemption *(continued)*

On November 28, 2022, the Company and each of Good Virtue Limited (“BOC”), Victory Ride Holdings Limited (“ICBC”) and PAGAC Yogurt Holding III Limited (“PAG III”), the Pre-IPO Investors of the Company, entered into the supplemental letter agreements, respectively, to amend certain terms and conditions of the convertible notes. Pursuant to the supplemental letter agreements, the Company has the right to redeem 70% of the outstanding convertible note held by PAG III and all of the outstanding convertible notes held by ICBC and BOC before the maturity date. The redemption price paid by the Company was determined with reference to the principal amount of the relevant convertible notes to be redeemed, together with the applicable interest accrued thereon up to the date of the redemption. The interest applicable to the redemption is the same as provided for in the existing convertible notes, which comprises the cash interest of 4% per annum and the PIK Interest of 6% per annum. Other terms and conditions of the convertible notes remain unchanged and valid, and the remaining convertible notes will continue to be held by the respective noteholders. The details were published in the Company’s announcement dated November 28, 2022. The Company completed the redemption of the convertible notes in the principal amounts of USD286 million in November 2022.

	Financial liability at FVTPL RMB'000	Liability component at amortised cost RMB'000	Convertible notes equity reserve RMB'000	Total RMB'000
At January 1, 2021	3,043,648	–	–	3,043,648
Cash interest paid before reclassification	(29,814)	–	–	(29,814)
Changes in fair value	132,910	–	–	132,910
Reclassification	(3,146,744)	2,183,360	963,384	–
Effective interest expense charged for the year	–	382,551	–	382,551
Cash interest paid after reclassification	–	(89,308)	–	(89,308)
Exchange differences	–	(69,311)	–	(69,311)
At January 1, 2022	–	2,407,292	963,384	3,370,676
Cash interest paid	–	(104,468)	–	(104,468)
Partial redemption	–	(1,898,954)	(286,303)	(2,185,257)
Gain on partial redemption	–	(901)	–	(901)
Effective interest expense charged for the year	–	628,269	–	628,269
Exchange differences	–	174,962	–	174,962
At December 31, 2022	–	1,206,200	677,081	1,883,281

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41. Share Capital

	Number of ordinary shares	Nominal value of ordinary shares USD	Equivalent nominal value of ordinary shares RMB'000
Authorised:			
At January 1, 2021, December 31, 2021 and 2022	10,000,000,000	100,000	691
Issued and fully paid:			
At January 1, 2021	3,302,000,000	33,020	219
Issuance of ordinary shares upon IPO*	493,404,000	4,934	32
At December 31, 2021 and 2022	3,795,404,000	37,954	251

* Upon completion of IPO in June 2021, the Company issued 493,404,000 new shares with par value of USD0.00001 each at HK\$6.98 and raised gross proceeds of approximately HK\$3,443,960,000 (equivalent to RMB2,854,801,000). The respective share capital amount was approximately RMB32,000 and share premium arising from the issuance was approximately RMB2,854,769,000. The issuance costs amounting to approximately RMB91,999,000 were treated as a deduction against the share premium arising from the issuance.

42. Retirement Benefit Plans

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the PRC government. The PRC subsidiaries are required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit schemes during the year are disclosed in Note 13. As at December 31, 2022 and 2021, the Group had no forfeited contributions under the above retirement benefit scheme which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available as at December 31, 2022 and 2021 under such scheme which may be used by the Group to reduce the contribution payable in future years.

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For the year ended December 31, 2022

43. Pledge of Assets

Certain of the Group's bank and other borrowings and bills payables had been secured by 51.73% equity interest of SKX, 60.59% and 61.44% equity interest of two wholly-owned subsidiaries of the Group and certain assets with carrying amounts as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Pledged bank deposits (Note 31)	8,101	30,166
Biological assets (Note 22)	–	1,111,222
	8,101	1,141,388

44. Business Combination

Year ended December 31, 2021

On October 3, 2020, the Group entered into a share purchase agreement with Fonterra Tangshan Dairy Farm (HK) Limited ("Fonterra HK") to purchase 100% equity interests of Fonterra China Farms Group. Fonterra China Farms Group were owned by Fonterra HK and ultimately controlled by Fonterra Co-operative Group Limited ("Fonterra Group"). The acquisition was completed on April 1, 2021, for an aggregate consideration of RMB2,310,000,000.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB30,239,000. Fonterra China Farms Group is mainly engaged in production and sale of raw milk in the PRC. Fonterra China Farms Group were acquired so as to continue the expansion of the Group's dairy farming operations.

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

44. Business Combination *(continued)*

Year ended December 31, 2021 *(continued)*

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The fair values of the identifiable assets and liabilities of Fonterra China Farms Group recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	1,079,746
Right-of-use assets	96,844
Intangible assets	92
Biological assets	1,108,475
Inventories	164,038
Trade receivables	137,644
Prepayments, deposits and other receivables	11,508
Bank balances and cash	151,323
Trade payables	(136,788)
Other payables and accruals	(70,264)
Contract liabilities	(1,818)
Lease liabilities	(40,473)
Total	2,500,327

The fair value of trade receivables at the date of acquisition amounted to RMB137,644,000. The gross contractual amounts of those trade receivables acquired amounted to RMB137,644,000 at the date of acquisition.

Acquisition-related costs amounting to RMB11,663,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended December 31, 2021.

Goodwill arising on acquisition

	RMB'000
Purchase consideration	2,310,000
Adjustment to purchase consideration	220,566
Adjusted purchase consideration	2,530,566
Less: Net assets acquired	(2,500,327)
Goodwill arising on acquisition	30,239

The adjustment to purchase consideration is determined by a formula set out in the share purchase agreement, which is calculated as (1) the net debt amount which is the difference between cash amount and certain debt amounts at completion date; and (2) the difference between the net working capital at completion date and the target net working capital; and (3) certain devaluation adjustments (where applicable) based on the number of biological assets at completion date and capital expenditures incurred from the date of share purchase agreement to completion date.

The adjusted purchase consideration of RMB2,530,566,000 was settled in March 2021.

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For the year ended December 31, 2022

44. Business Combination *(continued)*

Year ended December 31, 2021 *(continued)*

Net cash outflows on acquisition

	RMB'000
Consideration paid	(2,530,566)
Bank balances and cash acquired	151,323
Net cash outflows on acquisition	(2,379,243)

Included in the profit for the year ended December 31, 2021 is RMB63,086,000 attributable to the additional business generated by Fonterra China Farms Group. Revenue for the year ended December 31, 2021 includes RMB1,008,365,000 generated from Fonterra China Farms Group.

Had the acquisition been completed on January 1, 2021, total group revenue for year ended December 31, 2021 would have been RMB15,653,840,000, and profit for year ended December 31, 2021 would have been RMB2,051,277,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2021, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group had Fonterra China Farms Group been acquired at the beginning of the year ended December 31, 2021, the directors of the Group calculated depreciation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

45. Categories of Financial Instruments

	31/12/2022 RMB'000	31/12/2021 RMB'000
Financial assets		
Financial assets at amortised cost	4,202,145	3,711,412
Equity instruments at FVTOCI	28,066	24,812
Debt instruments at FVTOCI	–	13,828
Financial assets at FVTPL	1,919,338	–
Financial liabilities		
Financial liabilities at amortised cost	26,132,250	14,925,381

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46. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, pledged and restricted bank deposits, bank balances and cash, amounts due from/to related parties, deposits placed with a related party, equity instruments at FVTOCI, financial assets at FVTPL, trade and bills payables, other payables, bank and other borrowings, debt component of convertible notes and other liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises from monetary assets and liabilities denominated in foreign currencies.

The Group operates mainly in the PRC and majority of revenue and cost of goods sold and operations are denominated in 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 carrying amounts of the Group's foreign currency denominated monetary items including intra-group balances at the end of the reporting period are as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Assets:		
Bank balances denominated in USD	839	907
Liabilities:		
Intra-group balances of the Company denominated in RMB	44,490	42,523

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

46. Financial Risk Management Objectives and Policies *(continued)*

Market risk *(continued)*

Currency risk *(continued)*

No sensitivity analysis is presented as the directors of the Company consider that the impact on profit or loss during the reporting period is insignificant, taking into account the carrying amount of monetary items that are denominated in a foreign currency.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to negotiable certificate of deposits (Note 30), fixed-rate bank borrowings (Note 35), lease liabilities (Note 37), debt component of convertible notes (Note 40) and other liabilities (Note 38). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged and restricted bank balances (Note 31), deposits placed with a related party (Note 48) and variable-rate bank borrowings (Note 35). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates quoted by PBOC arising from the Group's RMB denominated borrowings and SOFR arising from the Group's USD denominated borrowings.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the variable-rate bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease in variable-rate bank borrowings are used during year when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances, pledged and restricted bank balances and deposits placed with a related party are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances and deposits is insignificant during the year.

If interest rates on variable rate borrowings had been 50 basis points higher/lower and all other variables were held constant (without taking into account the effect of interest capitalisation), the potential effect on post-tax profit of the Group is as follows:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Post-tax profit would decrease/increase by	74,784	28,028

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

46. Financial Risk Management Objectives and Policies *(continued)*

Credit risk and impairment assessment *(continued)*

Deposits and other receivables and bills receivable

For deposits and other receivables, the directors of the Company make periodic individual assessment on the recoverability of deposits and other receivables based on historical settlement records, past experience, and also quantitative or qualitative information that is reasonable and supportive forward-looking information. Details of the quantitative disclosures are set out below in this note.

The Group only accepts bank acceptance bills issued by reputable PRC banks if trade receivables are settled by bills. The management of the Group considers the credit risk arising from the bills is insignificant.

Bank balances, pledged and restricted bank deposits and deposits placed with a related party

The credit risk on bank balances, pledged and restricted bank deposits and deposits placed with a related party of the Group is limited because the counterparties are banks or other financial institutions with good reputation in the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Descriptions	Trade receivables/ contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	N/A	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

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46. Financial Risk Management Objectives and Policies *(continued)*

Credit risk and impairment assessment *(continued)*

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

	Notes			Gross carrying amount as at December 31,	
				2022 RMB'000	2021 RMB'000
<i>Financial assets at amortised cost</i>					
Trade receivables	27	(Note)	Lifetime ECL (provision matrix)	1,235,880	1,047,261
		Low risk	Lifetime ECL (assessed individually)	100,590	156,482
		Loss	Credit-impaired	84,882	61,453
				1,421,352	1,265,196
Deposits and other receivables	29	Low risk	12-month ECL	107,479	70,566
		Loss	Credit-impaired	5,659	6,381
				113,138	76,947
Trade receivables from related parties	48	Low risk	Lifetime ECL (assessed individually)	917,518	780,392
Other receivables from related parties	48	Low risk	12-month ECL	32	–
Pledged and restricted bank deposits	31	Low risk	12-month ECL	412,764	43,794
Bank balances	31	Low risk	12-month ECL	936,358	1,015,261
Deposits placed with a related party	48	Low risk	12-month ECL	515,895	612,159
Debt instruments at FVTOCI					
Bills receivable		Low risk	12-month ECL	–	13,828
Other item					
Contract assets	28	(Note)	Lifetime ECL (provision matrix)	7,116	8,354

Note : For trade receivables, amounts due from related parties (trade nature) and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, which are assessed individually, the Group determines the expected credit losses on trade receivables and contract assets by using a provision matrix, by reference to the aging of outstanding balances, as these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

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46. Financial Risk Management Objectives and Policies *(continued)*

Credit risk and impairment assessment *(continued)*

The following table provides information about the exposure to credit risk for trade receivables which are assessed collectively based on a provision matrix as at December 31, 2022.

	31/12/2022 RMB'000	31/12/2021 RMB'000
Within 90 days	1,073,280	866,850
90 days to 1 year	162,600	180,411
Total	1,235,880	1,047,261

The average loss rate as at December 31, 2022 is ranging from 2.08% to 12.60% (2021: 1.25% to 13.97%) which are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables measured at amortised cost under the simplified approach.

	Lifetime ECL (Not credit- impaired) RMB'000	Lifetime ECL (Credit- impaired) RMB'000	Total RMB'000
As at January 1, 2021	18,865	47,570	66,435
Changes for trade receivables recognised as at January 1, 2021:			
Impairment loss recognised	–	6,261	6,261
Impairment loss reversed	(17,741)	(8,356)	(26,097)
Write-offs	–	(265)	(265)
New trade receivables originated	13,379	16,243	29,622
As at December 31, 2021	14,503	61,453	75,956
Changes for trade receivables recognised as at January 1, 2022:			
Impairment loss recognised	–	24,861	24,861
Impairment loss reversed	(10,838)	(32,887)	(43,725)
Write-offs	–	(153)	(153)
Transfer	(1,648)	1,648	–
New trade receivables originated	22,354	29,960	52,314
As at December 31, 2022	24,371	84,882	109,253

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For the year ended December 31, 2022

46. Financial Risk Management Objectives and Policies *(continued)*

Credit risk and impairment assessment *(continued)*

During the year ended December 31, 2022, the Group provided RMB11,516,000 (2021: reversed RMB4,362,000) impairment allowance for trade receivables based on the provision matrix. Additional impairment allowance of RMB21,934,000 (2021: RMB14,148,000) were assessed individually and provided on debtors with significant balances or credit-impaired debtors for the year ended December 31, 2022.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

During the year, the exposure to credit risk of contract assets assessed based on provision matrix is insignificant.

The following table shows the movement in ECL that has been recognised for other receivables measured at amortised cost.

	Lifetime ECL (credit-impaired) RMB'000
As at January 1, 2021	3,729
Changes for other receivables recognised as at January 1, 2021:	
Impairment loss recognised	4,302
Impairment loss reversed	(1,650)
As at December 31, 2021	6,381
Changes for other receivables recognised as at January 1, 2022:	
Impairment loss recognised	814
Impairment loss reversed	(1,525)
Write-offs	(11)
As at December 31, 2022	5,659

The Group writes off an other receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the other receivables are over two years past due, whichever occurs earlier.

Notes to the Consolidated Financial Statements

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46. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and convertible notes and ensures compliance with covenants.

The Group had net current liabilities of RMB8,327,074,000 as at December 31, 2022, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the directors of the Company regularly monitor the operating cash flows of the Group to meet its liquidity requirement in the short and long term. The Group's net current liabilities position as at December 31, 2022 was mainly attributable to trade and bills payables, other payables and accruals, bank and other borrowings, other liabilities and convertible notes.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance, including unutilised banking facilities, in assessing whether the Group will have sufficient financial resources to continue as a going concern. Meanwhile, the Group recorded net operating cash inflows during the year.

The directors of the Company have prepared a working capital forecast of the Group covering a period of not less than 12 months from December 31, 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. The directors of the Company, after taking into account the reasonably possible changes in the operational performance and the availability of borrowings, are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due.

The following table sets out the Group's remaining contractual maturity for its financial liabilities as at the end of the reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

46. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk *(continued)*

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period.

	Weighted average interest rate %	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<i>As at December 31, 2022</i>							
Trade and bills payables	-	2,688,578	-	-	-	2,688,578	2,688,578
Other payables and accruals	-	1,616,826	-	-	-	1,616,826	1,616,826
Amounts due to related parties	-	47,338	-	-	-	47,338	47,338
Bank and other borrowings:							
Fixed-rate	2.35 to 4.10	3,984,295	501,852	1,005,444	313,077	5,804,668	5,558,570
Variable-rate	1.71 to 5.77	10,307,262	1,037,484	3,169,785	1,284,366	15,798,897	15,000,486
Lease liabilities	3.83 to 5.25	137,906	150,016	343,356	2,048,342	2,679,620	1,556,991
Convertible notes	10	1,482,905	-	-	-	1,482,905	1,206,200
Other liabilities	5.30	7,500	7,500	-	-	15,000	14,252
		20,272,610	1,696,852	4,518,585	3,645,785	30,133,832	27,689,241
<i>As at December 31, 2021</i>							
Trade and bills payables	-	1,878,597	-	-	-	1,878,597	1,878,597
Other payables and accruals	-	1,160,650	-	-	-	1,160,650	1,160,650
Amounts due to related parties	-	1,883	-	-	-	1,883	1,883
Bank and other borrowings:							
Fixed-rate	2.00 to 6.00	2,781,238	332,667	876,281	73,249	4,063,435	3,846,891
Variable-rate	3.40 to 5.46	2,887,638	1,748,515	956,019	384,150	5,976,322	5,609,223
Lease liabilities	4.89 to 5.25	110,073	110,216	366,633	2,524,674	3,111,596	1,317,399
Convertible notes	10	3,128,343	-	-	-	3,128,343	2,407,292
Other liabilities	5.30	7,500	7,500	7,500	-	22,500	20,845
		11,955,922	2,198,898	2,206,433	2,982,073	19,343,326	16,242,780

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

47. Fair Value Measurements

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Company reports its findings to the board of directors of the Company to explain the cause of fluctuations in the fair value.

The Group's biological assets and certain of the Group's financial assets are measured at fair value on a recurring basis at the end of the reporting period. The following table gives information about how the fair values of these biological assets and financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised based on the degree to which the inputs to the fair value measurements is observable.

	Fair value hierarchy			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at December 31, 2022				
Assets				
Biological assets:				
Calves and heifers (Note (a))	–	–	5,931,614	5,931,614
Milkable cows (Note (b))	–	–	7,204,357	7,204,357
Feeder cattle (Note (c))	–	–	8,490	8,490
Breeding stock (Note (d))	–	–	85,447	85,447
Equity instruments at FVTOCI (Note (f))	–	–	28,066	28,066
Financial assets at FVTPL (Note (g))	–	1,919,338	–	1,919,338
	–	1,919,338	13,257,974	15,177,312
As at December 31, 2021				
Assets				
Biological assets:				
Calves and heifers (Note (a))	–	–	3,675,802	3,675,802
Milkable cows (Note (b))	–	–	6,660,982	6,660,982
Feeder cattle (Note (c))	–	–	7,701	7,701
Breeding stock (Note (d))	–	–	71,595	71,595
Debt instruments at FVTOCI (Note (e))	–	13,828	–	13,828
Equity instruments at FVTOCI (Note (f))	–	–	24,812	24,812
	–	13,828	10,440,892	10,454,720

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

47. Fair Value Measurements *(continued)*

There were no transfers between Level 1 and 2 and there were no transfers into or out of Level 3 during the year.

Notes	Assets	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(a)	Biological assets – Calves and heifers	<p>The fair value of 14 months old heifers is determined by reference to the local market selling price.</p> <p>The fair values of calves and heifers at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of the reporting period to 14 months plus the margins that would normally be required by a raiser.</p> <p>Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of the reporting period plus the margins that would normally be required by a raiser.</p>	<p>Estimated local market selling prices of the heifers of 14 months old are RMB24,100 to RMB25,620 per head as at December 31, 2022 (2021: RMB20,200 to RMB20,990).</p> <p>Estimated feeding costs per head plus margin that would normally be required by a raiser for calves and heifers younger than 14 months old (i.e. from born to 14 months) are ranging from RMB19,528 to RMB23,087 as at December 31, 2022 (2021: RMB18,497 to RMB19,913).</p> <p>Estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are ranging from RMB13,611 to RMB16,862 as at December 31, 2022 (2021 RMB14,091 to RMB15,822).</p>	<p>An increase in the estimated local market selling price used would result in an increase in the fair value measurement of calves and heifers, and vice versa.</p> <p>An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in an increase/decrease in the fair value measurement of calves and heifers older/younger than 14 months old, and vice versa.</p>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

47. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(b)	Biological assets – Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	<p>Estimated feed costs per kg of raw milk used in the valuation process are ranging from RMB2.59 to RMB3.32 as at December 31, 2022 (2021: RMB2.25 to RMB2.88), taking into account management's experience and knowledge of market conditions.</p> <p>A milkable cow could have as many as six lactation cycles. Estimated daily milk yield at each lactation cycle is ranging from 17.80 kg to 33.55 kg as at December 31, 2022 (2021: 19.41 kg to 32.60 kg), depending on the number of the lactation cycles and the individual physical condition.</p> <p>Estimated local future market prices for raw milk are ranging from RMB4,310 to RMB5,980 per tonne as at December 31, 2022 (2021: RMB4,610 to RMB5,830 per tonne), taking into account management's experience and knowledge of market conditions.</p> <p>Discount rate for estimated future cash flows used is 13% as at December 31, 2022 (2021: 13%), taking into account weighted average cost of capital determined using a Capital Asset Pricing Model.</p>	<p>An increase in the estimated feed costs per kg of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of milkable cows, and vice versa.</p> <p>An increase in the estimated average selling price of raw milk would result in an increase in the fair value measurement of milkable cows, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of milkable cows, and vice versa.</p>



Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

47. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(c)	Biological assets – Feeder cattle	<p>Feeder cattle includes bull calves.</p> <p>The fair value of 15 days bull calf is determined by reference to the local market selling price.</p> <p>The fair value of bull calves are determined by reference to the local market selling price of 15 days old bull calves and the estimated feeding costs required to raise the cows from their respective age at the end of the reporting period.</p>	<p>Estimated local market selling prices of the 15 days bull calf are RMB1,998 per head as at December 31, 2022 (2021: RMB2,807 per head).</p> <p>Estimated feeding costs per head daily for bull calves are RMB22.17 as at December 31, 2022 (2021: RMB21.09).</p>	<p>An increase in the estimated local market selling prices of bull calf used would result in an increase in the fair value measurement of bull calves, and vice versa.</p> <p>An increase in the estimated feeding costs would normally be required by a raiser used would result in an increase/decrease in the fair value measurement of bull calves older/younger than 15 days old, and vice versa.</p>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

47. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(d)	Biological assets – Breeding stock	The fair values of breeding stock are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such breeding stock.	<p>The estimated feed costs per day per bull used in the valuation process are RMB53 as at December 31, 2022 (2021: RMB50 per day) based on the historical average feed costs per day of breeding stock taking into account management's experience and knowledge of market conditions.</p> <p>Estimated local future market prices for sex-sorting frozen bovine semen are RMB112 per straw as at December 31, 2022(2021: RMB105 per straw). Estimated local future market prices for conventional frozen bovine semen are RMB15 per straw as at December 31, 2022 (2021: RMB14 per straw).</p> <p>Discount rate for estimated future cash flow used is 13% as at December 31, 2022 (2021: 13%) taking into account weighted average cost of capital determined using a Capital Asset Pricing Model.</p>	<p>An increase in the estimated feed costs per day of breeding stock used would result in a decrease in the fair value measurement of the breeding stock, and vice versa.</p> <p>An increase in the estimated selling price of frozen dairy bovine semen used would result in an increase in the fair value measurement of breeding stock, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of breeding stock, and vice versa.</p>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

47. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(e)	Debt instruments at FVTOCI: Bills receivable	Discounted cash flow method was used to capture the present value of the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.	N/A	N/A
(f)	Equity instruments at FVTOCI	Market approach	Fair value is estimated based on value of comparable listed companies and discounted for lack of liquidity.	<p>An increase in the discount of fair value for lack of liquidity would result in a decrease in the fair value measurement of the unquoted equity investments.</p> <p>If the discount for lack of liquidity increase by 1%, the estimated fair value of equity instruments at FVTOCI will decrease by RMB253,460 as at December 31, 2022 (2021: RMB353,000), vice versa.</p>
(g)	Financial assets at FVTPL: Negotiable certificate of deposits	Discounted cash flow method was used to capture the present value of the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.	N/A	N/A

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

47. Fair Value Measurements *(continued)*

Reconciliation of Level 3 fair value measurements

The reconciliations for biological assets and convertible notes are set out in Notes 22 and 40. The reconciliations for financial assets under Level 3 fair value measurements are as follows:

	Equity instruments at FVTOCI RMB'000
At January 1, 2021	72,040
Fair value changes during the year	(12,928)
Disposals	(34,300)
At December 31, 2021	24,812
Purchases	10,127
Fair value changes during the year	(6,873)
At December 31, 2022	28,066

The fair value changes for equity instruments at FVTOCI during the year ended December 31, 2022 is reported as changes under "Investment revaluation reserve".

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost recognised in the consolidated financial statements approximate their fair value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

48. Related Party Transactions

The Group had the following material transactions and balances with Inner Mongolia Yili Industrial Group Co., Ltd. (“Yili”, together with its subsidiaries, collectively “Yili Group”), a major shareholder of the Group and Jiangsu Nongken, an associate of the Group.

Transactions with Yili Group for the year

	Notes	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Sales of raw milk to Yili Group	(a)	10,485,086	8,756,701
Sales of feeds to Yili Group	(a)	119,506	68,944
Sales of ruminant farming products to Yili Group	(a)	422	7,261
Sales of breeding products to Yili Group	(a)	12,754	5,871
Purchase of raw materials from Yili Group	(a)	52,506	30,032
Purchase of shared financial services from Yili Group	(b)	11,188	–
Purchase of other service and materials from Yili Group		3,385	–
Other service to Yili Group	(a)	6,445	562
Interest income from Yili Group	(e)	6,670	566

Transactions with Jiangsu Nongken

	Note	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Sales of feeds to Jiangsu Nongken	(a)	9,352	N/A
Sales of breeding products to Jiangsu Nongken	(a)	243	N/A
Other service to Jiangsu Nongken	(a)	119	N/A

Balances with Yili Group

	Notes	31/12/2022 RMB'000	31/12/2021 RMB'000
Amounts due from related parties:			
Trade receivables from Yili Group	(c)	914,047	780,392
Prepayments to Yili Group		18	–
		914,065	780,392
Amounts due to related parties:			
Trade payables to Yili Group	(d)	47,338	1,883
Deposits placed with Yili Finance Company Limited	(e)	515,895	612,159

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

48. Related Party Transactions *(continued)*

Balances with Jiangsu Nongken

	Note	31/12/2022 RMB'000	31/12/2021 RMB'000
Amounts due from related parties:			
Trade receivables from Jiangsu Nongken	(c)	3,471	N/A
Other receivables from Jiangsu Nongken		32	N/A
		3,503	N/A

Notes:

- (a) The above sale and purchase transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved, and the prices are mainly determined based on prices offered to independent third parties.
- (b) The Group entered into the shared financial services agreement with Yili Group in 2022. Pursuant to the agreement, Yili Group provided accounting related shared financial services to the Group. The service fee is determined using cost-plus basis, being the total costs incurred by Yili Group in respect of the provision of the shared financial services plus a fixed percentage of 5%, to cover costs and expenses, such as personnel and maintenance.
- (c) The trade receivables are mainly related to the sale of raw milk to Yili Group and sales of feeds to Jiangsu Nongken. As at December 31, 2022, trade receivables from related parties are aged within 90 days based on the date of delivery.
- (d) The trade payables are related to the purchase of raw materials from Yili Group, which aged within one year at the end of the reporting period.
- (e) The Group entered into the financial services agreement with Yili Finance Company Limited, a subsidiary of Yili Group which has financial institution license. Pursuant to the agreement, Yili Finance Company Limited provided deposit service to the Group. The interest rates are determined according to and shall not be lower than the benchmark deposit rates prescribed by the PBOC and the deposit rates offered by the major commercial banks in the PRC.

Settlement arrangements with Yili Group

	Notes	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Trade receivables from the sale of feeds settled on behalf by Yili Group	(f)	520,083	363,765
Trade payables from the purchase of raw material settled on behalf by Yili Group	(g)	109,105	5,923

Notes:

- (f) Certain customers (the "Overlapping Parties") who purchase feeds from the Group are also raw milk suppliers of Yili Group. The Group, Yili Group and the Overlapping Parties have entered into an entrusted payment arrangement (the "Entrusted Payment Arrangement"), pursuant to which Yili Group would deduct the amount payable to the Group by the Overlapping Parties (the "Feeds and Breeding Products Payments") from the payments made to the Overlapping Parties by Yili Group, and pay the Feeds and Breeding Products Payments to the Group directly. The directors of the Company consider that the Entrusted Payment Arrangement is an industry norm in dairy farming products industry in the PRC to simplify the payment procedures.
- (g) Certain suppliers who sell feeds to the Group are also debtors of Yili Group. The Group, Yili Group and the supplier entered into an entrusted payment arrangement, the Group would deduct the amount payables to the suppliers and pay to Yili Group to settle the debts directly.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

48. Related Party Transactions *(continued)*

Compensation to key management personnel

The remuneration of key management personnel, including members of the board of directors and other members of senior management of the Group was as follows:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Salaries and allowances	10,936	10,710
Retirement benefit scheme contributions	371	269
	11,307	10,979

49. Notes to Consolidated Statement of Cash Flows

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Accrued issue costs RMB'000 (Note 33)	Lease liabilities RMB'000 (Note 37)	Bank and other borrowings RMB'000 (Note 35)	Other liabilities RMB'000 (Note 38)	Convertible notes RMB'000 (Note 40)	Total RMB'000
At January 1, 2021	2,378	967,489	6,196,133	27,106	3,043,648	10,236,754
Financing cash flows	(79,949)	(156,864)	2,957,727	(7,500)	(119,122)	2,594,292
Share issue costs for IPO	84,520	-	-	-	-	84,520
New leases entered	-	500,668	-	-	-	500,668
Finance costs	-	56,218	302,254	1,239	382,551	742,262
Fair value changes	-	-	-	-	132,910	132,910
Early termination of lease agreements	-	(90,585)	-	-	-	(90,585)
Acquisition of subsidiaries (Note 44)	-	40,473	-	-	-	40,473
Reclassification	-	-	-	-	(963,384)	(963,384)
Effect of foreign exchange rate changes	-	-	-	-	(69,311)	(69,311)
At December 31, 2021	6,949	1,317,399	9,456,114	20,845	2,407,292	13,208,599
Financing cash flows	-	(204,970)	10,554,038	(7,500)	(2,003,422)	8,338,146
New leases entered	-	383,399	-	-	-	383,399
Finance costs	-	68,542	435,914	907	628,269	1,133,632
Gain on partial redemption	-	-	-	-	(901)	(901)
Early termination of lease agreements	-	(7,379)	-	-	-	(7,379)
Effect of foreign exchange rate changes	(164)	-	112,990	-	174,962	287,788
Others	(6,785)	-	-	-	-	(6,785)
At December 31, 2022	-	1,556,991	20,559,056	14,252	1,206,200	23,336,499

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

49. Notes to Consolidated Statement of Cash Flows *(continued)*

Major non-cash transactions

Lease liabilities for leasehold lands, properties, machinery and equipment with a total amount of RMB383,399,000 (2021: RMB500,668,000) were recognised and the corresponding amount of RMB383,399,000 (2021: RMB500,668,000) were recognised as right-of-use assets during the year ended December 31, 2022.

50. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a whole maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which included bank and other borrowings and convertible notes as disclosed in Notes 35 and 40, respectively, net of bank balances and equity attributable to owners of the Company, comprising share capital, retained profits and other reserves as disclosed in the consolidated statement of changes in equity.

The management of the Group reviews the capital structure on a continuous basis. The Group considers the cost of capital and the risks associated with each class of capital and will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

51. Capital Commitments

At the end of the reporting period, the Group had the following capital commitments:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Capital expenditures in respect of acquisition of property, plant and equipment, and purchase of biological assets: Contracted but not provided for	2,997,521	2,505,969

52. Contingent Liabilities

Apart from ongoing litigation for which provision has been made (Note 39), at the end of this reporting period, the Group had no significant contingent liability.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company

General information of subsidiaries

At the end of the reporting period, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
Yogurt Holding II Limited	British Virgin Island ("BVI")	BVI	USD100	100	100	Investment holding
Yogurt Holding I (HK) Limited	Hong Kong	Hong Kong	USD13	100	100	Investment holding
內蒙古優然牧業有限責任公司 (Inner Mongolia Youran Dairy Co., Ltd.*) ("Inner Mongolia Youran")	PRC	PRC	RMB9,100,000,000	100	100	Investment holding, raising and breeding dairy cows, and raw milk production
內蒙古牧泉元興飼料有限責任公司 (Inner Mongolia Muquan Yuanxing Feed Co., Ltd.)*("Muquan Yuanxing Feeds")	PRC	PRC	RMB136,000,000	100	100	Production and sales of feeds
內蒙古盛德和泰商貿有限責任公司 (Inner Mongolia Shengde Hetai Business Co., Ltd.)*	PRC	PRC	RMB5,000,000	100	100	Trading of feeds
內蒙古伊禾綠錦農業發展有限公司 (Inner Mongolia Yihe Lvjin Agriculture Development Co., Ltd.)*	PRC	PRC	RMB100,000,000	100	100	Planting of feeds
American Western Prataculture Corp. (美國西部草業有限公司)	Delaware, United States of America	United States of America	-	100	100	Inactive
成都優然牧業有限責任公司 (Chengdu Youran Dairy Co., Ltd.)*	PRC	PRC	RMB136,000,000	100	100	Raising and breeding dairy cows and raw milk production

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For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company (continued)

General information of subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
合肥優然牧業有限責任公司 (Hefei Youran Dairy Co., Ltd.*)	PRC	PRC	RMB138,000,000	100	100	Raising and breeding dairy cows, and raw milk production
黃岡優然牧業有限責任公司 (Huanggang Youran Dairy Co., Ltd.*)	PRC	PRC	RMB226,000,000	100	100	Raising and breeding dairy cows, and raw milk production
錫林浩特市優然牧業有限責任公司 (Xilin Hot Youran Dairy Co., Ltd.*)	PRC	PRC	RMB222,000,000	100	100	Raising and breeding dairy cows and raw milk production
吳忠優然牧業有限責任公司 (Wuzhong Youran Dairy Co., Ltd.*)	PRC	PRC	RMB74,000,000	100	100	Raising and breeding dairy cows, and raw milk production
肇東市長青畜牧有限公司 (Zhaodong Chang Qing Livestock Co., Ltd.*)	PRC	PRC	RMB191,500,000	100	100	Raising and breeding dairy cows, and raw milk production
南京優然牧業有限責任公司 (Nanjing Youran Dairy Co., Ltd.*)	PRC	PRC	RMB67,000,000	100	100	Raising and breeding dairy cows, and raw milk production
林甸優然牧業有限責任公司 (Lindian Youran Dairy Co., Ltd.*)	PRC	PRC	RMB472,000,000	100	100	Raising and breeding dairy cows, and raw milk production
銅川優然牧業有限責任公司 (Tongchaun Youran Dairy Co., Ltd.*)	PRC	PRC	RMB131,000,000	100	100	Raising and breeding dairy cows, and raw milk production
張北中都畜牧有限責任公司 (Zhangbei Zhong Du Livestock Co., Ltd.*)	PRC	PRC	RMB33,000,000	100	100	Raising and breeding dairy cows, and raw milk production
達拉特旗優然牧業有限責任公司 (Dalad Banner Youran Dairy Co., Ltd.*)	PRC	PRC	RMB286,000,000	100	100	Raising and breeding dairy cows, and raw milk production

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For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company (continued)

General information of subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
杜爾伯特蒙古自治縣中都畜牧有限責任公司 (Duerbote Mongolia Autonomous County Zhongdu Livestock Co., Ltd. *)	PRC	PRC	RMB124,000,000	100	100	Raising and breeding dairy cows, and raw milk production
濟南優然牧業有限責任公司 (Jinan Youran Dairy Co., Ltd. *)	PRC	PRC	RMB100,000,000	100	100	Raising and breeding dairy cows, and raw milk production
阜新優然牧業有限責任公司 (Fuxin Youran Dairy Co., Ltd. *)	PRC	PRC	RMB114,000,000	100	100	Raising and breeding dairy cows, and raw milk production
平頂山優然牧業有限責任公司 (Pingdingshan Youran Dairy Co., Ltd. *)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
呼倫貝爾優然牧業示範牧場有限責任公司 (Hulunbeier YouRan Dairy Co., Ltd. *)	PRC	PRC	RMB250,000,000	100	100	Raising and breeding dairy cows, and raw milk production
武威市優然牧業有限責任公司 (Wuwei Youran Dairy Co., Ltd. *)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
杜爾伯特牧泉元興飼料有限責任公司 (Duerbote Muquan Yuanxing Feed Co., Ltd. *) ("Duerbote Muquan Yuanxing Feeds")	PRC	PRC	RMB5,400,000	100	100	Production and sales of feeds
保定伊和生物科技有限責任公司 (Baoding Yihe Bio-Technology Co., Ltd. *)	PRC	PRC	RMB10,000,000	100	100	Production and sales of feeds

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For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company *(continued)*

General information of subsidiaries *(continued)*

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
寧夏伊康元生物科技有限公司 (Ningxia Yikangyuan Bio-Technology Co., Ltd.)* ("Ningxia Bio-Technology")	PRC	PRC	RMB80,000,000	100	100	Production and sales of feeds
山東牧泉元興生物科技有限責任公司 (Shandong Bio-Technology Co., Ltd.)*	PRC	PRC	RMB50,000,000	100	100	Production and sales of feeds
大慶牧泉元興生物科技有限責任公司 (Daqing Bio-Technology Co., Ltd.)*	PRC	PRC	RMB40,000,000	100	100	Production and sales of feeds
烏蘭察布市牧泉元興飼料有限責任公司 (Wulanchabu Muquan Yuanxing Feed Co. Ltd.)* ("Wulanchabu Muquan Yuanxing Feeds")	PRC	PRC	RMB60,000,000	100	100	Production and sales of feeds
巴彥淖爾市牧泉元興飼料有限責任公司 (Bayannur Muquan Yuanxing Feed Co.,Ltd.)* ("Bayannur Muquan Yuanxing Feeds")	PRC	PRC	RMB35,000,000	100	100	Production and sales of feeds
興安盟優然牧業有限責任公司 (Hinggan League Youran Dairy Co.Ltd.)*	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
通遼優然牧業有限責任公司 (Tongliao Youran Dairy Co. Ltd.)*	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production

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For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company *(continued)*

General information of subsidiaries *(continued)*

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
呼和浩特優然牧業有限責任公司 (Hohhot Youran Dairy Co. Ltd.*)	PRC	PRC	RMB700,000,000	100	100	Raising and breeding dairy cows and raw milk production
涼城優然牧業有限責任公司 (Liangcheng Youran Dairy Co. Ltd.*)	PRC	PRC	RMB1,250,000/ RMB50,000,000	100	100	Raising and breeding dairy cows and raw milk production
駐馬店優然牧業有限責任公司 (Zhumadian Youran Dairy Co. Ltd.*)	PRC	PRC	RMB250,000,000	100	100	Raising and breeding dairy cows, and raw milk production
呼和浩特金河優然牧業有限責任公司 (Hohhot Jinhe Youran Dairy Co. Ltd. *)	PRC	PRC	RMB100,000,000	100	100	Raising and breeding dairy cows, and raw milk production
濰坊優然牧業有限責任公司 (Weifang Youran Dairy Co. Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
壽光優然牧業有限責任公司 (Shouguang Youran Dairy Co. Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
開魯優然牧業有限責任公司 (Kailu Youran Dairy Co. Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
邢台優然牧業有限責任公司 (Xingtai Youran Dairy Co. Ltd.*)	PRC	PRC	RMB3,900,000/ RMB68,000,000	100	100	Raising and breeding dairy cows, and raw milk production
河北牧泉元興生物科技有限責任公司 (Hebei Muquan Yuanxing Biotechnology Co. Ltd.*)	PRC	PRC	RMB50,000,000	100	100	Raising and breeding dairy cows, and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company *(continued)*

General information of subsidiaries *(continued)*

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
延安洛川優然牧業有限責任公司 (Yan'an Luochuan Youran Dairy Co. Ltd.*)	PRC	PRC	RMB78,000,000/ RMB100,000,000	100	100	Raising and breeding dairy cows, and raw milk production
合肥元興牧業有限責任公司 (Hefei Yuanxing Dairy Co. Ltd.*)	PRC	PRC	RMB42,000,000	100	100	Raising and breeding dairy cows, and raw milk production
內蒙古聚牧城科技有限責任公司 (Inner Mongolia Jumucheng Technology Co. Ltd.*)	PRC	PRC	RMB10,000,000	100	100	Sales of fodder
內蒙古優創實業有限責任公司 (Inner Mongolia Youchuang Industrial Co., Ltd.*)	PRC	PRC	RMB400,000/ RMB30,000,000	100	100	Construction materials sales; wire, and real estate development and operation
聊城優然牧業有限責任公司 (Liaocheng Youran Dairy Co., Ltd.*)	PRC	PRC	RMB108,300,000/ RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
昌吉優然牧業有限責任公司 (Changji Youran Dairy Co., Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
昌邑優然牧業有限責任公司 (Changyi Youran Dairy Co., Ltd.*)	PRC	PRC	RMB180,000,000	100	100	Raising and breeding dairy cows and raw milk production
雲南優然牧業有限責任公司 (Yunnan Youran Dairy Co., Ltd.*)	PRC	PRC	RMB15,000,000/ RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
洛陽優然牧業有限責任公司 (Luoyang Youran Dairy Co., Ltd.*)	PRC	PRC	RMB42,940,000/ RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company *(continued)*

General information of subsidiaries *(continued)*

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
清水河優然牧業有限責任公司 (Qingshuihe Youran Dairy Co., Ltd.*)	PRC	PRC	RMB120,000,000	100	100	Raising and breeding dairy cows and raw milk production
唐山優然牧業有限責任公司 (Tangshan Youran Dairy Co., Ltd., formally known as Fonterra (Yutian) Dairy Farm Co., Ltd.*)	PRC	PRC	RMB1,772,390,272	100	100	Raising and breeding dairy cows and raw milk production
山西優然天合牧業有限責任公司 (Shanxi Youran Tianhe Dairy Co., Ltd. formally known as Fonterra (Ying) Dairy Farm Co., Ltd.*)	PRC	PRC	RMB2,220,345,046/ RMB2,258,816,796	100	100	Raising and breeding dairy cows and raw milk production
寒亭優然牧業有限責任公司 (Hanting YouRan Dairy Co., Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
山西優然牧業有限責任公司 (Shanxi YouRan Dairy Co., Ltd.*)	PRC	PRC	RMB60,000,000	100	100	Raising and breeding dairy cows and raw milk production
內蒙古優然興草生態農業有限公司 (Inner Mongolia Youran Xingcao Ecological Agriculture Co., Ltd.*)	PRC	PRC	-/ RMB10,000,000	100	N/A	Planting of feeds
平涼優然牧業有限責任公司 (Pingliang YouRan Dairy Co., Ltd.*)	PRC	PRC	RMB60,000,000	100	N/A	Raising and breeding dairy cows and raw milk production
昆明優然牧業有限責任公司 (Kunming YouRan Dairy Co., Ltd.*)	PRC	PRC	-/ RMB60,000,000	100	N/A	Raising and breeding dairy cows and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company (continued)

General information of subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
忻州優然牧業有限責任公司 (Xinzhou YouRan Dairy Co., Ltd.*)	PRC	PRC	-/ RMB125,000,000	100	N/A	Raising and breeding dairy cows and raw milk production
獻縣優然牧業有限責任公司 (Xianxian YouRan Dairy Co., Ltd.*)	PRC	PRC	RMB10,000,000/ RMB300,000,000	100	N/A	Raising and breeding dairy cows and raw milk production
托克托縣優然牧業有限責任公司 (Tuoketuoxian YouRan Dairy Co., Ltd.*)	PRC	PRC	RMB22,000,000/ RMB125,000,000	100	N/A	Raising and breeding dairy cows and raw milk production
內蒙古優牧奶業投資管理有限公司 (Inner Mongolia Youmu Dairy Industry Investment Management Co. Ltd.*) ("Youmu Investment Management")	PRC	PRC	RMB225,771,900/ RMB1,000,000,000	100/51 (Note)	N/A	Investing
SKX	PRC	PRC	RMB918,600,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production, and production and sale of breeding products
內蒙古犇騰牧業有限公司 (Inner Mongolia Best Holsteins Co., Ltd*)	PRC	PRC	RMB560,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
內蒙古賽科星牧業有限公司 (Inner Mongolia SK Xing Dairy Limited*)	PRC	PRC	RMB88,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
寧夏賽科星養殖有限責任公司 (Ningxia SK Xing Breeding Co. Ltd.*) ("Ningxia SKX")	PRC	PRC	RMB74,200,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company *(continued)*

General information of subsidiaries *(continued)*

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
鄂爾多斯市賽科星養殖有限責任公司 (Ordos SK Xing Breeding Co. Ltd. *) ("Ordos SKX")	PRC	PRC	RMB50,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
滄州賽科星牧業有限公司 (Cangzhou SK Xing Dairy Limited*) ("Cangzhou SKX")	PRC	PRC	RMB40,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
定州市賽科星伊人牧業有限公司 (Dingzhou SK Xing Yiren Dairy Limited*) ("Dingzhou SKX")	PRC	PRC	RMB41,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
鄂托克旗賽優牧業有限公司 (Etuokeqi Saiyou Dairy Limited*) ("Etuokeqi Saiyou")	PRC	PRC	RMB45,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
北京海華雲都生態農業有限公司 (Beijing Haihuayundu Ecological Agriculture Co.Ltd. *) ("Beijing Haihuayundu")	PRC	PRC	RMB477,188,074	58.36	58.36	Raising and breeding dairy cows, and raw milk production
呼倫貝爾市賽優牧業有限公司 (Hulun Buir Saiyou Dairy Co. Ltd. *) ("Hulun Buir Saiyou")	PRC	PRC	RMB210,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
河北犇放牧業有限公司 (Hebei Benfang Dairy Limited*)	PRC	PRC	RMB240,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company (continued)

General information of subsidiaries (continued)

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
達拉特旗賽優牧業有限公司 (Dalateqi Saiyou Dairy Limited*) ("Dalateqi Saiyou")	PRC	PRC	RMB100,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
武強賽優牧業有限公司 (Wuqiang Saiyou Dairy Limited*)	PRC	PRC	RMB51,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
華夏畜牧興化有限公司 (Huaxia Livestock Xinghua Limited*) ("Huaxia Xinghua")	PRC	PRC	RMB462,457,540	58.36	58.36	Raising and breeding dairy cows, and raw milk production
濟源市賽科星牧業有限公司 (Jiyuan SK Xing Dairy Limited*) ("Jiyuan SKX")	PRC	PRC	RMB66,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
尋甸賽優牧業有限公司 (Xundian Saiyou Dairy Limited*) ("Xundian Saiyou")	PRC	PRC	RMB80,000,000	57.49	57.49	Raising and breeding dairy cows, and raw milk production
內蒙古賽科星家畜種業與繁育 生物技術研究院有限公司 (Inner Mongolia SK Xing Livestock Seed Industry and Breeding Biotechnology Research Institute Co. Ltd.*)	PRC	PRC	RMB100,000,000	58.36	58.36	Raising and breeding of livestock, and cloning technology development
內蒙古賽科星精源科技有限公司 (Inner Mongolia SK Xing Jingyuan Technology Co.Ltd.*)	PRC	PRC	RMB10,000,000	58.36	58.36	Trading of breeding products

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company *(continued)*

General information of subsidiaries *(continued)*

Name of subsidiaries	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2022 %	2021 %	
承德賽優牧業有限公司 (Chengde Saiyou Dairy Co., Ltd.*)	PRC	PRC	RMB40,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
呼倫貝爾賽科星牧業有限責任公司 (Hulun Buir SK Xing Dairy Co. Ltd.*)	PRC	PRC	RMB126,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
清水河賽科星牧業有限責任公司 (Qingshuihe SK Xing Dairy Co. Ltd.*)	PRC	PRC	RMB40,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
巴彥淖爾賽科星牧業有限責任公司 (Bayan Nur SK Xing Dairy Co. Ltd.*)	PRC	PRC	RMB226,802,392	58.36	58.36	Raising and breeding dairy cows, and raw milk production
內蒙古賽科星肉牛良種繁育有限公司 (Inner Mongolia Saikexing Beef Cattle Breeding Co., Ltd.*)	PRC	PRC	-/ RMB7,000,000	58.36	N/A	Raising and breeding livestock, and cloning technology development

* The English name of the Chinese company marked with “*” are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

Note: On June 17, 2022, Inner Mongolia Youran entered into an investment agreement with an investor (the “Investor”) to jointly establish Youmu Investment Management. Inner Mongolia Youran and the Investor holds 51% and 49% of voting rights, respectively according to the investment agreement. The Investor is entitled to fixed annual return on its funding to Youmu Investment Management during the investment period, therefore such funding is accounted for as a loan (see Note 35), and Youmu Investment Management is accounted for as a wholly-owned subsidiary of the Company.

All the subsidiaries established in the PRC are limited liability companies. None of the subsidiaries has issued any debt securities as at December 31, 2022.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company *(continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests.

Name of subsidiary	Place of establishment and operations	Proportion of interests and voting rights held by non-controlling interests		(Loss)/profit allocated to non-controlling interests for the year ended		Accumulated non-controlling interests at	
		31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
				RMB'000	RMB'000	RMB'000	RMB'000
SKX Group	The PRC	41.64%	41.64%	(8,785)	463,200	1,687,383	1,699,000

Summarised financial information in respect of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31/12/2022 RMB'000	31/12/2021 RMB'000
Current assets	1,893,160	1,559,281
Non-current assets	7,650,807	6,987,134
Current liabilities	(4,779,996)	(3,507,534)
Non-current liabilities	(803,151)	(1,050,172)
Net assets	3,960,820	3,988,709
Equity attributable to owners of the Company	2,273,437	2,289,709
Non-controlling interests of SKX Group	1,686,820	1,698,432
Non-controlling interests of SKX's subsidiary	563	568
	3,960,820	3,988,709

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

53. Particulars of Subsidiaries of the Company *(continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

	For the year ended December 31, 2022 RMB'000	For the year ended December 31, 2021 RMB'000
Revenue	3,569,949	3,630,329
Expenses	(3,591,038)	(2,517,940)
(Loss)/profit for the year	(21,089)	1,112,389
Other comprehensive expense	(6,800)	(13,262)
Total comprehensive (expense)/income for the year	(27,889)	1,099,127
(Loss)/profit for the year attributable to:		
Owners of the Company	(12,304)	649,189
Non-controlling interests of SKX Group	(8,785)	463,200
	(21,089)	1,112,389
Total comprehensive (expense)/income for the year attributable to:		
Owners of the Company	(16,272)	641,449
Non-controlling interests of SKX Group	(11,617)	457,678
	(27,889)	1,099,127
Net cash inflows/(outflows) from:		
Operating activities	803,523	1,122,168
Investing activities	(1,399,163)	(1,141,649)
Financing activities	589,457	2,168
	(6,183)	(17,313)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

54. Statement of Financial Position and Reserves of the Company

	31/12/2022 RMB'000	31/12/2021 RMB'000
Non-current assets		
Interests in a subsidiary	10,739,613	9,831,512
Interests in an associate	1,037,106	–
	11,776,719	9,831,512
Current assets		
Amounts due from a subsidiary	2,076	–
Prepayments, deposits and other receivables	21,892	1,979
Bank balances and cash	29,674	134,814
	53,642	136,793
Current liabilities		
Amounts due to a subsidiary	44,490	42,523
Other payables and accruals	5,560	9,009
Bank borrowings	3,393,832	–
Convertible notes	1,206,200	2,407,292
	4,650,082	2,458,824
Net current liabilities	(4,596,440)	(2,322,031)
Net assets	7,180,279	7,509,481
Capital and reserves		
Share capital	251	251
Reserves	7,180,028	7,509,230
Total equity	7,180,279	7,509,481

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

54. Statement of Financial Position and Reserves of the Company *(continued)*

Reserves of the Company

	Share premium RMB'000	Convertible notes equity reserve RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2021	4,579,533	-	-	(75,196)	4,504,337
Loss and total comprehensive expense for the year	-	-	(181,327)	(539,934)	(721,261)
Shares issued pursuant to IPO (Note 41)	2,854,769	-	-	-	2,854,769
Share issuance cost (Note 41)	(91,999)	-	-	-	(91,999)
Recognition of equity component of convertible notes (Note 40)	-	963,384	-	-	963,384
At December 31, 2021	7,342,303	963,384	(181,327)	(615,130)	7,509,230
Loss and total comprehensive income/(expense) for the year	-	-	659,745	(709,429)	(49,684)
Partial redemption of convertible notes (Note 40)	-	(286,303)	-	-	(286,303)
Others	6,785	-	-	-	6,785
At December 31, 2022	7,349,088	677,081	478,418	(1,324,559)	7,180,028

55. Events After The Reporting Period

As disclosed in Note 16, 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.

Five-Year Financial Summary

	Year ended December 31,				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	18,050,761	15,346,167	11,781,195	7,667,818	6,333,920
Cost of sales	(16,958,848)	(14,333,273)	(11,048,726)	(7,014,226)	(5,810,627)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	3,131,809	3,681,585	2,870,723	1,232,668	1,022,398
Gross profit	4,223,722	4,694,479	3,603,192	1,886,260	1,545,691
Loss arising from changes in fair value less costs to sell of biological assets	(1,617,116)	(407,440)	(413,784)	(133,255)	(87,271)
Other income	362,890	151,974	76,979	55,396	51,469
Impairment loss under expected credit loss model, net of reversal	(32,739)	(12,438)	(45,083)	(24,761)	(1,453)
Other gains and losses	47,999	(52,618)	(54,273)	(16,046)	(35,613)
Fair value loss on convertible notes	–	(132,910)	(10,769)	–	–
Selling and distribution expenses	(590,016)	(556,699)	(453,116)	(340,687)	(271,932)
Administrative expenses	(721,535)	(835,399)	(744,516)	(445,453)	(421,298)
Other expenses	(64,923)	(3,348)	(20,030)	(26,528)	(2,311)
Listing expenses	–	(17,848)	(34,365)	–	–
Share of profit of a joint venture	4	23	25	–	–
Finance costs	(1,097,485)	(732,443)	(309,825)	(104,071)	(80,081)
Profit before tax	475,270	2,095,333	1,594,435	850,855	697,201
Income tax expense	(69,284)	(74,117)	(53,805)	(48,973)	(44,334)
Profit for the year	405,986	2,021,216	1,540,630	801,882	652,867
Profit for the year/period attributable to:					
Owners of the Company	414,771	1,558,016	1,340,735	801,882	652,867
Non-controlling interests	(8,785)	463,200	199,895	–	–
	405,986	2,021,216	1,540,630	801,882	652,867

	As at December 31,				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Total assets	43,446,317	31,961,639	22,200,943	9,946,574	7,765,146
Total liabilities	28,695,188	17,081,728	13,139,407	4,556,755	3,177,209
Total equity	14,751,129	14,879,911	9,061,536	5,389,819	4,587,937
Attributable to:					
Owners of the Company	13,063,746	13,180,911	7,820,208	5,389,819	4,587,937
Non-controlling interests	1,687,383	1,699,000	1,241,328	–	–



Definitions

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Articles of Association”	the fourth amended and restated memorandum and articles of association of the Company adopted on May 27, 2022 with effect from Listing, as amended from time to time
“AGM”	the annual general meeting of the Company to be held on May 17, 2023
“Audit Committee”	the audit committee of the Company
“Auditor”	Deloitte Touche Tohmatsu
“Board” or “Board of Directors”	the board of directors of our Company
“BOC”	Good Virtue Limited (嘉煌有限公司), a company incorporated in Hong Kong with limited liability
“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
“CBIRC”	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CG Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules (as amended from time to time)
“China” or the “PRC”	the People’s Republic of China, and for the purpose of this annual report only, except where the context requires otherwise, 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
“Company”, “our Company” or “the 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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

Definitions

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transactions”	has the meaning ascribed to it under the Listing Rules
“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, collectively the “Convertible Notes”
“Dairy Products Purchase Framework Agreement”	the dairy products purchase framework agreement dated May 17, 2021 entered into between the Company and Yili
“Director(s)”	the director(s) of our Company
“Environmental, Social and Governance Report”	the environmental, social and governance report of the Company for the Reporting Period
“Feed and Other Materials Supply Framework Agreement”	the feed and other materials supply framework agreement dated September 4, 2020 entered into between Inner Mongolia Youran and China YouYuan
“Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and Yili Finance Company on September 28, 2021
“Fonterra China Farms Group”	Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on December 14, 2010, and Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on February 11, 2014, both of which were wholly-owned subsidiaries of Fonterra Group before the Fonterra Acquisition
“Fonterra Group”	Fonterra Co-operative Group Limited, a New Zealand based dairy 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”, “our Group”, “the Group”, “we”, “us” or “our” or “Youran Dairy”	the Company and its subsidiaries from time to time
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China



Definitions

“Hong Kong dollars”, “HK dollars”, “HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“ICBC”	Victory Ride Holdings Limited (乘勝控股有限公司), a company incorporated in the British Virgin Islands with limited liability
“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 wholly-owned subsidiary of the Company
“Jingang”	Hong Kong Jingang Trade Holding Co., Limited, a company incorporated in Hong Kong, and a wholly-owned subsidiary of Yili
“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
“Latest Practicable Date”	April 17, 2023, being the latest practicable date for ascertaining certain information in this annual report before its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	June 18, 2021, the date on which the Shares were listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“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
“Nomination Committee”	the nomination committee of the Company

Definitions

“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
“PBOC”	People’s Bank of China (中國人民銀行)
“Prospectus”	the prospectus of the Company dated June 7, 2021
“Raw Milk Purchase and Sale Framework Agreement”	the raw milk purchase and sale framework agreement dated May 17, 2021 entered into between the Company and Yili
“Remuneration Committee”	the remuneration committee of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of PRC
“Reporting Period”	the year ended December 31, 2022
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company, currently 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术(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 our subsidiary since January 8, 2020
“SOP”	Standard Operation Procedure
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it thereto in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“TPM”	Total Productive Maintenance



Definitions

“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”	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, shares of which are listed on the Shanghai Stock Exchange (stock code: 600887), and one of our controlling shareholders
“Yili Finance Company”	Yili Finance Company Limited* (伊利財務有限公司), a company established under the laws of the PRC and a wholly-owned subsidiary of Yili
“Youmu Investment Management”	Inner Mongolia Youmu Dairy Investment Management Co., Ltd. (內蒙古優牧奶業投資管理有限公司), a company established under the laws of the PRC and a subsidiary of the Company
“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)) and its subsidiaries and associates, 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