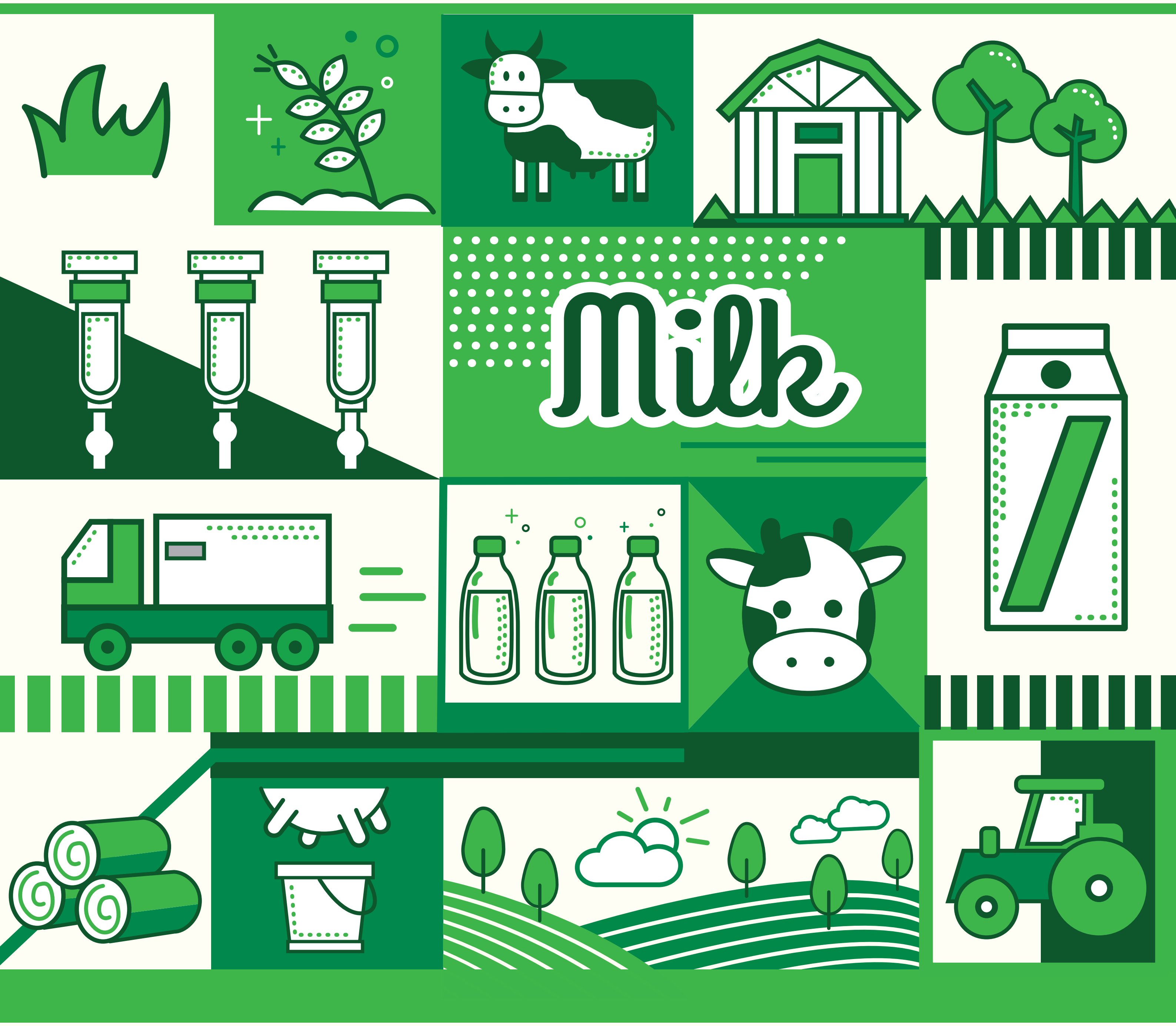
YuanShengTai Dairy Farm Limited
原生態牧業有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1431



2022
ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Hongliang (趙洪亮) *(Chairman)*
Mr. Fu Wenguo (付文國) *(Chief Executive Officer)*
Mr. Chen Xiangqing (陳祥慶) *(Chief Financial Officer)*
Mr. Liu Gang (劉剛)

Non-executive Directors

Mr. Leng Youbin (冷友斌)
Mr. Liu Hua (劉華)
Mr. Cai Fangliang (蔡方良)

Independent Non-executive Directors

Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Ms. Liu Jinping (劉晉萍)

JOINT COMPANY SECRETARIES

Ms. Song Miao (宋淼)
Ms. Cheng Lucy (曾若詩)

AUTHORISED REPRESENTATIVES

Mr. Chen Xiangqing (陳祥慶)
Mr. Liu Gang (劉剛)

AUDIT COMMITTEE

Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗) *(Chairman)*
Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)
Ms. Liu Jinping (劉晉萍)

REMUNERATION COMMITTEE

Mr. Zhang Yuezhou (張月周) *(Chairman)*
Mr. Zhu Zhanbo (朱戰波)
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Mr. Zhao Hongliang (趙洪亮)

NOMINATION COMMITTEE

Mr. Zhu Zhanbo (朱戰波) *(Chairman)*
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Mr. Zhang Yuezhou (張月周)
Mr. Fu Wenguo (付文國)

INDEPENDENT AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

PRINCIPAL BANKERS

Agricultural Development Bank of China
Industrial and Commercial Bank of China
Agricultural Bank of China
China Construction Bank

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC" OR "CHINA")

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISORS

As to Hong Kong Laws

Loeb & Loeb LLP

As to PRC Laws

Jingtian & Gongcheng (北京市競天公誠律師事務所)

STOCK CODE

1431

BOARD LOTS

1,000 shares

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

Chairman's Statement

TO OUR SHAREHOLDERS,

I would like to present the annual results of YuanShengTai Dairy Farm Limited ("**YuanShengTai**" or the "**Company**") and its subsidiaries (together, the "**Group**") for the year ended 31 December 2022 (the "**Year**") to our shareholders.

In 2022, the COVID-19 pandemic (the "**Pandemic**") continued to persist. The repeated outbreak of the Pandemic in several key cities across the country has had a negative impact on the stable operation of the domestic economy. In addition, the Russian-Ukrainian war and extreme weather also played a role in the slow-down of China's economic development. China's cow farming industry continued to develop healthily notwithstanding various pressures. China's dairy industry has formed a development pattern featuring large-scale farming and dominated by enterprises integrating the whole industry chain. China's dairy industry has maintained a rapid growth momentum with the domestic milk production rose by 6.8% to 39,320,000 tonnes in 2022.

In 2022, the Company continued to steadily expand the farming scale. In early January, the Group completed acquisition of certain assets from third parties, including but not limited to dairy goat breeding facilities, goat milk production lines and land use rights of several farms. At the same time, in terms of import, the Group increased the annual import of dairy cows. The Group believes that China's dairy market has huge potential, and these acquisitions will enable YuanShengTai to further expand its presence in the market of China, and diversify and expand its new product offerings. During the Year, the total sales volume of raw milk of the Group increased by approximately 10.6% to 411,438 tonnes from 372,089 tonnes in 2021.The total revenue amounted to RMB2,090.3 million, representing an increase of 17.7% as compared with the same period of 2021. In addition, benefiting from the rebound in prices of domestic raw milk, the average selling price of the Group's raw cow milk during the Year was approximately RMB5,074 per tonne, representing a rise of approximately 6.3% as compared with the same period of last year. The Company continued to develop further with a focus on sales performance. The core indicators for the Year reached new highs, and the total revenue for the Year increased, mainly due to the increase in the selling prices of fresh milk and the increase in unit yield.

In recent years, policies on promoting the revitalization of the dairy industry have been implemented across China. The State Council of China issued the 14th Five-Year Plan for Promoting Agricultural and Rural Modernization in 2022, stating that China shall implement the Five-Year Action Plan for cattle and sheep farming by vigorously developing grass-fed animal husbandry, strengthening the construction of milk source bases, optimizing the mix of dairy products, building modern systems for the forage industry and promoting the specialized production of forage. The Ministry of Agriculture and Rural Affairs stressed in the Notice Concerning the Action Plan for Improving the Competitiveness of Dairy Industry in the 14th Five-Year Plan Period that by 2025, the national milk production shall amount to approximately 41 million tonnes, and the large-scale farms with more than 100 cows shall account for approximately 75% of the total number of farms in the People's Republic of China (the "**PRC**"). The industry shall continue to focus on construction of milk sources and large-scale farms. This has demonstrated the state's firm stance towards the revitalization and development of the dairy industry. It recognized the achievements in the construction of upstream milk sources in recent years while clarifying the development direction of the dairy industry in the future.

Chairman's Statement

As a leading dairy animal farming company in the PRC, YuanShengTai promptly respond to the complex and changeable domestic and foreign business environment during the Year. It unswervingly implemented a large and intensive development strategy. While striving to improve the operation, management and efficiency of the Group, it continued to diversify its sales channels, increase market expansion efforts and strictly control operating costs, so as to increase the revenue of the Company. In terms of milk quality, the Group always gives priority to production of the highest quality raw milk and strengthens the management of farms to maintain the advantage of fresh milk sources, so as to further enhance the core competitiveness of the Group.

Looking forward to 2023, as the demand exceeds supply in high-end raw milk market, it is expected that the shortage of high-end raw milk will continue and the milk price will rise steadily. YuanShengTai will firmly adhere to its goal of growing, improving and strengthening its main business of raw milk, make best use of its advantages of having its own source of raw milk to diversify its raw milk products, leverage on digital technologies to realize modern farming, increase its comprehensive competitiveness to seize the opportunities brought about by the booming industry. It targets to play a role in upgrading the quality of China's dairy industry and building a raw milk industry with international competitive advantages, provide strong support for the revitalization of the national dairy industry and the realization of a better life for the people.

On behalf of the board of directors of the Company (the "**Board**"), I would like to thank all our shareholders for their ever-persistent trust in and support of the Group. I also express my heart-felt gratitude to the Board, the management team and our staff for their diligent efforts and valuable contribution in the past year. In 2023, the Group will strive to make steady progress, produce high-quality raw milk for consumers, and reward shareholders and investors for their love of the Group with outstanding achievements.

Zhao Hongliang
Chairman
Hong Kong, 28 March 2023

MARKET REVIEW

Looking back to 2022, China's economy continued to recover steadily. Despite the outbreak of the COVID-19 pandemic (the "**Pandemic**"), production demand kept increasing, pointing to a recovery of the economy. According to the economic data for 2022 released by the National Bureau of Statistics, the annual gross domestic product ("**GDP**") exceeded RMB121 trillion, representing an increase of 3.0% over the previous year. By quarter, the GDP recorded a year-on-year growth of 4.8% in the first quarter, a year-on-year growth of 0.4% in the second quarter, a year-on-year growth of 3.9% in the third quarter, and a year-on-year growth of 2.9% in the fourth quarter. China's adjustment and optimization of the Pandemic prevention and control policies fueled the recovery of the overall consumer market.

In terms of the dairy products, the raw milk industry picked up as a whole, and the excess demand for high-end raw milk products is expected to continue. With the shift in residents' health awareness and consumption patterns, the development of new purchasing channels, the upgrading of residents' consumption and the acceleration of the demand for nutritious food due to demographic changes, the target consumer group and market scale of dairy consumption in China are constantly expanding. On the other hand, China lags behind other big countries in terms of per capita dairy consumption, which indicates that China's dairy market still has great growth potential. Meanwhile, China introduced a series of policies which facilitated the revitalization of the dairy industry. Driven by the favorable policies of the state, large-scale dairy enterprises and dairy farming enterprises will have access to greater development opportunities in the industry.

In terms of feed, due to the general rise in global bulk commodity prices in 2022, coupled with the tight supply of feed ingredients, feed costs experienced an across-the-board increase. According to statistics from China Customs, China imported a total of 1,761,100 tonnes of alfalfa hay from January to November 2022, representing a decrease of 1.6% as compared with 2021, with an import value of US$888 million, representing a year-on-year increase of 32.8%, with an average insurance and freight cost of US$504.05 per tonne, representing a year-on-year increase of 35.0%. As a result of the rising price of imported hay feed, the business cost of the animal farming increased as well.

As a leading dairy farming company in the People's Republic of China (the "**PRC**"), the Group will continue to achieve better economies of scale by adjusting the size of the herd and improving the breeding and production technology. In order to pursue its goal of producing high-quality raw milk, YuanShengTai will continue to make more efforts on standardized raw milk production and conduct rigorous quality supervision, so as to satisfy the society's increasingly diversified needs for dairy products and offer raw milk of best quality.

BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. During the year ended 31 December 2022 (the "**Year**"), the total sales volume of raw milk of the Group increased by 10.6% to 411,438 tonnes from 372,089 tonnes in 2021. The total revenue amounted to RMB2,090.3 million, representing an increase of 17.7% as compared with the same period of 2021. During the Year, the Group recorded net profits of RMB22.8 million.

Since its early business development, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2022, the three major customers of the Company were Feihe Dairy Group, Mengniu Group and Yili Group. All of the three major customers continued to expand their product portfolio and develop the international market with the support of preferential policies of the PRC government, which will definitely continue to benefit the development of the Group's business. Revenue from these three major customers accounted for approximately 99.0% of the Group's revenue. In the future, the Group expects to continue to supply raw milk products to these three major customers on a long-term basis, and is committed to providing raw milk with the highest safety and nutritional standards in China, in line with China's rising demand for high-end raw milk, and further consolidating the Group's customer base.

Construction of Farms

As of 31 December 2022, we had eight dairy cow farms in Heilongjiang Province, one dairy cow farm in Jilin Province, and one dairy goat farm in Shaanxi Province, respectively. Each dairy cow farm had an actual designed capacity ranging from 1,960 to 30,000 dairy cows, and the total site area of the nine dairy cow farms amounted to approximately 7,791,700 square metres. The dairy goat farm had an actual designed capacity of 20,000 dairy goats, and the site area of the dairy goat farm amounted to 429,133 square metres. The new farms of the Group under construction are Yi'an Farm and Bei'an Farm, respectively. With certain cow houses completed, the new farms have started raising heifers since early 2023.

	Actual Designed Capacity *(Number of Cows/Head)*	**Actual Inventory Number**	**Area** *(m^2)*
Gannan Farm	12,000	11,751	986,333
Kedong Heping Farm	6,000	6,262	384,000
Kedong Ruixinda Farm	18,000	10,411	784,000
Kedong Yongjin Farm	12,000	8,304	714,000
Zhenlai Farm	30,000	21,139	2,066,667
Baiquan Farm	15,000	9,587	994,000
Keshan Farm	12,000	9,659	980,000
Longjiang Ruixincheng Farm	1,960	1,726	84,300
Longjiang Jinyuan Farm	12,000	10,598	798,400
Total	118,960	89,437	7,791,700

	Actual Designed Capacity *(Number of Goats/Head)*	**Actual Inventory Number**	**Area** *(m^2)*
Shaanxi Ruixiangchengda Farm	20,000	5,973	429,133
Total	20,000	5,973	429,133

Milk Yield

During the Year, the average annual milk yield per cow was 11.20 tonnes, representing an increase of 2.7% as compared with 10.91 tonnes in the same period of 2021. As operation of farms become more mature and stable, and the age mix of cattle and the cattle mix have been upgraded and optimized, the Group expects that the average milk yield of herds will continue to increase. In the future, the Group will improve its profitability by adjusting and optimizing the cattle mix and improving the feeding formula, and upgrading intelligent high-quality management quality management.

Size of Our Herds

Driven by the advanced and modern management model of our farms, the number of dairy cows of the Group's dairy farms increased from 79,566 heads as of 31 December 2021 to 89,437 heads as of 31 December 2022. The total number of inventory cows increased by 12.4% as compared with the same period of last year. Among them, the total number of our matured milkable cows increased from 36,290 heads as of 31 December 2021 to 40,235 heads as of 31 December 2022, representing an increase of 10.9% over the same period of last year. The increase in number of our matured milkable cows contributed to the steady supply of quality raw milk of the Group. In addition, the number of heifers and calves increased to 49,202 heads, representing an increase of 13.7% over the same period of last year. The number of dairy goats was 5,973 heads as of 31 December 2022, including 4,482 matured milkable goats and 1,491 lambs and young goats.

	31 December 2022	31 December 2021
Number of matured milkable cows	**40,235**	36,290
Number of heifers and calves	**49,202**	43,276
Total number of dairy cows	**89,437**	79,566

	31 December 2022
Number of matured milkable goats	**4,482**
Number of lambs and young goats	**1,491**
Total number of dairy goats	**5,973**

Price of Raw Milk

As the domestic milk production continues to increase, the market supply should be sufficient, and the supply and demand return to a stable state. Recently, the price of domestic raw milk in China has dropped. During the Year, the Group optimized and adjusted the product structure of raw milk, increased the proportion of premium raw milk such as organic milk and A2 milk, and the selling price of the Company's raw milk rises. During the Year, the average selling price of the Group's raw cow milk was RMB5,074 per tonne, representing an increase of 6.3% over the same period of last year. The average selling price of the Group's raw goat milk was RMB6,993 per tonne during the Year.

OUTLOOK

As the per capita disposable income of residents across the country continues to increase, and consumers pay more attention to health under the regular prevention and control of the Pandemic, consumption upgrades have increased the demand for high-end products, further promoting the development of various industries. On the other hand, due to the decrease in the number of newborns and young children in recent years, the benefits of huge population came to an end. Consumers' demand for high-quality dairy products in China has fueled development of certain segments in the industry, such as goat milk. Small and medium-sized brands in the growing market are finding it more and more difficult to survive, which highlights the brand advantage of the Group. In the future, high-quality raw milk will be produced and provided mainly by large-scale dairy farms. The proportion of large-scale farming in the raw milk industry will increase which will lead to greater industry concentration and higher barriers to new entrants. Thus, the market will usher in a new period of competition between existing players. The Company is expected to benefit from the industry's upward cycle and first-mover advantage and further leverage its industry leader's advantages.

In the future, the Group will seize market opportunities and continue to upgrade its structure by relying on its own technological advantages and resource endowments under the trend of innovation and consumption upgrading. In addition to insisting on making the main raw milk business bigger, better and stronger, YuanShengTai will also explore the possibility of developing new businesses as new drivers of profit growth. It will make best use of its advantages of having its own resources of raw milk to develop featured goat milk business, improve the quality of dairy cows to provide the Group with high-quality dairy cows, realize digital breeding leveraging on modern technologies, plan the production in line with the needs of dairy enterprises, and achieve rational expansion to increase the Company's overall gross profit margin. We believe that YuanShengTai will continue to maintain its leading position in China's dairy animal farming and contribute to the revitalization of China's dairy industry while providing high-quality dairy products to the society.

Our Revenue

During the Year, our total sales of milk produced increased by 17.7% from RMB1,776.5 million for the year ended 31 December 2021 to RMB2,090.3 million. The sales volume for the Year reached 411,438 tonnes, representing an increase of 39,349 tonnes or 10.6% as compared with 372,089 tonnes in 2021. The growth was primarily attributable to the increases in (i) herd size of matured milkable cows; and (ii) average annual milk yield per cow. Our average selling price of raw cow milk was RMB5,074 per tonne for the Year, representing an increase of 6.3% as compared with RMB4,774 per tonne in 2021 and our average selling price of raw goat milk was RMB6,993 per tonne for the Year.

Cost of Sales

Our cost of sales for the Year was RMB1,568.6 million. The table below summarizes the components of our cost of sales by nature:

	2022 *RMB'000*	2021 *RMB'000*
Cost of sales		
Feed	**1,148,864**	927,756
Salary, welfare and social insurance	**113,689**	91,859
Depreciation	**95,016**	88,843
Veterinary cost	**55,889**	49,912
Utility	**87,409**	68,459
Transportation expenses	**23,530**	28,116
Other costs	**44,231**	42,268
Cost of sales, total	**1,568,628**	1,297,213

Feed costs represent the cost of feed consumed by our milkable cows and goats. The feed costs for milkable cows and milkable goats were RMB1,148.9 million and RMB927.8 million for the years ended 31 December 2022 and 2021, respectively, representing 73.2% and 71.5% of the cost of sales for the respective financial years. The increase in our feed costs was attributable to the increases in (i) the number of milkable cows and goats; and (ii) the price of hay feed.

Gross Profit

Given the above factors, the gross profit increased to RMB521.7 million for the Year (2021: RMB479.3 million), representing an increase of 8.8% as compared with that for 2021. Our gross profit margin decreased from 27.0% in 2021 to 25.0% in 2022.

Other Income and Gains

Other income and gains for the Year amounted to RMB91.0 million (2021: RMB73.1 million), representing an increase of 24.5%. The increase in other income and gains was attributable to the increases in: (i) interest income; and (ii) income from land subleases generated by Zhenlai Farm and Yi'an Farm. In order to ensure the stable supply of feeds, Zhenlai Farm and Yi'an Farm leased several parcels of land which were sublet afterwards for growing feeds. This business is a sub-lease business under the operating lease model and sub-lease income was recognized.

Administrative Expenses

We incurred administrative expenses of RMB135.1 million for the Year (2021: RMB116.2 million), representing an increase of approximately 16.3% as compared with 2021. The increase was attributable to: (i) increases in wages and salaries; and (ii) share option expense recognised for the Year. Share options were granted to Directors and employees of the Company pursuant to a share option scheme adopted by China Feihe Limited on 22 June 2020.

Other Expenses

Other expenses for the Year amounted to RMB55.0 million (2021: RMB38.0 million), representing an increase of approximately 44.7%. The increase in other expenses was attributable to the increases in: (i) expenses on land sub-lease incurred by Zhenlai Farm and Yi'an Farm; and (ii) the net loss on disposal of items of property, plant and equipment.

Changes in Fair Value Less Costs to Sell of Biological Assets

Changes in fair value less costs to sell of biological assets was a loss of RMB389.6 million for the Year as compared with a loss of RMB237.7 million for 2021. The increase was attributable to the increase in feeding costs.

Profit for the Year of the Group

Taking into account all of the above factors, the Group's net profit was RMB22.8 million for the Year, as compared with a net profit of RMB157.0 million for the year ended 31 December 2021. The decrease in net profit was mainly attributable to the increase in the price of hay feed, as compared to the year ended 31 December 2021. Basic earnings per share was approximately RMB0.49 cent for the Year (2021: RMB3.35 cents).

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year (2021: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB799.7 million, as compared with RMB720.1 million in 2021. As at 31 December 2022, the Group had cash and cash equivalents of RMB576.3 million (2021: RMB959.4 million). Save for cash and cash equivalents equivalent to RMB300.0 million which were denominated in the United States dollars ("**USD**"), and RMB17.6 million which were denominated in Hong Kong dollars ("**HKD**"), the Group's remaining cash and cash equivalents were denominated in RMB.

The Group had interest-bearing bank and other borrowings of RMB836.5 million as at 31 December 2022 (31 December 2021: RMB190.0 million) which was denominated in RMB. The annual interest rate of the bank and other borrowings as at 31 December 2022 ranged from 2.95% to 3.85% (31 December 2021: 5.22%). The gearing ratio (calculated by dividing net debt by the equity attributable to owners of the parent plus net debt) was 13.2% (as at 31 December 2021: N/A). Net debt includes interest-bearing bank and other borrowings, trade payables, and certain other payables and accruals, less cash and cash equivalents and time deposits. Details of the borrowings of the Group are set out in note 23 to the consolidated financial statements.

CAPITAL STRUCTURE

As at 31 December 2022, the Company's issued share capital was HK$46,904,964 divided into 4,690,496,400 shares of HK$0.01 each (the "**Shares**") (2021: HK$46,904,964 divided into 4,690,496,400 Shares of HK$0.01 each). The Company did not issue any new Shares during the Year.

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the Year, the principal capital expenditures of the Group were related to construction of new farms and major maintenance and acquisition of additional equipment and cows for its existing dairy farms.

As part of the future strategy of the Group, the Group's planned capital expenditures for its business operations will be primarily related to the construction and commencement of operations of its new dairy farms. The Group anticipates that its capital expenditures will be financed by cash generated from its operations, debt financing or bank loans, the net proceeds from the placing of new Shares under the general mandate from shareholders of the Company (the "**Shareholders**") and the unutilised net proceeds from the issue of new Shares under the global offering as set out in the prospectus of the Company dated 14 November 2013 (the "**Prospectus**").

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2022 nor were there other plans for material investments on capital assets as at the date of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE "IPO") AND PLACING OF NEW SHARES

The issued Shares were initially listed on the Stock Exchange on 26 November 2013. Gross proceeds raised from the IPO in such connection amounted to approximately HK$3,298.0 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling Shareholders (i.e. not receivable by the Company)) amounted to approximately HK$2,564.0 million. The net proceeds were spent broadly in accordance with the Company's plan as disclosed in the Prospectus.

The table below sets out the planned applications of the net proceeds from the IPO and the actual usage:

	Planned use of net proceeds from the IPO (as stated in the Prospectus)	Actual use of net proceeds from the IPO up to 31 December 2022	Actual use of net proceeds from the IPO during the Year	Unused net proceeds from the IPO as at 31 December 2022
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Construction of new farms	1,923.0	1,923.0	–	–
Developing upstream operations	384.6	36.8	–	347.8
Working capital and general corporate purpose	256.4	256.4	–	–
Total	2,564.0	2,216.2	–	347.8

The unused net proceeds, being approximately HK$347.8 million, are expected to be used in accordance with the Company's plan as disclosed in the Prospectus (i.e. to develop upstream operations) by end of 2023. The original expected timeline for unused net proceeds in respect of developing upstream operations was 31 December 2021. The delay in the use of net proceeds arose due to the suspension of upstream operations development over the Pandemic. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

The Board will continuously evaluate the Group's business strategies and change or modify the plan in line with market conditions, to support business growth of the Group.

The Company issued 781,749,400 new Shares at a price of HK$0.5 per Share pursuant to a placing of Shares completed on 13 January 2017 (the "**Placing**"). The net proceeds from the Placing (after deducting the placing commission payable to the placing agent and other expenses incurred in the Placing) were approximately HK$384.6 million, which were intended to be used for importing heifers and calves from Australia and New Zealand and as general working capital and had been fully utilised as at 31 December 2022.

The table below sets out the planned applications of the net proceeds from the Placing and the actual usage:

	Planned use of net proceeds from the Placing (as stated in the announcement of the Company dated 23 December 2016)	Actual use of net proceeds from the Placing up to 31 December 2022	Actual use of net proceeds from the Placing during the Year	Unused net proceeds from the Placing as at 31 December 2022
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Importing heifers and calves from Australia and New Zealand and general working capital	384.6	384.6	206.7	–
Total	384.6	384.6	206.7	–

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 1 January 2022, the Group acquired certain assets from an unaffiliated party engaged in the production and sale of raw goat milk. The acquisition was made as part of the Group's strategy to expand its business in the fast-growing goat milk market in the PRC and diversify and expand new product lines to meet the customer's need for goat milk powder products in the PRC. The purchase consideration for the acquisition was in the form of cash in the amount of RMB135,883,000. Details of the acquisition are set out in the announcements of the Company dated on 19 November 2021 and 29 November 2021, respectively.

Save as disclosed above, during the Year, the Group did not have any material acquisitions and disposal of subsidiaries, associates or joint ventures.

PLEDGE OF ASSETS

As at 31 December 2022, no assets of the Group were pledged as security for bank borrowings (2021: Nil).

FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as the USD and HKD. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2022 and 2021 were RMB240.3 million and RMB79.0 million, respectively, which were for construction of our new farms, renewal of existing facilities and purchase of dairy cows.

The Group did not have any significant contingent liabilities as at 31 December 2022 (2021: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had 2,241 employees (2021: 1,903 employees), of whom one was located in Hong Kong and all the others were located in the PRC.

The salaries of the Group's employees largely depend on their type and level of work as well as length of service with the Group. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Group participates in the social insurance schemes operated by the relevant local government authorities, which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013. A share option scheme was adopted by the Board on 7 November 2013 for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. The Group also provides and arranges on-the-job training for the employees.

The Directors and senior management of the Company receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Company or executing their functions in relation to its operations. The Company regularly reviews and determines the remuneration and compensation packages of the Directors and senior management.

Further, the remuneration committee of the Board reviews and recommends to the Board for consideration and approval of the remuneration and compensation packages of the Directors and senior management by reference to their time commitment and responsibilities, the salaries paid by comparable companies and the performance of the Group.

EVENT AFTER REPORTING YEAR

Save as disclosed elsewhere in this report, the Group did not have any material subsequent event after the Year and up to the date of this report.

UPDATES IN RELATION TO THE NOVEL CORONAVIRUS DISEASE

Since the outbreak of the Pandemic in December 2019, the Board has been monitoring the development of the Pandemic and assessing its impact on the Group's operations. The Company has since the Pandemic taken immediate steps and measures to protect its employees from being infected. In December 2022, China ended its zero-COVID policy and has opened its border. It is expected that the domestic economy will gradually pick up. As at the date of this report, the Board is not aware of any material adverse impact to the Group' financial or trading position caused by the Pandemic.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS (THE "EDs")

Mr. Zhao Hongliang (趙洪亮)

Mr. Zhao, aged 56, is an ED and the chairman of the Group. He is primarily responsible for the overall strategic development of the Group. He is also a member of the remuneration committee of the Board (the "**Remuneration Committee**"). Mr. Zhao completed his high school education in the People's Republic of China (the "**PRC**") in July 1983.

Mr. Zhao is the founder of the Group. He has past experience in raising dairy cows and cattle management in Heilongjiang Province, the PRC. In 1995, he started to invest in various sectors in the PRC including real properties, trading of construction materials and mining. Simultaneously, he had been all along paying close attention to the dairy farming industry in the PRC. In 2008, he was awarded as one of the "Outstanding Private Entrepreneurs* (優秀民營企業家), and in the following year, he was awarded as one of "Top Ten Outstanding Young Entrepreneurs of the Farming District of Heilongjiang" (黑龍江墾區十大傑出青年企業家). Mr. Zhao has accumulated substantial experience in making investments in the PRC and has maintained a sound financial capability.

In 2008, Mr. Zhao invested in the dairy farming industry in the PRC and as a result, the Company's first operating entity, namely Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.* (黑龍江克東瑞信達原生態牧業股份有限公司) ("**YST Heilongjiang**"), was established in September 2008.

Mr. Zhao is a director and the sole shareholder of a then controlling shareholder (as defined under the Rules Governing the Listing of Securities on the Stock Exchange) of the Company. Mr. Zhao is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Royal Dairy Farm Limited ("**Royal Dairy Farm**") and Natural Dairy Farm Limited ("**Natural Dairy Farm**").

Mr. Fu Wenguo (付文國)

Mr. Fu, aged 55, is an ED, the chief executive officer and the general manager of the Group. Mr. Fu is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Heilongjiang Gannan Ruixinda YuanShengTai Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), Kedong Yongjin YuanShengTai Dairy Farm Limited (克東勇進原生態牧業有限公司), Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd.* (黑龍江克東和平原生態牧業有限公司), Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd* (鎮賚瑞信達原生態牧業有限公司), Heilongjiang Yi'an Ruixinda Dairy Farming Co., Ltd.* (黑龍江依安瑞信達牧業有限公司), Heilongjiang Bei'an Ruixincheng Dairy Farming Co., Ltd.* (黑龍江北安瑞信誠牧業有限公司), Longjiang Ruixincheng Dairy Farming Co., Ltd.* (龍江瑞信誠牧業有限公司), Heilongjiang Jinyuan Dairy Farming Co., Ltd.* (黑龍江金源牧業有限公司), Shaanxi Ruixiang Chengda Dairy Farming Co., Ltd.* (陝西瑞祥誠達牧業有限公司), Heilongjiang Shuangcheng Ruixinda Dairy Farming Co., Ltd.* (黑龍江雙城瑞信達牧業有限公司), Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for overseeing the overall operations of the Group. He is also a member of the nomination committee of the Board (the "**Nomination Committee**"). Mr. Fu graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute Technology* (上海應用技術學院)) in 1989.

Mr. Fu joined the Group in December 2011 and was then in charge of overseeing the overall operations of the Group. Since January 2012, Mr. Fu has been assuming the office of general manager of the Group. He is also a member of the senior management of the Group. Mr. Fu has over 28 years of experience in the dairy farming industry.

Mr. Chen Xiangqing (陳祥慶)

Mr. Chen, aged 50, was appointed as an ED and the chief financial officer of the Group on 10 September 2015. Mr. Chen was employed by Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司) ("**Feihe Dairy**") from April 2003 to June 2012, and had assumed various offices, including the accounts manager, finance manager and internal control manager, respectively.

Mr. Chen graduated from the Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學) ("**Bayi University**") in July 1996, majoring in agricultural economy management. He is a holder of the certificate of accounting professional in the PRC. He has been accredited as a certified internal auditor by The Institute of Internal Auditors since November 2010.

Mr. Chen joined the Group in December 2012 as the head of finance department of the Group, in which he was responsible for overseeing the financial and auditing matters of the Group. Mr. Chen is a director of each of the following subsidiaries of our Company: Royal Dairy Farm and Natural Dairy Farm. Mr. Chen has 17 years' working experience in the domestic raw milk industry of the PRC.

Mr. Liu Gang (劉剛)

Mr. Liu, aged 49, was appointed as an ED on 25 June 2018. Mr. Liu joined the Group in January 2012 and was appointed as one of the Company's joint company secretaries and authorised representatives of the Company on 7 November 2013 and subsequently appointed as the Company's sole company secretary (the "**Company Secretary**") on 5 April 2017. Following his appointment as an ED on 25 June 2018, he resigned as the Company Secretary on the same date. Mr. Liu is a director of each of the following subsidiaries of our Company: Royal Dairy Farm and Natural Dairy Farm. Prior to joining our Group, Mr. Liu had accumulated more than 8 years of experience in the investment sector. Mr. Liu was awarded a bachelor's degree in automation, majoring in measuring and control technology and instrumentations, by the Yanshan University* (燕山大學) in the PRC in July 1999. Mr. Liu is a younger brother of Mr. Liu Hua, a non-executive Director.

NON-EXECUTIVE DIRECTORS (THE "NEDs")

Mr. Leng Youbin (冷友斌)

Mr. Leng, aged 54, was appointed as a NED on 3 December 2020. He is an executive director, the chairman of the board and the chief executive officer of China Feihe Limited ("**Feihe**", together with its subsidiaries "**Feihe Group**"), a company whose shares are listed on the main board of the Stock Exchange (stock code: 6186), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "**SFO**"). He has over 30 years of experiences in the dairy industry. Mr. Leng has been a director, the chairman of the board and the chief executive officer of Feihe since January 2013, and was re-designated as an executive director in April 2017. Mr. Leng has been a director of Vitamin World USA Corporation ("**Vitamin World USA**") since December 2017 and has been the executive director of Feihe (Gannan) Dairy Products Co., Ltd. (飛鶴(甘南)乳品有限公司) since March 2006. He has served as director of Feihe Dairy since August 1996, during which he concurrently served as the general manager of Feihe Dairy from August 1996 to March 2020 and deputy head of Zhaoguang Farm (趙光農場) from December 1999 to December 2001. Before that, he worked in Heilongjiang Province Zhaoguang Dairy Plant (黑龍江省趙光乳品廠) from March 1987 to May 1993. Mr. Leng has received various honors and awards. He was successively awarded as one of the "Top Ten Technology Figures of Dairy Industry in China" (中國乳品加工業十大傑出科技人物), "Outstanding Entrepreneur" (傑出企業家) and "Outstanding Leaders of National Light Industry Enterprise Informatization" (全國輕工業企業信息化優秀領導) in the dairy industry in China. He was also awarded the "National May 1st Labor Medal" (全國五一勞動獎章) in 2012, "National Labor Model" (全國勞動模範) in 2015, "Person of the Year 2018 of Chinese Economy" (2018 中國經濟年度人物), "Dedication Award of National Poverty Alleviation Award" (全國脱貧攻堅獎奉獻獎) in 2018, one of the "Innovative Talents of Ministry of Science and Technology of the Year 2018" (2018 年科技部創新人才), one of the "Hundred Outstanding Private Entrepreneurs during Forty Years since Reform and Opening up" (改革開放40 年百名傑出民營企業家), "The Fifth Excellent Constructor of Socialism with Chinese Characteristics from Non-public Sector" (第五屆全國非公有制經濟人士優秀中國特色社會主義事業建設者) and other awards. Mr. Leng was selected into the fourth batch of the national "Ten Thousand Talents Plan" (萬人計劃), and was awarded with government special allowance issued by the State Council of the PRC. He was awarded the "Commemorative Medals Celebrating the 70th Anniversary of the Founding of the PRC" (慶祝中華人民共和國成立70周年紀念章) issued by the Central Committee of the Communist Party of China, the State Council and the Central Military Commission, "Advanced Individuals Nationwide in Fighting the Coronavirus Pneumonia Epidemic" (全國抗擊新冠肺炎疫情先進個人), "The Sixth National Outstanding Professional Technology Figures", the "Integrity Star" (誠信之星) in 2020 jointly issued by the Propaganda Department of the Central Committee of the Communist Party of China and the National Development and Reform Commission. Mr. Leng is a representative of the National People's Congress of the thirteenth session. Mr. Leng currently serves as the vice chairman of the All-China Federation of Industry and Commerce (Non-governmental Commerce Chamber of China) (中華全國工商業聯合會(中國民間商會)) and the vice chairman of the Federation of Industry and Commerce of Heilongjiang Province (黑龍江省工商業聯合會).

He graduated from Northeast Agricultural University (東北農業大學) in Heilongjiang, China in July 1995 through correspondence course, and obtained an executive master of business administration ("**EMBA**") degree from the School of Economics of Peking University (北京大學經濟學院) in Beijing, China in July 2002 and an EMBA degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in Beijing, China in July 2007. Mr. Leng is a dairy engineer certified by the Personnel Bureau of Heilongjiang (黑龍江省人事廳) in September 1999.

Mr. Liu Hua (劉華)

Mr. Liu, aged 51, was appointed as a NED on 3 December 2020. He is an executive director, the vice chairman of the board and the chief financial officer of Feihe. He joined Heilongjiang Feihe Dairy Co., Limited ("**Feihe HLJ**") in November 2000 and has been the chief financial officer of Feihe HLJ since then. He has been a director, the vice chairman of the board and the chief financial officer of Feihe since June 2013, and was re-designated as an executive director in April 2017. Mr. Liu has been a director of Vitamin World USA since December 2017. Mr. Liu has been involved in the financing activities of the Feihe Group, including the quotation of Flying Crane U.S. on the OTCBB in 2003, the listing of Flying Crane U.S. on the NYSE in 2009, and the listing of Feihe on the Stock Exchange in 2019.

Mr. Liu received an EMBA degree in finance from the Advanced Institute of Finance of Shanghai Jiao Tong University (上海交通大學高級金融學院) in Shanghai, China in December 2015. Mr. Liu is an elder brother of Mr. Liu Gang, an ED.

Mr. Cai Fangliang (蔡方良)

Mr. Cai, aged 54, was appointed as a NED on 3 December 2020. He is an executive director and the president of Feihe. He joined Feihe HLJ in November 2010 and has been the president of Feihe HLJ since then. He has been a director and the president of the Feihe since June 2013, and was re-designated as an executive director in April 2017. He has been a director of Vitamin World USA since December 2017. Mr. Cai has focused on the marketing management of the Feihe Group and the overall management and business development of Feihe. Before joining the Feihe Group, Mr. Cai worked at Jiangxi Meilu Dairy Co., Ltd. (江西美廬乳業有限公司) from December 2008 to October 2010. Before that, Mr. Cai worked at Yashili Group Co., Ltd. (廣東雅士利集團有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS (THE "INEDs")

Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)

Mr. Meng, aged 45, was appointed as an INED on 28 September 2018. He is the chairman of the audit committee of the Board (the "**Audit Committee**") and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Meng was awarded a bachelor's degree in Economics, majoring in business administration, and a bachelor's degree in Accounting by the Beijing Technology and Business University* (北京工商大學) in June 2001 and May 2001, respectively.

Mr. Meng has served as an independent director of TDH HOLDINGS, INC., a company listed on NASDAQ (stock symbol: PETZ), since January 2019. From September 2014 to July 2021, Mr. Meng served as an independent director of China Customer Relations Centers Inc., a company which was then listed on NASDAQ (stock symbol: CCRC), Mr. Meng has been an independent director of Taiying Technology Group Co., Ltd. since January 2022. Since 2013, Mr. Meng has served as a partner of an accounting firm registered with PCAOB in the United States. From 2013 through 2020, Mr. Meng was the managing director of Beijing Songlin Xinya Financial Consultants, Ltd. From 2007 through 2013, Mr. Meng served as chief representative of Sherb Consulting LLC Beijing Representative Office, and managing director of Sherb & Co, LLP. From 2003 through 2006, Mr. Meng worked as an audit manager in the Beijing office of Grant Thornton. Mr. Meng is a member of The Chinese Institute of Certified Public Accountants (CICPA) and holds a C.P.A. Permit from the State of Delaware in the United States of America, and a Certified Internal Auditor (CIA) of The Institute of Internal Auditors.

Mr. Zhang Yuezhou (張月周)

Mr. Zhang, aged 59, was appointed as an INED on 7 November 2013. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Currently, Mr. Zhang is engaged in the provision of dairy farm management consultancy services in the PRC. Mr. Zhang obtained his a bachelor's degree in agriculture from Gansu Agricultural University in July 1987 and a master's degree in Agricultural Promotion from Nanjing Agricultural University in 2006. Mr. Zhang obtained the qualification of an animal husbandry expert in the PRC in May 1995. Mr. Zhang has over 30 years of experience in the dairy products industry and since March 2010, he has been the general manager of Shanghai Yuanfan Farming Technology Co. Ltd.* (上海源凡牧業科技有限公司), responsible for overseeing its overall operations.

Mr. Zhu Zhanbo (朱戰波)

Mr. Zhu, aged 53, was appointed as an INED with effect from 7 November 2013. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Mr. Zhu has over 20 years' experience in teaching and scientific research. He graduated from the Bayi University in veterinary science in July 1993, and obtained a master's degree from the Department of Animal Science and Technology of the same university in July 2004. He further obtained a doctorate's degree from the Jilin University (吉林大學) in July 2012.

By profession, he is a university professor. Mr. Zhu started teaching full-time at the Bayi University since July 1993.

Ms. Liu Jinping (劉晉萍)

Ms. Liu, aged 51, was appointed as an INED on 3 December 2020. She is a member of the Audit Committee. Ms. Liu is currently an independent non-executive director of Feihe and a deputy director of the Center of Extracorporeal Circulation and the director of the Department of Pediatric Extracorporeal Circulation of Fu Wai Hospital (阜外醫院). She has been a chief physician of the Department of Extracorporeal Circulation in anesthesiology of Fu Wai Hospital since September 2012. Before that, she served in several positions in the Department of Extracorporeal Circulation of Fu Wai Hospital, including an associate chief physician from September 2006 to September 2012, an attending physician from August 2001 to August 2005, and a resident physician from August 1995 to August 2001.

Ms. Liu received a bachelor's degree in medical science from Harbin Medical University (哈爾濱醫科大學) in Heilongjiang, China in September 1995, and a master's degree and then a doctorate degree in anesthesia from the Peking Union Medical College (北京協和醫學院) in Beijing, China in September 2002 and 2014, respectively. She was admitted as a practicing physician in May 1999, and was certified as a physician and chief physician in November 2002 and July 2011, respectively, by the Ministry of Health of the PRC.

SENIOR MANAGEMENT

In addition to Mr. Zhao Hongliang, Mr. Fu Wenguo, Mr. Chen Xiangqing and Mr. Liu Gang, all being EDs, the following individual is also a member of the senior management of the Group:

Mr. Wang Yongxin (王永信)

Mr. Wang, aged 45, is the deputy general manager of the Group. Currently, he is primarily responsible for the health care of cattle of the Group's farms and production and operations management of the Group. He is currently a director of YST Heilongjiang. He graduated from the Southwest Agricultural University* (西南農業大學) in veterinarian science in 2001. He also obtained a certificate of middle-level veterinary in 2006.

Mr. Wang joined the Group in December 2009 and was then in charge of the supervision and overall management of the Company's Kedong YST Farm. Mr. Wang has over 16 years of experience in the dairy farming industry. During his employment with the Group, Mr. Wang has assumed the following offices and has been in charge of the functions mentioned below:

Period of Time	Office	Principal functions
December 2009 to March 2012	Head of farm	Supervision and overall management of Kedong YST Farm
From March 2012 onwards	Deputy general manager	Monitoring the health of cattle and production and operations management of the operating subsidiaries of the Company

The Company is committed to fulfilling its responsibilities to the Company's shareholders (the "**Shareholders**") and protecting and enhancing shareholder value through good corporate governance.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "**Board**" and the "**Directors**", respectively) and its management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the businesses of the Company and its subsidiaries (the "**Group**") in a transparent and responsible manner and following good corporate governance practices serve the long-term interests of the Group and those of the Shareholders. The Board considers that the Company complied with all the code provisions as set out in Part 2 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the year ended 31 December 2022 (the "**Year**").

CORPORATE STRATEGY

Under Code provision A.1.1 of the CG Code, the Board is required to establish the Company's purpose, values and strategy, and ensure that these and the Company's culture are aligned. The Group has adopted the following principle statement as the mission of the Group (the "**Mission**"):

– Dedicated to the production of "Consistently" Quality milk, carefully building China's dairy farming agricultural ecosystem

The Group has established its vision and culture to be the market leader in PRC and strive to offer more advanced and reliable products, and high-quality milk through continuous technical innovation to meet the needs of society and to bring people a better life. The Group believes in developing a coherent and harmonised relationship with our stakeholders and commits to provide and maintain a safe and healthy environment for our employees, customers/clients, contractors and stakeholder of our community.

The Group endeavors to add value to the society and the environment through responsible and self-conscious actions in its business. The major value of the Group includes:

- Continuous growth/Sustainable development
- Care for Customers/Clients
- One-Step Forward
- Innovation
- Developing our Employees
- Health and Safety
- Mutual respect and Integrity

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct for dealing in securities of the Company by the Directors. In response to a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code during the Year.

BOARD OF DIRECTORS

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to formulating the Group's business plans and strategies, reviewing the Company's financial results and performance and approving its interim and annual results; approving the appointment, removal or reappointment of the Board members upon the recommendation of the nomination committee of the Board (the "**Nomination Committee**"); approving the remuneration package of the Directors and senior management of the Company upon the recommendation of the remuneration committee established by the Board (the "**Remuneration Committee**"), deciding all significant financial (including major capital expenditure) and operational issues, developing, monitoring and reviewing the Group's corporate governance, risk management and internal control, and all other functions reserved to the Board under the Company's bye-laws (the "Bye-laws"). The Board may from time to time delegate certain functions to the senior management of the Group if and when considered appropriate. The senior management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time.

Board Independent Evaluation Mechanism

The Board has adopted a board independent evaluation mechanism (the "**Mechanism**") on 29 August 2022 for Directors to seek independent professional advices for them to discharge their duties and responsibilities, and to ensure a strong independent element on the Board, which allows the Board to effectively exercise independent judgement to better safeguard shareholders' interests.

Continuing improvement and development of the Board of the Company and its committee processes and procedures through Board independence evaluation provides a powerful and valuable feedback mechanism for improving Board effectiveness, maximising strengths, and identifying the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Mechanism, the Directors may, in making decisions to perform their duties as Directors, seek such independent professional advice and opinions as they considered necessary to fulfil their responsibilities and in exercising independent judgement at the Company's expense (the "**Policy**"). Independent professional advice shall include advice of lawyers, auditors, accountants, financial advisers and other professional on matters of law, accounting, tax and other regulatory and professional matters. If the Directors consider that independent professional advice and views are necessary, the Directors should communicate with the Company Secretary and to provide background and details of the events and/or transactions and/or the issues involved and/or their problems, questions, concerns or specific advice to be sought. Subject to the approval of the Board, the Company or the Directors shall contact a professional adviser within a reasonable period of time to seek independent professional advice. Any advice obtained through the Policy shall be duly documented and made available to other members of the Board.

The Board has reviewed the implementation and the effectiveness of the Mechanism and considered it to be effective.

The Directors who were in office during the Year and up to the date of this report are named as follows:

Executive Directors

Mr. Zhao Hongliang *(Chairman)*
Mr. Fu Wenguo *(Chief Executive Officer)*
Mr. Chen Xiangqing *(Chief Financial Officer)*
Mr. Liu Gang

Non-executive Directors

Mr. Leng Youbin
Mr. Liu Hua
Mr. Cai Fangliang

Independent non-executive Directors (the "INEDs")

Mr. Zhang Yuezhou
Mr. Zhu Zhanbo
Mr. Meng Jingzong (alias Owens Meng)
Ms. Liu Jinping

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Save as disclosed in the "Biographical Details of Directors and Senior Management", there was no financial, business, family or other material relationship among the Directors.

The four executive Directors are responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances and are collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The three non-executive Directors participate in Board meetings to bring in an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts and scrutinize the Company's performance in achieving agreed corporate goals and objectives.

The four INEDs are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as providing a balance in the Board in order to effectively exercise independent judgment on the corporate actions of the Company so as to protect Shareholders' interests and the overall interests of the Group.

The Company had four INEDs and at all times met the requirement of the Listing Rules that the number of INEDs must represent at least one-third of the Board members and at least one of the INEDs has appropriate professional qualifications of accounting or related financial management expertise.

Each of the INEDs has made an annual written confirmation of independence by reference to Rule 3.13 of the Listing Rules and the Board is satisfied that all the INEDs were independent and met the independence guidelines set out in the above Rule 3.13.

Directors' Induction and Continuing Professional Development

Each newly appointed Director received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure a proper understanding of the Company's operations and business and full awareness of the Director's responsibilities under the statues and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

The Company has from time to time provided briefings to all Directors to develop and refresh the Directors' duties and responsibilities. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors have been required to provide the Company with their training records.

During the Year, all Directors attended briefings by certain professional advisers and/or participated in continuous professional development courses organized by professional bodies/firms on corporate governance or updates on laws, rules and regulations relating to the roles, functions and duties of a Director to develop and refresh their knowledge and skills.

The individual record of each Director who received training for the Year is summarised as follows:

Directors	Type of CPD
Executive Directors	
Mr. Zhao Hongliang	A&B
Mr. Fu Wenguo	A&B
Mr. Chen Xiangqing	A&B
Mr. Liu Gang	A&B
Non-executive Directors	
Mr. Leng Youbin	B
Mr. Liu Hua	B
Mr. Cai Fangliang	B
INEDs	
Mr. Zhang Yuezhou	B
Mr. Zhu Zhanbo	B
Mr. Meng Jingzong (alias Owens Meng)	A&B
Ms. Liu Jinping	B

Notes:

A: attending seminars/forums/workshops/conferences relevant to the Group's business or directors' duties

B: reading seminars materials and studying regulatory updates on laws, rules and regulations relating to directors' roles and functions

Meetings of Board and Board Committees and Directors' Attendance Records

The Board is scheduled to meet four times a year at approximately quarterly intervals with notice given to the Board members at least 14 days in advance. For additional Board meetings which require discussion and resolution of significant issues arising during the operation of the Company, notice is given in a reasonable time in advance. Before each Board meeting, a draft agenda is sent out to all Directors at least three days or such other period as agreed in advance in order to allow the Directors to include any other matters in the agenda that is required for discussion and resolution in the meeting. To enable the Directors to make informed decisions, Board papers together with all appropriate and relevant information in relation to the matters of the meeting are sent to all Directors three days or such other period as agreed before each Board meeting. The company secretary of the Company (the "**Company Secretary**") is responsible for keeping all Board meetings minutes. Draft minutes are normally circulated to the Directors for comments within a reasonable time after each meeting and the final version thereof is open for the Directors' inspection. According to the Listing Rules, any Directors and their close associates (as defined under the Listing Rules) with a material interest in the transactions to be discussed in the Board meetings will abstain from voting on the resolutions approving such transactions and will not be counted in the quorum for the meetings.

During the Year, four Board meetings, one annual general meeting (the "**AGM**") and one special general meeting (the "**SGM**") were held. Details of the attendance of the Directors are as follows:

	Attendance of		
	Board meetings	AGM	SGM
Directors	Attended/eligible to attend		
Executive Directors			
Mr. Zhao Hongliang	4/4	1/1*	1/1*
Mr. Fu Wenguo	4/4	1/1*	1/1*
Mr. Chen Xiangqing	4/4	1/1	1/1
Mr. Liu Gang	4/4	1/1*	1/1*
Non-executive Directors			
Mr. Leng Youbin	4/4	1/1*	1/1*
Mr. Liu Hua	4/4	1/1*	1/1*
Mr. Cai Fangliang	4/4	1/1*	1/1*
INEDs			
Mr. Zhang Yuezhou	4/4	1/1*	1/1*
Mr. Zhu Zhanbo	4/4	1/1*	1/1*
Mr. Meng Jingzong (alias Owens Meng)	4/4	1/1	1/1*
Ms. Liu Jinping	4/4	1/1*	1/1*

Notes:

1. *The Directors participated in AGM and/or SGM via teleconferencing.

2. During the Year, the Board had circulated and passed written resolutions on six occasions, which were dated 24 February 2022, 8 April 2022, 1 July 2022, 25 July 2022, 29 August 2022 and 14 October 2022, respectively, in addition to the physical Board meetings stated above.

Board Diversity Policy

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") on 7 November 2013 and discussed all measurable objectives set for implementing the same.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard to the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made up on the merits and contribution that the selected candidates will bring to the Board. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

As at the date of this report, the Board comprises 11 Directors. One of them is a female, four of the Directors are INEDs who are independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills. The Nomination Committee considered that the Board was sufficiently diverse in terms of gender and the Board had not set any measurable objectives.

DIVERSITY IN WORKFORCE

During the Year, among all the employees (including the senior management) of the Group, male employees accounted for 74.9% and female employees accounted for 25.1%. The Group believes that the gender ratio of employees is within the reasonable range.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are separated and assumed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one member of the Board. Mr. Zhao Hongliang, the Chairman, is responsible for overseeing the functions of the Board while Mr. Fu Wenguo, the Chief Executive Officer, is responsible for managing the Group's business and overall operations. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer.

BOARD COMMITTEES

The Board has established, with written terms of reference, three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

The written terms of reference for each Board committee are in line with the Listing Rules and they are posted on the respective websites of the Stock Exchange and the Company.

Audit Committee

The Board has established the Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the four INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Ms. Liu Jinping. Mr. Meng is the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee include, among others:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards;
- discussing with the external auditor the nature and scope of the audit and reporting obligations before the audit commences and ensuring co-ordination where more than one audit firm is engaged before the audit commences;
- developing and implementing a policy on engaging an external auditor to supply non-audit services and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- monitoring the integrity of the Company's financial statements and annual report, interim report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them;
- reviewing the Company's financial controls, and unless expressly addressed by a separate risk committee or the Board itself, reviewing the Company's risk management and internal control systems;
- discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensuring co-ordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing with in the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
- considering other topics as defined by the Board.

During the Year, the Audit Committee held three meetings to review and supervise the financial reporting process and review the risk management and internal control systems of the Group. It had, in conjunction with Ernst & Young, the independent auditor of the Company, reviewed the Group's audited results for the year ended 31 December 2021 and unaudited interim results for the six months ended 30 June 2022 and recommended the same to the Board for their consideration and approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The Audit Committee also carried out and discharged its other duties as set out in the CG Code.

Details of the attendance of the Audit Committee meetings are as follows:

Members	**No. of attendance/ No. of meetings eligible to attend**
Mr. Meng Jingzong (alias Owens Meng) *(Chairman)*	3/3
Mr. Zhang Yuezhou	3/3
Mr. Zhu Zhanbo	3/3
Ms. Liu Jinping	3/3

The Audit Committee met on 28 March 2023 and, among other matters, reviewed the Group's audited consolidated results for the Year.

Remuneration Committee

The Board has established the Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises three INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo and an executive Director, Mr. Zhao Hongliang. Mr. Zhang Yuezhou is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee include, among others:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing a remuneration policy;

- reviewing and approving the management's remuneration proposals by reference to the Board's corporate goals and objectives;

- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management and such packages include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

- making recommendations to the Board on the remuneration of the non-executive Directors;

- considering salaries paid by comparable companies, time commitment, responsibilities and employment conditions else wherein the Group;

- reviewing and approving compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with the contractual terms and is otherwise fair and not excessive;

- reviewing and approving compensation arrangements relating to the dismissal or removal of the Directors for misconduct to ensure that they are consistent with the contractual terms and are otherwise reasonable and appropriate;

- ensuring that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration;

- to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules; and

- consulting the Chairman and/or Chief Executive Officer (where applicable) about their remuneration proposals for other executive Directors.

During the Year, the Remuneration Committee held one meeting and reviewed the remuneration packages of all the Directors, and made recommendations to the Board on the remuneration proposal for all Directors.

Details of the attendance of the Remuneration Committee meeting are as follows:

Members	**No. of attendance/ No. of meeting(s) eligible to attend**
Mr. Zhang Yuezhou *(Chairman)*	1/1
Mr. Meng Jingzong (alias Owens Meng)	1/1
Mr. Zhu Zhanbo	1/1
Mr. Zhao Hongliang	1/1

Note: During the Year, the Remuneration Committee circulated and passed written resolutions on one occasion, which were dated 1 July 2022, apart from the physical Remuneration Committee meetings stated above.

The Remuneration Committee met on 28 March 2023 and considered certain remuneration-related matters of the Directors and senior management.

Nomination Committee

The Board has established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee comprises three INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo and an executive Director, Mr. Fu Wenguo. Mr. Zhu Zhanbo is the chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee include, among others:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships in accordance with the nomination policy of the Company (the "**Nomination Policy**"), details of which was set out in this report;

- assessing the independence of the INEDs;

- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that the Board has set for implementing such policy, and the progress on achieving the objectives; and making disclosure of its review results in the corporate governance report contained in the Company's annual report; and

- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for the Directors, in particular, the Chairman and the chief executives.

During the Year, the Nomination Committee held one meeting and, among other matters, (i) reviewed the structure, size and composition of the Board; (ii) assessed the independence of the INEDs; and (iii) reviewed and made a recommendation on the re-appointment of the retiring Directors.

Details of the attendance of the Nomination Committee meeting are as follows:

Members	No. of attendance/ No. of meeting(s) eligible to attend
Mr. Zhu Zhanbo *(Chairman)*	1/1
Mr. Meng Jingzong (alias Owens Meng)	1/1
Mr. Zhang Yuezhou	1/1
Mr. Fu Wenguo	1/1

The Nomination Committee met on 28 March 2023 and, based on the Nomination Policy, recommended the re-appointment of all the retiring Directors at the forthcoming AGM.

Nomination Policy

The key objectives of the Nomination Policy shall include, *inter alia*, the following:

- to guide the Board in relation to appointment/re-appointment/removal of directors of the Company;
- to devise criteria for performance evaluation of the INEDs and the Board as a whole; and
- to devise a policy on the size and composition of the Board taking into account the available and needed diversity and balance in terms of experience, knowledge, skills and judgment of the directors.

The Nomination Committee will evaluate, select and recommend candidate(s) for directorships to the Board by giving due consideration to the criteria, including but not limited to the following (collectively, the "**Criteria**"):

- Diversity in the aspects, amongst others, of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
- Commitment for responsibilities of the Board in respect of available time and relevant interest;
- Qualifications, both academic and professional, including accomplishment and experience in the relevant industries in which the Company's business is involved;
- Independence;
- Reputation for integrity;
- Potential contributions that the individual can bring to the Board; and
- Plan(s) in place for the orderly succession of the Board.

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

- The Nomination Committee will, giving due consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort;
- The Nomination Committee may consult any source it considers appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertising, recommendations from a third party agency firm and proposals from shareholders of the Company with due consideration given to the Criteria;
- The Nomination Committee may adopt any process it considers appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third party reference checks;
- The Nomination Committee will consider a broad range of candidates who are in and outside of the Board's circle of contacts;
- If a candidate is considered to be suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;
- The Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of the remuneration package of such selected candidate;
- The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and where a non-executive Director is considered, the Remuneration Committee will make the recommendation to the Board on the proposed remuneration package;
- The Board may arrange for the selected candidate to be interviewed by the members of the Board who are not members of the Nomination Committee and the Board will thereafter deliberate and decide the appointment as the case maybe; and
- All appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the relevant regulatory authorities, if required.

Board's Corporate Governance Functions

The Board is responsible for performing the corporate governance functions of the Company as set out in code provision A.2.1 of the CG Code. The Board has reviewed this corporate governance report in discharge of its corporate governance functions, ensuring compliance with the Listing Rules.

Appointment and Re-election of Directors

Each of the non-executive Directors (including INEDs) has entered into a letters of appointment with the Company. The letters of appointment are for a term of three years and shall automatically renew thereafter until terminated by either party giving to the other not less than three months' prior notice in writing.

None of the Directors has or is proposed to have a service contract or letter of appointment with the Company or any of its subsidiaries other than the contracts or letters of appointment expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

All the Directors are subject to retirement by rotation and eligible for re-election in accordance with the Bye-laws. At each AGM, one-third of the Directors for the time being (or if their number is not three (3) or a multiple of three (3), then the number nearest to but not exceeding one-third (1/3)), will retire from office by rotation provided that every Director will be subject to retirement at least once every three (3) years. A retiring Director will be eligible for re-election and will continue to act as a Director throughout the meeting at which he/she retires. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation will include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself/herself for re-election. Any further Directors so to retire will be those who have been the longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire will (unless they otherwise agree among themselves) be determined by lot.

The Bye-laws further provide that the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed will hold office only until the next following AGM and will then be eligible for re-election at the meeting but will not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.

Any Director appointed by the Board to fill a casual vacancy will hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board will hold office only until the next following AGM and will then be eligible for re-election.

Remuneration of Directors and Senior Management

Particulars of the Directors' remuneration for the Year are set out in note 8 to the consolidated financial statements.

Pursuant to code provision E.1.5 of the CG Code, the remuneration of the member of the senior management (other than the Directors) whose particulars are contained in the section headed "Biographical Details of Directors and Senior Management" in this annual report for the Year by band is set out below:

	2022 Number of employee(s)	2021 Number of employee(s)
Nil to HKD1,000,000	**0**	1
HKD1,000,001 to HKD1,500,000	**1**	–
	1	1

INDEPENDENT AUDITOR'S REMUNERATION

For the Year, the fees charged by Ernst & Young in respect of the audit and non-audit (primarily review of interim financial information and report on continuing connected transactions) services provided to the Group for the Year amounted to approximate RMB2,450,000 and RMB450,000, respectively.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements for the Year, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and are properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

In addition, Ernst & Young has stated its reporting responsibility in the independent auditor's report of the Company's consolidated financial statements for the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its overall responsibility for maintaining an adequate and effective risk management and internal control systems of the Group and reviewing their effectiveness. The Company has an established risk framework under which it identifies risks relevant to the operations and activities of the Group, Environmental, Social and Governance ("**ESG**"), and assesses these risks in relation to their likelihood and potential impacts. Procedures have been setup for, inter alia, safeguarding assets against unauthorised use or disposition, maintaining proper accounting records and ensuring reliability of financial information, ensuring compliance with relevant legislation and regulations and protecting the interests of the Shareholders. Such systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and aims to provide a reasonable, as opposed to an absolute assurance against material misstatement or loss. Under our framework, management is primarily responsible for the design, implementation and maintenance of the risk management and internal control systems, while the Board and the Audit Committee oversee the actions of management and monitor the effectiveness of these systems and to safeguard the Group's assets. This risk management and internal control framework (which include financial, operational and compliance controls) is reviewed annually by the Audit Committee on behalf of the Board.

In order to maintain sound and effective risk management and internal control systems, the Company has established and maintained stringent internal control procedures, including the adoption of a corporate governance manual. Internal reporting guidelines have been developed at all department levels of the Company for identifying potential events of non-compliance, and all employees have been encouraged by management to report promptly any potential or actual non-compliance. The Internal Audit Department has been established to carry out annual risk assessment on each audit area and devise a yearly audit plan according to their risk ratings. The Internal Legal Department of the Group is also responsible for coordinating ongoing trainings for the staff by selecting and recommending suitable courses for the Directors, the management level and other employees of the Group. Periodic review of the Company's human resources policies has also been carried out to ensure sufficient manpower for the implementation of internal control measures. The Board has regularly evaluated the internal control procedures in order to prevent and detect any internal control procedural errors.

During the Year, the Company had in place renewed manuals for its risk management system, safety management system, human resources management system and work injury management system. In particular, the internal control department identified the major risks (including ESG risks) in connection with the information system, the management of construction-in-progress, the procurement process and the management of biological assets. Relevant sampling inspections were conducted and no material deficiencies were identified in the management as well as execution process.

The Company has also enhanced its internal communication system to ensure that policies formulated by the Board and the management would be effectively communicated to the relevant employees for execution. Internal communication between employees and the management has also been enhanced through conducting weekly or monthly meetings. Employees are encouraged to report potential fraud and suspicious circumstances relating to internal control failure to the management, which would be handled and investigated by a special audit team of the internal audit department, and relevant findings would be communicated to the whistleblower. Reward and management system is in place to encourage employees to streamline the production process and reduce costs. Responsibilities of employees and their internal control responsibilities are communicated through performance management system and face-to-face meetings.

The Group has formulated a whistleblowing policy for employees, customers and suppliers to raise concerns, in confidence, about possible improprieties in operation, financial reporting or other matters. Such arrangement will be reviewed by the Audit Committee which ensures that proper arrangement is in place for fair and independent investigation of the matters.

The Group has also formulated a bribery and corruption policy to promote and support anti-corruption laws and regulations. The Group is committed to achieving the highest standards of integrity and ethical behaviour in conducting business.

Disclosure of Inside Information

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has strictly prohibited unauthorized use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the Company Secretary/joint company secretaries and investor relations officers are authorized to communicate with parties outside the Group.

In respect of the Year, the Company has carried out a review of, and the Board has received a confirmation from the management on, the effectiveness of the risk management and internal control systems of the Group and no significant areas of concern were identified. The Directors are of the view that the systems of internal control and risk management are effective and adequate and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness or adequacy of the Group's risk management and internal control systems.

JOINT COMPANY SECRETARIES

Ms. Song Miao ("**Ms. Song**") and Ms. Cheng Lucy ("**Ms. Cheng**") are the joint company secretaries of the Company (the "**Joint Company Secretaries**").

Ms. Song was appointed as one of the Joint Company Secretaries on 25 June 2018. She joined the Group in 2011 and is currently the director of Investor Relations primarily responsible for financial reporting and investor relations of the Group and has been involved in, among others, financial reporting matters and the preparation of the Company's regulatory announcements, interim/annual reports and circulars. Prior to joining our Group, Ms. Song had 3 years of experience in investment and listing advisory services. She received her bachelor of engineering degree from Harbin University of Science and Technology in the PRC in July 1998 and a master of business administration degree from Renmin University in the PRC in July 2005. The Stock Exchange has agreed that Ms. Song is qualified to act as a company secretary under Rule 3.28 of the Listing Rules in 2021.

The Company engages an external service provider, which assigned Ms. Cheng, a senior corporate secretarial manager of Boardroom Corporate Services (HK) Limited as the other Joint Company Secretary. The primary contact in respect of company secretarial matters of the Company is Ms. Song, who is currently also the director of Investor Relations.

During the Year, each of Ms. Song and Ms. Cheng has undertaken 15 hours of such training in compliance with Rule 3.29 of the Listing Rules.

DIVIDEND POLICY

The Company has adopted a dividend policy, a summary of which is disclosed as below.

Any amount of dividends of the Company will be at the discretion of the Directors and will depend upon the Company's future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which the Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to the Company's constitutional documents and the Bermuda Companies Act, including the approval of Shareholders.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene a Special General Meeting

One or more shareholders holding not less than one tenth of the paid-up capital of the Company as at the date of depositing the requisition, can convene a special general meeting by serving a written requisition notice to the Board or the Company Secretary for the purpose of requesting for convening a special general meeting. The written requisition shall be deposited to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong and to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda for the attention of the Board or the Joint Company Secretaries.

If the requisition is well-founded, the Board will, according to the applicable rules and regulations, issue sufficient notice to all Shareholders for convening the special general meeting. If the requisition is improper, the Company will notify the relevant requesting Shareholders of the objection and no SGM will be convened.

Procedures for Shareholders to Send Enquires to the Board

Shareholders can forward their questions about shareholding, share transfer/registration and dividend payment to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited whose contact particulars are as follows:

Email address:	hkinfo@computershare.com.hk
Address:	Shops 1712-1716,17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
Tel. No.:	(852) 2862 8555
Fax. No.:	(852) 2865 0990/2529 6087

For enquiries about the Company's information, Shareholders can contact Ms. Song, a Joint Company Secretary, whose contact particulars are as follows:

Email address:	songmiao@ystdfarm.com
Fax. No.:	(86) 1064363988

or direct the enquiries to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong for the attention of the Board.

To put forward proposals at an AGM or a SGM, the Shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Company's registered office.

The request will be verified with the Company's branch share registrar in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

Moreover, the notice period concerning the notice to be given to all the Shareholders for consideration of the proposals submitted by the Shareholders concerned varies as follows pursuant to bye-law 65 of the Bye-laws:

(a) for an AGM, it shall be called by not less than twenty-one (21) clear days' notice; and

(b) for all other special general meetings, they may be called by not less than fourteen (14) clear days' notice.

Procedures for Shareholders to Propose a Person for Election as a Director

Shareholders can propose a person for election as a Director at a general meeting in accordance with bye-law 112 of the Bye-laws. By doing so, the Shareholder should deposit (i) a written notice (the "**Proposal Notice**") of the intention to propose the person (the "**Candidate**") for election as a Director; and (ii) a written notice (the "**Consent Notice**") by the Candidate of his/her willingness to be elected at the address of the Company's (a) principal place of business in Hong Kong; or (b) Hong Kong branch share registrar and transfer office mentioned above at least seven (7) clear days before the date of the general meeting and the period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and shall be at least seven (7) clear days in length.

The Proposal Notice (i) must be accompanied by the information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Shareholder proposing the Candidate for election as a Director.

The Consent Notice (i) must indicate the Candidate's willingness to be elected and consent of the publication of his/her information as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Candidate.

In order to allow the Shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, those Shareholders who wish to make the proposal are urged to submit and lodge the Proposal Notice and the Consent Notice as early as practicable.

To enable the Shareholders to make an informed decision on the relevant election proposal at a general meeting, the Company shall publish an announcement or issue a supplemental circular as soon as practicable after the receipt of the Proposal Notice and the Consent Notice. The Company shall include particulars of the Candidate in the announcement or the supplemental circular. The Company shall assess whether or not it is necessary to adjourn the meeting to give Shareholders at least ten (10) business days to consider the relevant information disclosed in the announcement or the supplemental circular.

The relevant procedures are available on the respective websites of the Company at www.ystdfarm.com and www.ystdairyfarm.com.

For the purpose of the section headed "Shareholders' Rights" in this report, a business day shall mean any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which the Stock Exchange is open for the business of dealing in securities.

SHAREHOLDERS ENGAGEMENT

The Company adopted a shareholders' communication policy on 7 November 2013 with the objective of ensuring that both individual and institutional Shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments and governance), for the purpose of enabling the Shareholders to exercise their rights in an informed manner, and to allow them and the investment community to engage actively with the Company and to ensure that independent views and input are made available to the Board.

Information about the Company will be communicated to the Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports), AGMs and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications on the respective websites of the Stock Exchange and the Company.

Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or management of the Company. Such questions, requests and comments can be addressed to Ms. Song Miao, whose contact particulars are as follows:

Email address:	songmiao@ystdfarm.com
Fax. No.:	(86) 1064363988

During the Year, the Board reviewed the implementation and effectiveness of the shareholders' communication policy by evaluating, among others, turnaround time and response rate.

CONSTITUTIONAL DOCUMENTS

At the AGM held on 28 June 2022, the amendments to the Bye-laws were approved by the Shareholders, among others, to bring the Bye-laws in line with amendments made to Appendix 3 to the Listing Rules. Saved as the above, there is no material change in the amendments to the Bye-laws.

Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its amended and restated Bye-laws on the respective websites of the Stock Exchange and the Company.

Environmental, Social and Governance Report

1 INTRODUCTION

1.1 Scope of this Report

This report is prepared in accordance with the Environmental, Social and Governance ("**ESG**") Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**ESG Reporting Guide**"). It aims to provide a balanced representation of the efforts made by the Company and its subsidiaries (the "**Group**") on corporate social responsibility and covers the Group's operation in the production and sale of raw milk for the year ended 31 December 2022 (the "**Year**"). In compliance with the extended disclosure requirements of the applicable ESG Reporting Guide, certain disclosures and key performance indicators together with their comparative figures are added to this report, apart from that, there are no significant changes in the scope of this report from that of ESG report for the year ended 31 December 2021.

1.2 Reporting Principles

This report follows the ESG Reporting Guide and applies the following principles:

Reporting principles	Application in this report
Materiality	The Group's stakeholders are engaged in the identification of ESG issues that matter most from their perspectives. The Group assessed the materiality of those ESG issues based on the corresponding risks posed on the sustainability on the Group's businesses. Material ESG issues were identified and prioritized and are disclosed in this report.
Quantitative	Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption, where applicable, are disclosed in the respective sections in this report.
Consistency	Unless stated otherwise, the Group applies consistent methodology in compiling the ESG data reported to ensure meaningful comparison of ESG performance over time and between entities. Any change in methods or key performance indicators ("**KPIs**") used is explained.

1.3 Governance of ESG matters

To demonstrate our commitment to transparency and accountability, the Group has established an ESG working group, which has clear terms of reference that set out the powers delegated to it by the Company's board of directors (the "**Board**"). The Board assumes full responsibility for the Group's ESG matters, and is responsible for reviewing ESG-related matters on a regular basis, identifying and assessing related risks, and ensuring that the Group has established appropriate and effective ESG risk management and internal control systems. In addition, the Board of Directors regularly reviews the performance of the Group against ESG-related targets and reviews and approves the disclosures in ESG reports.

The ESG working group is responsible for formulating relevant ESG policies and management procedures in line with the framework and objectives set out by the Board and implementing daily ESG work across our business operation, including evaluating the stakeholders' needs and expectations with timely response, identifying ESG-related risks and opportunities pertain to the business operations, monitoring the environmental and social performance in our departmental units and reporting status of the Group's ESG related matters to the Board on a regular basis.

1.4 Corporate Social Responsibility ("CSR") Vision, Policy and Strategy

The Group adopted a CSR Policy in order to commit to the highest standards of corporate governance, and aims to integrate CSR into the Group's business strategy and management approach.

CSR is viewed as a business philosophy that creates shared sustainable value with its stakeholders in the economic, social and environmental dimensions. The Group's CSR vision and CSR Policy guide the Group's business and operational decisions to take into account its responsibility to the CSR cornerstones with pragmatic objectives providing guidance on the application of these principles in its daily operations.

Objectives

We integrate environmental and social considerations into the Group's business objectives to achieve:

Environmental objectives:

- Add environmentally friendly elements to our daily service and operation activities;
- Reduce greenhouse gas emissions;
- Use energy and resources efficiently; and
- Continuously improve waste management.

Social objectives:

- Respect employees' rights and promote an equal opportunity workplace;
- Commit to occupational safety and health, and provide a safe and healthy workplace;
- Commit to ethical business practices, and build integrity within the workplace; and
- Promote community participation.

Approach

Monitored by the Board, the Group is executing its environmental and social strategy and achieving its related objectives through a series of actions and commitments:

- Embed environmental and social objectives into business processes including decision making process;
- Establish and document environmental and social policies for management and staff members to follow;
- Comply with environmental and social laws and regulations;
- Report our performance on a balanced picture;
- Disclose KPIs as measurement of actual results;
- Ensure appropriate and effective ESG risk management and internal control systems are in place; and
- Practise corporate citizenship in things we do.

Environmental and social management system comprises:

- The direction from the Board to fulfil the ESG responsibilities;
- Daily execution of environmental and social strategy and achieving its objectives by management;
- Performance and achievements done by employees in accordance with the Group's environmental and social policies;
- Compliance with environmental and social laws and regulations;
- Review and monitoring of ESG risks management and internal control systems by the Board; and
- Reporting and disclosure of our performance and KPIs.

Measures for the achievement of environmental and social objectives are:

- Environmental policies;
- Social policies;
- Checklists for the compliance with applicable environmental and social laws and regulations;
- Requiring documentation for the performance and accomplishment of environmental and social related activities or matters; and
- Data collection, calculation, and disclosure of KPIs.

The implementation of environmental and social strategies, management of environmental activities, and measurement of achieving environmental and social objectives are monitored by dedicated managerial staff members and finally by the Board for its overall ESG responsibility.

1.5 Sustainability

The sustainable growth of the business of the Group is dependent on two critical aspects, which are, environmental protection and natural resources' exploitation. The need for achieving the harmonious development of society while catering to the increasing demands of resources has been recognized by the Group. Considering the importance of environment and natural resources, the Group has developed and implemented several management policies and conservation strategies in its business operations. To protect the environment and condense the exploitation of natural resources, the Group conforms to the requisite environmental regulations and international general practices, and undertakes measures accordingly. One of the prominent goals of the Group is to improve the efficiency in terms of using natural resources such as energy, water and other non-renewable resources. The actions taken by the Group constitute regular assessments of greenhouse gas ("**GHG**") emissions, classification and recycling of wastes, and deliberations on conservation strategies with those farms who consume higher levels of energy. Maintaining a balance between the business needs and sustainability of the natural environment has been regarded as eminently essential, for which, the Group emphasizes on offering quality services and products.

1.6 Stakeholders Engagement and Materiality Assessment

The Group endeavours to create sustainable growth and long-term value for its stakeholders, who comprise the Group's employees, investors, customers and the wider community. We continue to interact with our stakeholders on an ongoing basis in order to identify and collect their expectations and concerns regarding significant ESG related matters of the Group's businesses, which are evaluated, prioritized and incorporated into our ESG strategy, including the setting of practicable ESG targets. Our communication channels with our stakeholders include company website, annual general meeting, staff meetings and business meetings with customers and suppliers.

Based on the stakeholders' feedback, the material environmental and social issues were identified as follows:

- Employee welfare;
- Environmental compliance;
- Greenhouse gas emissions;
- Supply chain management;
- Product quality;
- Occupational health and safety; and
- Labour standard.

2 ENVIRONMENTAL

2.1 Emissions

The laws and regulations adopted by local authorities, including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (畜禽規模養殖污染防治條例) to curtail the high emissions of greenhouse gas are considered and followed by the Group. No non-compliance with the laws and regulations relating to gas emissions, water discharges and generation of waste that have or may result in significant impact on the Company was identified during the Year. Apart from such conformity, the Group focuses on formulating and implementing needful measures to further the cause of preserving natural environment.

2.1.1 GHG Emissions from Energy Consumed

The majority of the Group's operational greenhouse gas emissions are a result of its energy use. Most of this is from combustion of coal, consumption of liquid fossil fuels and use of electricity for the heating system, vehicles and on-farm equipment, respectively.

	2022 MWh Cow	2022 MWh Goat	2022 MWh Total	2021 MWh
Energy Consumption				
Coal	58,015	35	58,050	61,822
Liquid fossil fuels	57,971	646	58,617	47,808
Electricity	87	1	88	77
Total energy consumption	116,073	682	116,755	109,707
Energy consumption intensity				
Per cow[1]	1.30	N/A	N/A	1.38
Per cow milk produced (tonne)[2]	0.27	N/A	N/A	0.29
Per goat[3]	N/A	0.11	N/A	N/A
Per goat milk produced (tonne)[4]	N/A	0.46	N/A	N/A

Notes:

Energy consumption intensity is calculated by dividing the total energy consumption by (1) the number of cows or goats; and (2) total milk produced.

1. The number of cows for 2021 and 2022 is approximately 79,566 and 89,437 respectively.

2. The total cow milk produced for 2021 and 2022 is approximately 384,877 tonnes and 425,167 tonnes respectively.

3. The number of goats for 2021 and 2022 is nil and approximately 5,973 respectively.

4. The total goat milk produced for 2021 and 2022 is nil and approximately 1,471 tonnes respectively.

Air emissions from combustion of coal and consumption of liquid fossil fuels:

		2022 kg	2021 kg
Air Emissions			
Nitrogen Oxides	NO_x	125,712	103,816
Sulphur Oxides	SO_x	6,657	7,107
Particulate Matter	PM	1,439	1,382

The Group's direct and indirect GHG emissions are analyzed below:

	2022 tCO_2 Cow	**2022 tCO_2 Goat**	**2022 tCO_2 Total**	2021 tCO_2
GHG emissions				
Scope 1: Direct emissions				
– Coal and liquid fossil fuels	**33,710**	**180**	**33,890**	32,216
Scope 2: Indirect emissions				
– Electricity	**62**	**1**	**63**	54
Total GHG emissions (Scope 1+ 2)	**33,772**	**181**	**33,953**	32,270
GHG emissions intensity (Scope 1 + 2)				
Per cow[1]	**0.38**	**N/A**	**N/A**	0.41
Per cow milk produced (tonne)[2]	**0.08**	**N/A**	**N/A**	0.08
Per goat[3]	**N/A**	**0.03**	**N/A**	N/A
Per goat milk produced (tonne)[4]	**N/A**	**0.12**	**N/A**	N/A

Notes:

GHG emissions intensity is calculated by dividing the total GHG emissions by (1) the number of cows or goats; and (2) total milk produced.

Total energy consumed by the Group increased from 109,707 MWh in 2021 to 116,755 MWh in 2022 and the corresponding GHG emission increased from 32,270 tCO_2 in 2021 to 33,953 tCO_2 in 2022, such increase was mainly due to increase in productivity in 2022.

Considering the usage of resources, the Group is eminently devoted towards using natural resources efficiently while emphasizing on their conservation. The majority of the Group's energy consumption was contributed by the combustion of coal, in view of this, the Group has already started the transition towards other greener alternatives, where possible and economically viable. For instance, solar panels are gradually placed on the farms to provide heating for the facility, as they are rendered as a sustainable option when comparing with generators. In this manner, carbon dioxide production is reduced while decreasing the power consumption.

The Group strives for continuous energy reduction, for which, implementation plans pertaining to energy consumption and conservation are developed through the assistance of autonomous consultants. One such plan or project is currently implemented, where methane is converted into energy. Doing so decreases energy consumption rate.

As a result of the various efforts on environmental conservation, the Group's GHG emission from energy consumed per cow milk produced remained at 0.08 tCO_2 per tonne and from energy consumed per goat milk produced was at 0.12 tCO_2 per tonne.

2.1.2 On-farm GHG Emissions

Methane (CH_4), nitrous oxide (N_2O) and carbon dioxide (CO_2) are the leading greenhouse gases emitted by the dairy farming. Methane is generated from plant diet of cows or goats and other ruminants, where the animals are unable to digest the intake due to the high content of cellulose. Nonetheless, the methanogens, having interdependent association with ruminants, are the microorganisms residing within their guts. These are responsible for disintegrating the cellulose into carbohydrates, which further instigates a surge of energy within both the ruminant and microbial community. This process generates a by-product, which is methane. When utilizing fertilizers and manures in crop production, nitrous oxide is emanated. Moreover, it can be directly generated from the storage systems and land applications of manures. Lastly, carbon dioxide emissions are generated due to the animal respiration and decomposition of soil organic matter in the dairy farms. There is no identifiable hazardous waste generated from the diary operation.

	2022 **tCO_{2e}** **Cow**	**2022** **tCO_{2e}** **Goat**	**2022** **tCO_{2e}** **Total**	2021 tCO_{2e}
On-farm GHG emissions				
Scope 3: Other Indirect emissions				
– Methane	**182,147**	**631**	**182,778**	165,050
– Nitrous oxide	**133,108**	**461**	**133,569**	120,613
– Carbon dioxide	**35,028**	**121**	**35,149**	31,740
Total	**350,283**	**1,213**	**351,496**	317,403
Total GHG emissions (Scope 1 + 2 + 3)	**384,055**	**1,394**	**385,449**	349,673
GHG emissions intensity (Scope 1 + 2 + 3)				
Per cow[1]	**4.29**	**N/A**	**N/A**	4.39
Per cow milk produced (tonne)[2]	**0.90**	**N/A**	**N/A**	0.91
Per goat[3]	**N/A**	**0.23**	**N/A**	N/A
Per goat milk produced (tonne)[4]	**N/A**	**0.95**	**N/A**	N/A

Notes:

1. The above calculation is based on the reference from Greenhouse Gas Emissions from the Dairy Sector – A Life Cycle Assessment issued by Food and Agriculture Organization of the United Nations – Animal Production and Health Division.

2. GHG emissions intensity per cow and per tonne of milk produced are calculated by dividing the total GHG emissions by (1) the number of cows or goats; and (2) total milk produced, respectively.

The Group's total GHG emissions increased from 349,673 $tCO2_e$ in 2021 to 385,449 $tCO2_e$ in 2022 as a result of the increased in the total amount of cow milk produced from 384,877 tonnes in 2021 to 425,167 tonnes in 2022 and the increased in the total amount of goat milk produced from nil tonnes in 2021 to 1,471 tonnes in 2022, owing to the Group's effort in breed improvement and feed optimization.

On-farm GHG emissions accounted for approximately 91% of total GHG emissions in 2021 and 2022. To reduce CH_4, N_2O and CO_2 emissions arising from dairy farming, the Group has instigated certain initiatives concerned with cow maintenance such as the continuous monitoring of milk yield, review of feeding formula to enhance productivity of cows, thereby reduce GHG emissions intensity, where possible.

2.2 Use of Resources

	2022 tonne Cow	2022 tonne Goat	2022 tonne Total	2021 tonne
Water consumption	**1,638,889**	**2,581**	**1,641,470**	1,550,549
Water consumption intensity				
Per cow[1]	**18.32**	**N/A**	**N/A**	19.49
Per cow milk produced (tonne)[2]	**3.85**	**N/A**	**N/A**	4.03
Per goat[3]	**N/A**	**0.43**	**N/A**	N/A
Per goat milk produced (tonne)[4]	**N/A**	**1.75**	**N/A**	N/A

Notes:

Water consumption intensity per cow and per tonne of milk produced are calculated by dividing the total water consumption by (1) the number of cows or goats; and (2) total milk produced, respectively.

The Group recognizes that water management is one of the material aspects of preserving the natural environment. Water management is promoted by recycling the waste water obtained from the farms by executing the operations of filtering, sedimentation and oxygen treatment. Afterwards, the water is used for farm and cow cleaning and irrigation. Hence, the Group does not have any concern in sourcing water that is fit for such purpose. The Group's overall water consumption increased from 1,550,549 tonnes in 2021 to 1,638,889 tonnes in 2022, but this led to the Group's water consumption intensity per cow to decrease, such decrease was mainly as a result of the Group's effort and control over water consumption.

The Group currently does not report on the volume of non-hazardous waste generated from dairy farms, however, consistent reduction of potential impacts of its activities on the environment are encouraged. For instance, the Group promotes green information and electronic communication by the use of e-mail and electronic statements, where possible, with an aim to minimize wastes produced from its activities. Non-hazardous wastes produced by the Group mainly represent general industrial waste and domestic garbage. The Group has engaged third-party waste management companies to collect and dispose of its non-hazardous wastes in an appropriate manner.

Except for the Withdrawal Decision received by Baiquan Ruixincheng Farm in 2019, which was subsequently revoked in 2020, the Group is not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group relating to air and GHG emission, discharges into water and land and generation of hazardous and non-hazardous wastes.

We confirmed that the total packing material used for finished products was minimal.

2.3 The Environment and Natural Resources

Another integral aspect that is respected by the Group is environmental protection, for which the Group has developed proactive strategies that attenuates the impact of technology on the environment. Deploying energy efficient equipment for carrying out various stages of production has been a mean to minimize the consumption of fuel, electricity and water. This has also contributed to streamlining the processes for improving the utilization of resources and discovering new domains for conserving the environment.

For ensuring the compliance with the local laws and regulations including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (畜禽規模養殖污染防治條例), the Group has formulated and implemented environmental and waste management plans.

For example, the impact of operations, in the three Kedong dairy farms, the two Longjiang dairy farms, Baiquan, Gannan, Keshan and Zhenlai dairy farms, on the environment was assessed and only then the concerned production activities were approved.

Cow or goat manure is the major waste product that is obtained from the dairy farms. This manure is treated via the deployment of waste treatment facilities such as biogas recycling. Such facilities are established in the farms, which collect and process the cow or goat manure for fuel. Biogas produced through fermentation is used directly for heating. If no waste treatment facilities are in place, the manure is recycled and converted into fertilizers, which are distributed to attain soil nutrition.

Apart from the aforementioned actions, the Group aligns its business activities with the local requirements related to natural environment. Moreover, the Group aims at reducing the repercussions of dairy farming on the environment while preserving and minimizing the usage of natural resources. The protection and conservation of natural resources and ecosystems, reduction of negative impacts across the global value chain and incessant improvement of overall business operations are highly encouraged by the Group.

2.4 Climate Change

It is an indisputable fact that global warming is becoming more and more serious. The Group has been focused on climate change issues. In this regard, the Group seeks to take the optimal measures to reduce air emission and greenhouse gas emissions from business operations and combat climate change. The Group will keep monitoring and addressing the issues and challenges posed by climate change.

3 SOCIAL

3.1 Employment and Labour Practices

3.1.1 Employment

Employees are an integral part of any organization and the corresponding labour management practices play a requisite role in affecting a company's culture, success and reputation. For attaining a higher position in the competitive business market, it is eminently essential to acquire a positive work culture by ensuring the sustainability of the employees and maintaining their safety. Attracting and retaining the employees are equally important in the quest of promoting an optimal work culture. Considering the work culture of the Group, the local residents residing closer to the farms are provided with enticing employment opportunities. In case the local people are unable to fulfill the demands of a particular job, only then the search of workforce is extended outside the local boundaries. The Group does not differentiate the workforce on the basis of gender, as long as the candidates are equipped with the qualifying experience or skills.

The Group offers salaries above the local minimum wage regulation. No non-compliance with the laws and regulations relating to labour and employment that have resulted or may result in significant impact on the Company was identified during the Year.

In the process of screening and recruitment, the candidates are required to acquire a physical examination certificate, provided by health and epidemic prevention departments. Apart from the recruitment and selection of employees, the skills of the workforce are developed through adequate trainings. Moreover, the employees are subject to regular medical examinations, which are carried out on the basis of job type and the employee position.

As of 31 December 2022, the Group had 2,241 (2021: 1,902) full-time employees in total and the overall employee turnover rate was about 34% (2021: 37%) in 2022. The breakdown of the number of employees and the employee turnover rate are shown below.

	2022	2021
Number of employees		
By Gender		
Male	**1,678**	1,431
Female	**563**	472
By Employment Type		
Full-time	**2,241**	1,902
Part-time	**–**	1
By Age Group		
Below 20	**14**	30
Between 21-30	**399**	335
Between 31-40	**753**	681
Between 41-50	**819**	617
Between 51-60	**253**	240
Above 60	**3**	–
By Region		
The PRC	**2,240**	1,902
Hong Kong	**1**	1

		2022	2021
Number of employee turnover			
By Gender			
Male		**556**	473
Female		**205**	222
By Age Group			
Below 20		**15**	13
Between 21-30		**224**	157
Between 31-40		**277**	253
Between 41-50		**196**	216
Between 51-60		**47**	56
Above 60		**2**	–
By Region			
The PRC		**761**	695
Hong Kong		**–**	–

		2022	2021
Employee turnover rate (%)			
By Gender			
Male	%	**33**	33
Female	%	**36**	47
By Age Group			
Below 20	%	**107**	43
Between 21-30	%	**56**	47
Between 31-40	%	**37**	37
Between 41-50	%	**24**	35
Between 51-60	%	**19**	23
Above 60	%	**67**	–
By Region			
The PRC	%	**34**	37
Hong Kong	%	**–**	–

3.1.2 Health and Safety

The foremost objective of the Group is to ensure a robust system pertaining to policies while emphasizing on continuous improvements in all the business operations. Health and safety is one such aspect that underlies the success of an organization as it promotes an effective workforce. Therefore, the Group offers hazard identification training to all the employees, in which the individuals are trained to determine the potential health risks and apply preventive measures to resolve such issues. For promoting this cause, all the farms are requested to prepare a safety assessment report and occupational disease hazard assessment report. In addition, in response to the novel coronavirus epidemic (COVID-19), the Group has strengthened daily prevention and control and strengthened emergency response capabilities.

The health and safety measures undertaken by the Group include the following:

- An animal health and epidemic prevention system is put in place to ensure the well-being of the farm herd. The farm's veterinarian is liable to supervise, implement and enhance the epidemic reporting system.

- The farms are regularly patrolled by the security guards, where all the activities in the farms are monitored. This comprises of the registration of personnel and delivery vehicle disinfection prior to entry. Other vehicles are prohibited from entering the facility.

- The production area is well guarded wherein the non-production workers are not allowed to enter the restricted zone. As a precaution, the staff members and keepers are not allowed in the production area before the sterilization of uniform, which must be disinfected into the locker room. Their uniforms are replaced and are only permitted inside the area after the sterilization.

- Visits to the farm by the general public are declined.

- Regular cleaning and disinfecting of the farm is carried out.

- Any ill cow/goat or dead cow/goat is isolated immediately and transported to either a diagnosis room or isolation zone.

- Feed quality is checked regularly to ensure freshness.

- Vaccination is offered to the cows and goats in a regular manner to minimize the risk of infectious disease.

- Imported cows or goats must pass the national import and export inspection and quarantine bureau's isolation test before admitting to the farm.

- In case a disease erupts among the cows or goats, the animals are immediately isolated for treatment by the Group's veterinarians. Once an infectious disease is confirmed, it is reported directly to the farm and the Group. Infected cows or goats will be separated in the isolation room, individual care including feeding and cleaning is provided until recovery.

- Sick carcasses and their contaminants are either burned or buried.

- Measures on epidemic prevention are implemented and improvement on feed management can reduce sick incident. Our goal is to reduce the numbers of sick cows or goats.

The table below shows the number of reported work-related fatalities and injury cases:

Occupational Health and Safety	2022	2021	2020
Number of work-related fatalities in the past three year (including the reporting year)	–	–	–
Number of work-related injury cases	7	7	9
Lost days due to work injury	966	1,546	757

During the Year, no non-compliance with the laws and regulations relating to occupational safety that have resulted or may result in significant impact on the Company was identified.

3.1.3 Development and Training

An effective workforce is only attained through essential development and training programs. The same has been recognized by the Group, which offers development opportunities to build a stronger team. In Hong Kong and the PRC, a vigorous and appropriate training development framework was developed as per the requirements of different staff members working at different positions. The types of training comprise on the job training, occupational health and safety management, use of personal protection equipment, personal hygiene, technical training, management training and compliance and policies training. The Group emphasizes on staff training, offering room for individual staff's personal growth and long-term career development, so that staff could grow together with the Group. Moreover, the training is conducted in a regular fashion and evaluated timely to comprehend its effectiveness.

Development and training data by various categories are shown below:

		2022	2021
Total number of hours of training received by employees	hours	534	133
Total number of employees trained	%	5	3
Average training hours completed per employee	hours	0.24	0.07
Percentage of employees received training			
By Gender			
Male	%	97	98
Female	%	3	2
By employee category			
Senior management	%	4	7
Middle management	%	28	9
Technical staff	%	2	9
General staff	%	66	75
Average training hours completed per employee			
By Gender			
Male	hours	0.30	0.09
Female	hours	0.043	0.004
By employee category			
Senior management	hours	3.56	0.39
Middle management	hours	1.28	0.09
Technical staff	hours	–	0.01
General staff	hours	0.25	0.10

3.1.4 Labour Standards

To recruit and motivate the potential employees, the Group offers competitive remuneration and welfare packages. The workforce is retained by the Group by providing promotion opportunities and salary adjustments as per the performance given by the individual employees. The additional benefits given to the employees range from free meal and accommodation, annual leave and medical coverage in accordance with local regulations. With this robust system of motivating the employees with enticing rewards and support, the Group strives to retain talent and envision the development of all the staff members.

Apart from this, an ethical code is followed within the organization, wherein the employees are not differentiated on the basis of gender and racism. All are offered with equal opportunities and any act of misconduct, such as sexual harassment, is seriously prohibited. Grievance mechanisms and disciplinary procedures are also set in place that assist the transparent and adequate governance of the business. The Group abides by all the regulations and laws on terms of employment, and strictly prohibits the use of forced labour or child labour in all the business activities. Prior to any confirmation of employment of the Group, our human resources department will require job applicants to provide valid identity documents to verify that the applicants are lawfully employable and ensure full compliance with relevant laws and regulations that prohibit child and forced labour. If any violations were to be detected, the Group would immediately cease any labour activities. Any false documents would be considered fraudulent and the Group would have the right to terminate the labour contract immediately. The Group will regularly review the employees' information to ensure there is no violation of any regulations and policies.

During the Year, no violation of related laws, rules and regulations on child labour and forced labour was identified.

3.2 Operating Practices

3.2.1 Supply Chain Management

As the quality of feed has a substantial effect on the quality and yield of raw milk, the Group follows a strict review mechanism for choosing the feed suppliers. Only those feed suppliers who are legally approved and can ensure the proper means of importing the feed are selected. Qualified suppliers will be registered under the "Approved List of Suppliers" of the Group. For this purpose, the Group conducts surprise inspection tours to the supplier workshops and reviews the needful aspects of production. While the feed being delivered to the dairy farms are quarantined, the in-house laboratory performs the requisite sampling inspections. The feeds are checked for quality and only after they pass the inspection, they are allowed to be stored in the warehouse. As of 31 December 2022, we had 2,018 (2021: 1,574) suppliers located in the PRC.

Region	**Number of Suppliers in 2022**	Number of Suppliers in 2021
The PRC	**2,018**	1,574
Hong Kong	**–**	–

The Group expects the suppliers to implement good employment measures by dealing with their employees fairly and reasonably, respecting employees' rights and providing employees with an environment free from discrimination, child labour and forced labour. The suppliers also need to adhere to transparent business processes and high standards of conduct which they have to avoid conflicts of interest and prohibit corruption and bribery. Before making any procurement decisions, the Group will conduct due diligence and assessments on suppliers to avoid environmental and social risks along the supply chain. Our supply chain management policies and procedures include assessment, selection, approval, procurement and performance evaluation. We regularly evaluate our key suppliers' performance to determine whether to extend our partnership with them. Performance evaluation is based on capacity, delivery accuracy and punctuality, service, environmental protection and social responsibilities.

3.2.2 Product Responsibility

The Group adheres strictly to the local laws and regulations on product safety, including the Regulation on the Supervision and Administration of the Quality Safety of Dairy Products (乳品質量安全監督管理條例) and Regulations on the Administration of Livestock and Poultry (種畜禽管理條例). We developed documents including the Management Procedure for Product Withdrawal (Recall) in compliance with laws and regulations such as the national Administrative Measures for Food Recall. Our document details each department's product withdrawal (recall) process and responsibilities. Departments dealing with such issues should investigate deviations and assess risks before a qualified person makes decisions on disposal.

Meanwhile, we understand the importance of protecting our own and customers' intellectual property rights. Our 'Intellectual Property Management Policy' regulates the procedures and standards in intellectual property rights protection. The Group follows the legitimate intellectual property application procedures for its new trademark, labels and product designs. All of the software and information used in our daily business operations are with legal licenses and we only procure genuine products.

During the Year, the Group experienced no incidents of recalling products sold or sent due to safety and health reasons, and did not violate laws and regulations on the health and safety of products and services, or those pertaining to advertising, labelling and privacy. The Group did not involve in any disputes on inventions, utility model patents, software copyrights and other intellectual property content.

3.2.2.1 Control Over the Quality of Dairy Cows and Goats

The safety and quality of the raw milk is highly influenced by the quality of the dairy cows. At present, the Group breeds the high-quality Holstein dairy cows. To achieve high quality of breed, the dairy cows are inseminated with the semen from selected Holstein bulls sourced from the United States. The frozen semen of selected Holstein bulls is purchased from international suppliers either directly or through third-party domestic trading companies. Before purchasing the semen, the quarantine report of the respective bull is assessed. The semen is assessed on the basis of several factors, including the nutritional content of raw milk produced by the bull's offspring, and the milk yield and health condition of the bull's offspring. This ensures the appropriate mix and quality of the cows.

The Group adopts similar control processes for dairy goats to ensure their quality, and the source of insemination for dairy goats is from New Zealand and Australia.

3.2.2.2 *Quality Control During the Milking Process*

In all the dairy farms, a standard milking procedure is followed. For ensuring the milk quality and safety of the cows or goats, the milk is produced and extracted in an automated and sanitary environment. The sterilizing fluids are sprayed across the teats of the dairy cows or goats, and are rigorously cleaned with dry towels before attaching the milking cups. The milking cups are also sterilized and only then the milking process is commenced. The first three squeezes of raw milk from the dairy cows or goats are discarded. Moreover, consistent inspection of the complete process is carried out with caution, for which the set milk safety standards are followed. After the milking process is complete, the teats of dairy cows or goats are sanitized again so as to avoid any infection. Therefore, following this rigorous process of milking ensures the optimal quality of the raw milk with low microbe count and low somatic cell count ("**SCC**").

3.2.2.3 *Quality Control During Storage and Transportation*

After the milking process is completed, the raw milk is further tested and inspected before supplying it to the end user. The milk is tested against veterinary drug residues, SCC, microbe count, protein content and fat content. During this inspection, if any amount of veterinary drug residue that exceeds the safety standards are found, then all the stored raw milk is discarded. However, there has been no such incident during the Year. A quality report is then generated to be stored as an internal record.

3.2.2.4 *Anti-epidemic Measures*

It is essential to note that the Group has a prominent focus on reducing or avoiding the occurrence of diseases within the farm premises. For this purpose, several general management practices are adopted and implemented for controlling and preventing different types of diseases.

For ensuring good health of animals in the farm, they are subject to regular vaccinations, monitoring and controlling of parasites infestation, and promoting cleanliness for avoiding diseases. The workers are trained on how to care for the herd and protect them from unwanted harm through basic biosecurity measures. Such measure constitutes all the aspects of farm management and thus, aims at minimizing the disease transmission. For example, it involves the management of motor vehicle parking. All new bovines are individually quarantined before coming onto farm for at least two weeks. Cows or goats with any illness is immediately isolated from the quarantine zone for veterinary diagnosis.

3.2.2.5 Protecting Consumer Rights

The Group protects consumers' legitimate rights and strictly abides by the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), treats consumer complaints fairly and effectively protects consumers' privacy and information.

An independent department deals with complaints, and consumers can lodge complaints via channels such as telephone and email. The department receives, classifies, responds to, disseminates and tracks information. The officer responsible for handling complaints, contacts the consumer within the time limits after receiving the information and complete the process in time. During the Year, the Group has not received any products and service related complaints.

In terms of consumer privacy protection, the Group handles the personal data of our customers carefully by collecting only necessary personal data and ensures that the information obtained is protected from unauthorized or accidental access. Our employees are constantly reminded the importance of respecting the privacy of personal and business data.

3.2.3 Anti-Corruption

Anti-corruption measures and laws are enforced within the business arena of the Group. The Group endeavor to maintain high moral standard and integrity, and forbid any forms of corruptions by setting out guidance in the Group's Code of Conducts. Whistleblowing policy is a good example of an anti-corruption, anti-fraud, and anti-malpractice policy followed by the Group which encourages reporting of any inappropriate behavior.

The Group established anti-corruption policies to prohibit employees from receiving any advantages offered by customers, suppliers, colleagues, or other parties, while they are performing employee duties, and prohibit any activities involving conflicts of interest, bribery, extortion, fraud, and money laundering. In addition, we provide publications on anti-corruption practices to our directors and senior management personnel regularly.

The Group is not aware of any complaints of corruption against the Group or any of the staff and are no concluded legal cases regarding corrupt practices brought against the Group or its employees during the Year.

3.3 Community

3.3.1 Community Investment

The Group has portrayed immense dedication in furthering the environmental cause by collaborating with the local communities in the project area and offering them the required support. The communities are assisted in determining the development plans, however, the support is only useful if the communities are prepared to help themselves. When considering the complementary support offered by the Group, the Group follows its policy on corporate citizenship, wherein the communities are informed and updated about the several developments carried out in the farms.

The communities are also aware of the manner which the Group operates, thus, allowing them to contribute in decision-making pertaining to essential developments. Such a process, recognized during environmental impact assessment preparation, is followed all the way through the project implementation phase. In addition, the public shows an intrinsic involvement with the complete project and partakes in decision-making for the betterment of the local and wider environment.

Sponsored community activities are arranged and established on the basis of community needs, which demonstrates the commitment of the Group in fulfilling its corporate social responsibility. These activities demonstrate acute care to the elderly, patients, disabled people and local students. Apart from such programs, the Group has been inclusive to the community by contributing through generous donations and formulating plans for environment conservation.

Due to the outbreak of COVID-19 and various government measures on social distancing, the Group did not take part in community activities during the Year (2021: Nil).

Directors' Report

The directors of the Company (the "**Directors**") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2022 (the "**Year**").

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the Year and the state of affairs of the Company and of the Group as at 31 December 2022 are set out in the consolidated financial statements and their accompanying notes on pages 81 to 159 of this annual report.

DIVIDEND

The board of Directors (the "**Board**") has resolved not to recommend the payment of a final dividend for the Year (2021: Nil).

ANNUAL GENERAL MEETING (THE "AGM")

The AGM is scheduled to be held on Wednesday, 28 June 2023. A notice convening the AGM will be issued and dispatched to the shareholders of the Company (the "**Shareholders**") in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 23 June 2023 to Wednesday, 28 June 2023 (both days inclusive). In order to qualify for attending and voting at the AGM, the non-registered Shareholders should ensure that all transfers documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 21 June 2023.

BUSINESS REVIEW AND PERFORMANCE

Review of our Business and Performance

A discussion and analysis of the Group's performance using financial key performance indicators during the Year and the key factors affecting its results and financial position are set out in the section headed "Management Discussion and Analysis" of this annual report.

Information about a fair review of, and an indication of likely future development in, the Group's business is set out in the "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

Principal Risks and Uncertainties

The followings are the major risks and uncertainties currently faced or anticipated by the Group.

Operational Risk

Outbreak of animal disease, product contamination and unstable supply of the feed are certain risks distinctive to the dairy farming industry. Additionally, product safety and quality are crucial to the business of the Group as product contamination involving the farms of the Group could affect the Group's reputation and sales.

Competition Risk

The Group faces competition from other large scale dairy farming companies in the PRC as well as foreign suppliers that sell substitutes for raw milk, such as raw milk powder. The Group's ability to compete is, to a significant extent, dependent on its ability to distinguish its products from those of the Group's competitors by providing high quality products at reasonable prices.

Regulatory Risk

The Group conducts business in an industry that is subject to stringent PRC environmental laws and regulations. Failures to comply with the PRC environmental laws and regulations may lead to claims, liabilities or the suspension of our operations, and thereby adversely affect our business and results of operations.

Financial Risk

The Group is exposed to a variety of financial risks in the normal course of business, including interest rate risk, foreign exchange risk, credit risk and liquidity risk. For details of the financial risk, please refer to note 33 to the consolidated financial statements.

The Board is dedicated to ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible.

Particulars of Important Event

As at the date of this report, the Directors are not aware of any important events affecting the Group that have occurred since the end of the Year and the Company is not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

Compliance with Laws and Regulations

During the Year, to the best of the knowledge and information of the Directors, the Group has complied with the relevant laws and regulations that had a significant impact on the business and operation of the Group.

Environmental Policies and Performance

We recognise the importance of environmental protection and place great emphasis on promoting environmental sustainability. In the course of our operation, the Group has inevitably produced considerable amount of cow manure by cows and heifers rearing. While cow manure is not hazardous waste or pollutants that have a significant adverse effect on the environment, in order to promote our own self-sufficiency and the environmental sustainability of our operations, the Group has implemented various waste management measures such as installing cow waste treatment facilities to treat the cow manure at all of our farms and recycling processed waste through internal recycling systems to produce fertilizers. The Group has also made continuous effort in exploring the possibility of generating electricity by processing the collected bio-waste into biogas.

Apart from the measures abovementioned, the Group has implemented a number of environment-friendly measures in its workplaces, such as energy-saving practices. For instance, the Group opts for energy efficient lighting equipment and has encouraged our employees to reduce printing and, if reasonably practicable, make use of duplex printing for internal documents. We shall broaden the scope of our green agenda and identify energy improvement opportunities in order to uphold our sustainable development and environment friendly attitude in our daily operation. The Group's commitment to protecting the environment is well reflected by its continuous efforts in promoting green measures and awareness in its daily business operations.

Further discussion of our environmental policies and performance is set out in the "Environmental, Social and Governance Report" on pages 40 to 59 of this annual report.

Stakeholders' Engagement

The Group understands the importance of its customers, suppliers and employees to its long-term business development, and therefore has dedicated to maintaining good relationships with these stakeholders.

Recognising the crucial roles of our customers and suppliers in our business operation, the Group has reinforced its relationships with these business partners through ongoing communication in a proactive and effective manner. In particular, the Group has through continuous interaction with its customers to ensure that the quality of our raw milk product has satisfied their needs and requirements and will, therefore, meet our customers' expectation. Besides, the Group is also dedicated to developing good relationship with its suppliers to ensure a stable supply of reliable and high-quality feed for the Group's daily operation.

Apart from the above, the Group recognises the importance of human capital in its long-term development. The Group has provided a fair and safe workplace and offered competitive remuneration, benefits and career development opportunities based on the merits and performance of our employees. The Group has also launched an ongoing effort to provide adequate training and development resources to our staff with an aim to foster an environment in which our employees can develop to their fullest potential and can assist their personal and professional growth.

PERMITTED INDEMNITY

Pursuant to the bye-laws of the Company (the "**Bye-laws**"), the Company may take out and pay the premium and other moneys for the maintenance of insurance, bonds and other instruments for the benefit either of the Company or the Directors' indemnity (and/or other officers) or any of them to indemnify the Company and/or the Directors (and/or other officers) for this purpose against any loss, damage, liability and claim which they may suffer or sustain in connection with any breach by the Directors (and/or other officers) or any of them of their duties to the Company. The Company has arranged for an appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities during the Year and the indemnity provision and directors' and officers' liability insurance remained in force as of the date of this report.

FINANCIAL SUMMARY

A summary of the results as well as the assets and liabilities of the Group for the last five financial years is set out on page 160 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 25 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Year are set out in note 27 to the consolidated financial statements and the consolidated statement of changes in equity on pages 144 and 83, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution to equity holders, comprising the share premium, exchange fluctuation reserve and retained profits, amounted to approximately RMB3,120.1 million.

Under the Companies Act 1981 of Bermuda (as amended), the share premium account of the Company in the amount of RMB2,977.0 million may be applied for paying distributions or dividends to the Shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares of the Company (the "**Shares**") on a pro-rata basis to its existing Shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the Year are set out in note 13 to the consolidated financial statements.

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

MANAGEMENT CONTRACTS

No contracts (except for the executive Directors' service contracts) concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence as at 31 December 2022 or executed during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

Sales attributable to the Group's largest customer and the three largest customers accounted for approximately 83.3% and 99.4%, respectively, of the Group's total revenue for the Year. The purchases made by the Group from its largest supplier and five largest suppliers accounted for approximately 27.3% and 64.5% of the Group's total purchases for the Year, respectively.

None of the Directors or any of their close associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued Shares) had any beneficial interest in the Group's three largest customers or five largest suppliers.

BOARD

The Directors who were in office during the Year and up to the date of this report are named as follows:

Executive Directors

Mr. Zhao Hongliang (趙洪亮) *(Chairman)* [R]
Mr. Fu Wenguo (付文國) *(Chief Executive Officer)* [N]
Mr. Chen Xiangqing (陳祥慶) *(Chief Financial Officer)*
Mr. Liu Gang (劉剛)

Non-executive Directors

Mr. Leng Youbin (冷友斌)
Mr. Liu Hua (劉華)
Mr. Cai Fangliang (蔡方良)

Independent non-executive Directors (the "INEDs")

Mr. Zhang Yuezhou (張月周) [A/R/N]
Mr. Zhu Zhanbo (朱戰波) [A/R/N]
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗) [A/R/N]
Ms. Liu Jinping (劉晉萍) [A]

A: Member of the audit committee
R: Member of the remuneration committee
N: Member of the nomination committee

In accordance with bye-laws 108(A) and (B) of the Bye-laws, Messrs. Fu Wenguo, Cai Fangliang, Meng Jingzong (alias Owens Meng) ("**Mr. Meng**") and Liu Jinping ("**Ms. Liu**") will retire from office by rotation at the AGM. All of the above retiring Directors, being eligible, have offered themselves for re-election thereat.

CONFIRMATION OF INDEPENDENCE OF INEDS

The Company has received from each of the INEDs, namely Ms. Liu, Mr. Zhang Yuezhou ("**Mr. Zhang**"), Mr. Zhu Zhaobo ("**Mr. Zhu**") and Mr. Meng, an annual written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. At the date of this report, the Company considers all of them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical information of the Directors and senior management of the Group are set out on pages 15 to 20 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement/letters of appointment with the Company. The service agreements/letters of appointment are for a term of three years and shall automatically renew thereafter until terminated by either party giving to the other not less than three months' prior notice in writing.

None of the Directors proposed for re-election at the AGM has a service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the executive Directors and the five individuals with the highest emoluments for the Year are set out in notes 8 and 9 to the consolidated financial statements, respectively.

The non-executive Directors are not entitled to a Director's fee. Each of Mr. Zhang, Mr. Zhu and Ms. Liu, being an INED, is entitled to a Director's fee of HK$125,000 per annum and Mr. Meng, an INED, is entitled to a Director's fee of HK$200,000 per annum.

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

As at 31 December 2022, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "**SFO**")), which were required: (a) 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 (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(i) Long Positions in the Shares

Name of Director	Capacity/Nature of interests	Number of Shares held	Approximate percentage of issued Shares
Mr. Leng Youbin ("**Mr. Leng**") *(Note)*	Interest in a controlled corporation and founder of a discretionary trust/ Corporate and other interest	3,342,320,920	71.26%
Mr. Chen Xiangqing ("**Mr. Chen**")	Beneficial owner/Personal interest	3,500,000	0.04%

Note: 3,342,320,920 Shares were beneficially owned by China Feihe Limited ("**Feihe**") which is owned as to 49.29% by Mr. Leng, a non-executive Director. Therefore, Mr. Leng is deemed or taken to be interested in 3,342,320,920 Shares beneficially owned by Feihe by virtue of the SFO.

(ii) Long Positions in the shares of Feihe – an associated corporation of the Company

Name of Directors	Capacity/Nature of interests	Number of shares held	Number of underlying shares held	Approximate percentage of issued shares
Mr. Leng (Note 1)	Interest in a controlled corporation and founder of a discretionary trust/ corporate and other interest	4,477,428,339	–	49.29%
Mr. Liu Hua ("**Mr. Liu**") (Note 2)	Interest in a controlled corporation and founder of a discretionary trust/ corporate and other interest	933,198,378	–	10.27%
Mr. Chen (Note 3)	Beneficial owner/Personal interest	–	189,000	0.00%
Mr. Fu Wenguo ("**Mr. Fu**")(Note 4)	Beneficial owner/Personal interest	–	1,549,200	0.02%
Mr. Zhao Hongliang ("**Mr. Zhao**")(Note 5)	Beneficial owner/Personal interest	–	1,549,200	0.02%
Mr. Liu Gang	Beneficial owner/Personal interest	464,000	–	0.01%

Notes:

1. 587,516,458 shares were held by Mr. Leng through his controlled corporation – Dasheng Limited ("**Dasheng**"). 33.33% of the equity interests in Dasheng were held directly by Mr. Leng. 3,869,911,881 shares were held by Harneys Trustees Limited ("**Harneys**") as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited ("**LYB**"), which in turn holds the entire issued share capital of Garland Glory Holdings Limited ("**Garland Glory**"). Leng Family Trust was established by Mr. Leng as the settlor and the only discretionary object.

2. 587,516,458 shares were held by Mr. Liu through his controlled corporation – Dasheng. 33.33% of the equity interests in Dasheng were held directly by Mr. Liu. 345,681,920 shares were held by Harneys as the trustee of LH Family Trust, which in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited, LH Family Trust was established by Mr. Liu as the settlor and the only discretionary object.

3. Share options were granted to Mr. Chen on 15 July 2021 pursuant to a share option scheme adopted by Feihe on 22 June 2020 (the "**2020 Share Option Scheme**"), which entitles him to subscribe for a total of 189,000 shares upon his exercise of such options.

4. Share options were granted to Mr. Fu on 15 July 2021 and 24 January 2022 pursuant to the 2020 Share Option Scheme, which entitles him to subscribe for a total of 1,549,200 shares upon his exercise of such options.

5. Share options were granted to Mr. Zhao on 15 July 2021 and 24 January 2022 pursuant to the 2020 Share Option Scheme, which entitles him to subscribe for a total of 1,549,200 shares upon his exercise of such options.

Save as disclosed above and so far as is known to the Directors, as at 31 December 2022, none of the Directors and the chief executive of the Company had or was deemed to have any other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) 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 (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2022, as far as known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interests in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

Name of Shareholders	Capacity/Nature of interests	Number of Shares held	Approximate percentage of issued Shares
Feihe *(Note 1)*	Beneficial owner/Personal Interest	3,342,320,920	71.26%
Garland Glory *(Note 2)*	Interest in a controlled corporation/ Corporate Interest	3,342,320,920	71.26%
LYB *(Note 2)*	Interest in a controlled corporations/ Corporate Interest	3,342,320,920	71.26%
Harneys *(Note 2)*	Trustee of a trust/Other interest	3,342,320,920	71.26%

Notes:

1. Please refer to note 1 under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

2. 3,342,320,920 Shares were held by Harneys as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB, which in turn holds the entire issued share capital of Garland Glory, which in turn holds 43.32% of Feihe. Leng Family Trust is a discretionary trust established by Mr. Leng as the settlor and the only discretionary object. Accordingly, each of Harneys, LYB and Garland Glory was deemed or taken to be interest in 3,342,320,920 Shares directly held by Feihe.

Save as disclosed above, as at 31 December 2022, so far as it was known by or otherwise notified to the Directors or the chief executive of the Company, no other corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interest in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

A share option scheme (the "**Share Option Scheme**") was adopted by the Company on 7 November 2013 for the purpose of enabling the Group to grant share options (the "**Options**") to selected participants as incentives or rewards for their contribution to our Group, below are the principal terms:

Eligible Participants

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up Options to subscribe for Shares:

(a) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of our subsidiaries or any entity (the "**Invested Entity**") in which any member of our Group holds an equity interest;

(b) any non-executive Directors (including INEDs), any of our subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of our Group or any Invested Entity;

(d) any customer of any member of our Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity;

(h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group.

'Eligible participants" has the meaning ascribed to it under the amended Chapter 17 of the Listing Rules (the "**Amended Chapter 17**"), which takes effect from 1 January 2023.

Maximum Number of Shares

(a) Under the Amended Chapter 17, the maximum number of Shares which may be issued upon the exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share schemes of the Group adopted by our Group must not in aggregate exceed 10% of the Shares in issue from the date of approval of the share option scheme and other share schemes of the Group.

(b) The total number of the Shares which may be allotted and issued upon the exercise of all Options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on 26 November 2013 (the "**Listing Date**") (i.e. 390,874,700 Shares) (the "**Scheme Mandate Limit**").

Under the Amended Chapter 17, the Company may seek approval of the Shareholders in general meeting once every three years or by independent Shareholders within the three-year period to refresh the Scheme Mandate Limit provided that the total number of Shares which may be allotted and issued upon exercise of all Options to be granted under the Share Option Scheme and any other share schemes of our Group must not exceed 10% of the Shares in issue as of the date of approval of the limit. For the purpose of calculating the limit, Options (including those outstanding, canceled, lapsed or exercised in accordance with the Share Option Scheme and any other share schemes of our Group) previously granted under the Share Option Scheme and any other share schemes of our Group will not be counted.

Maximum Entitlement of Each Eligible Participant

The total number of Shares issued and which may fall to be issued upon the exercise of the Options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "**Individual Limit**"). Any further grant of Options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of the Company with such grantee and his associates abstaining from voting.

Where any grant of Options to the directors, chief executive or substantial shareholders of the Company or their respective associates must be approved by INEDs (excluding the INED who or whose associates are the proposed grantee of the Options).

Where any grant of Options to a substantial Shareholder or an INED or any of their respective associates would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK$5 million,

such further grant of Options must be approved by Shareholders in general meeting.

Time of Acceptance and Exercise of Option

An Option may be accepted by a participant within 21 days from the date of the offer of grant of the Option. An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of Options is made, but shall end in any event not later than 10 years from the date of grant of the Option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of Options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an Option before it can be exercised.

Subscription Price for the Shares and Consideration for the Option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK$1 is payable on acceptance of the grant of an Option.

Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

Following the close conditional voluntary general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by Feihe and its concert parties and to make comparable offers to the optionholders for all Options (which confer rights on the optionholders to subscribe for new Shares) by way of cancellation of the Option on 2 December 2020, all of the Options outstanding as the date of the composite document which was issued on 30 October 2020 were cancelled. Accordingly, no Options were outstanding as at 1 January 2022 under the Share Option Scheme.

During the Year, no Option was granted, exercised, cancelled or lapsed under the Share Option Scheme. As at the date of this report, the Company has outstanding Options comprising 95,224,700 underlying Shares under the Share Option Scheme, which representing approximately 2.03% of the Shares in issue as at that date.

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES

Save as disclosed in the paragraphs headed "Share Option Scheme" and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, and the share option scheme adopted by Feihe, at no time during the Year was the Company, its holding company, nor any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director or a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Group to which the Company or its holding company or any of its subsidiaries or fellow subsidiaries was a party during the Year or subsisted at the end of the Year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There has been no contract of significance (whether for the provision of services to the Company or not) between the Company or any of its subsidiaries and controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries during the Year or subsisted at the end of the Year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year and up to the date of this report, none of the Directors or their respective close associates (as defined in the Listing Rules) are considered to have any interests in a business (apart from the business of the Group) which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest, as required to be disclosed under the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 31 to the consolidated financial statements. Save as disclosed in the paragraph headed "Continuing Connected Transactions" below, other related party transactions as disclosed in note 31 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions under the Listing Rules or are exempt from compliance with reporting, announcement, annual review and independent Shareholders' approval requirements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group had certain transactions with parties which were connected persons of the Company under the Listing Rules. These transactions are considered to be continuing connected transactions under the Listing Rules, which need to be disclosed herein in compliance with the requirements under Chapter 14A of the Listing Rules.

Connected Person

Feihe Dairy Group (comprising Feihe and its subsidiaries) has been deemed by the Stock Exchange as the Company's connected person after the initial listing of the Company's shares on the Main Board of the Stock Exchange on 26 November 2013 pursuant to Rule 14A.19 of the Listing Rules due to the past relationship and transactions with Feihe Dairy Group, being one of the Group's customers, as disclosed in "Our Relationship with Feihe Dairy Group" paragraph in the section headed "History, Development And Reorganization" of the Prospectus. As such, the Company has agreed to undertake to comply with Chapter 14A of the Listing Rules' requirements in respect of the transactions with the Feihe Dairy Group from the Listing Date.

Following the close of the conditional voluntary general offer on 2 December 2020 and as at the date of this report, Feihe holds approximately 71.26% of the total issued Shares. Therefore, Feihe is the controlling shareholder of the Company and hence a connected person of the Company.

2020 Feihe Master Agreement and 2023 Feihe Master Agreement

The Group has, since 1 November 2013, been selling raw milk to Feihe Dairy Group pursuant to the master agreements entered into in 2013, 2015, 2017 and 2019. A master agreement was entered into between the Group and China Feihe Group in September 2019 (the "**2020 Feihe Master Agreement**") to confirm the priority arrangement of the Group's supply for a raw milk to Feihe Dairy Group.

The approved annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the three years ended 31 December 2022 were RMB1,300 million, RMB1,400 million and RMB1,500 million, respectively, details of the 2020 Feihe Master Agreement are disclosed in the announcement and the circular of the Company dated 23 September 2019 and 16 October 2019, respectively. A special general meeting of the Company was held on 15 December 2021 to approve the revision of the existing annual cap of 2020 Feihe Master Agreement for the year ended 31 December 2021 from RMB1,400 million to RMB1,600 million and for the Year from RMB1,500 million to RMB2,000 million, respectively. For details of the revision on annual cap, please refer to the announcement and the circular of the Company dated 4 November 2021 and 25 November 2021, respectively. The aggregate value of raw milk supplied to Feihe Dairy Group under the 2020 Feihe Master Agreement for the Year was approximately RMB1,741.3 million. The connected transactions abovementioned have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the Year.

As the 2020 Feihe Master Agreement expired on 31 December 2022, the Company for itself and on behalf of its subsidiaries and Feihe (for itself and on behalf of its subsidiaries) entered into a master agreement (the "**2023 Feihe Master Agreement**") on 14 October 2022 to confirm the priority arrangement of the Group's supply for a raw milk to Feihe Dairy Group for a term of three years ending on 31 December 2025.

Pursuant to the 2023 Feihe Master Agreement, the Group would supply raw milk to Feihe Dairy Group in the event that the Group receives purchase orders from Feihe Dairy Group and other purchasers concurrently, the Group shall give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers. The Shareholders passed a resolution by way of poll at the SGM held on 15 December 2022 approving the continuing connected transactions contemplated under the 2023 Feihe Master Agreement and the annual caps relating thereto. Details of the 2023 Feihe Master Agreement are disclosed in the announcement and the circular of the Company dated 14 October 2022 and 23 November 2022, respectively.

The approved annual caps in respect of the transactions contemplated under the 2023 Feihe Master Agreement for each of the three years ending 31 December 2025 are RMB2,500 million, RMB3,000 million and RMB3,400 million, respectively. The connected transactions abovementioned have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the Year.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The INEDs have reviewed the above continuing connected transactions for the Year and confirmed that the above continuing connected transactions were entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or better; and

3. in accordance with the terms of the agreement governing the continuing connected transactions (i.e. the 2020 Feihe Master Agreement) that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ernst & Young, Certified Public Accountants, the Company's independent auditor, were engaged to report on 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 Hong Kong Listing Rules*" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued their unqualified letter to the Board containing their findings and conclusions in respect of the Group's continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that the Company has maintained a sufficient public float (i.e. at least 25% of the issued Shares are held by the public) as required by the Listing Rules during the Year and up to the date of this report.

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

During the Year, the Company did not redeem any of the Company's listed securities nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

EVENT AFTER REPORTING PERIOD

Save as disclosed elsewhere in this report, the Group did not have any material subsequent event after the Year and up to the date of this report.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or requiring the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Year or subsisted at the end of the Year.

CORPORATE GOVERNANCE

Particulars of the Company's significant corporate governance practices are set out in the Corporate Governance Report on pages 21 to 39 of this annual report.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rules 13.51(B) of the Listing Rules, the change in information of the Directors subsequent to the date of 2021 annual report of the Company is set out below:

The annual remuneration of the following Directors were adjusted with effect from 1 July 2022 as follows:

Name of Directors	**Annual Remuneration** *(RMB)*
Mr. Zhao Hongliang	2,000,000
Mr. Fu Wenguo	2,000,000
Mr. Chen Xiangqing	1,200,000
Mr. Liu Gang	1,200,000

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises all the four INEDs, namely Mr. Meng (committee chairman), Mr. Zhang, Mr. Zhu and Ms. Liu. It has reviewed with management the audited consolidated financial statements of the Company for the Year.

INDEPENDENT AUDITOR

There were no changes of independent auditor in the past three years.

The consolidated financial statements of the Company for the Year have been audited by Ernst & Young which will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having approved by the Board upon the Audit Committee's recommendation, a resolution to re-appoint Ernst & Young as the independent auditor and to authorise the Directors to fix its remuneration will be proposed at the forthcoming AGM.

On behalf of the Board

Zhao Hongliang
Chairman

Hong Kong, 28 March 2023

* *For identification purpose*

Independent Auditor's Report

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Quarry Bay, Hong Kong

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Independent auditor's report
To the shareholders of YuanShengTai Dairy Farm Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of YuanShengTai Dairy Farm Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 81 to 159, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

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

Key audit matter	How our audit addressed the key audit matter
Fair value of biological assets	
As at 31 December 2022, the carrying value of the Group's biological assets, mainly including dairy cows and dairy goats, amounted to RMB2,025,292,000, representing 26% of the Group's total assets. During the year ended 31 December 2022, the Group recorded a loss of RMB389,603,000 arising from the changes in fair value less costs to sell of biological assets. The Group's biological assets are measured at fair value less costs to sell. The determination of the fair value requires significant management's judgements regarding inter alia, species, age, culling rates and growing condition of the biological assets, cost incurred and the average milk yield of each cow, the market price of dairy goats, the estimated milk price and the discount rate. Management engaged an external valuer to facilitate its determination of the fair value of the biological assets. Relevant disclosures are included in notes 3 and 17 to the consolidated financial statements.	Our audit procedures included conducting a stocktaking of biological assets and obtaining an understanding of management's judgements and key assumptions adopted to determine the fair value of the biological assets. In particular, we performed stocktakes of all dairy cows and dairy goats at the year end, and we compared the valuation inputs to available market data. We considered the objectivity, independence and expertise of the independent valuer. We also involved our internal valuation specialists to assist us in evaluating the valuation models and the judgements and key assumptions adopted, including discount rate and contributory asset charges. In addition, we evaluated the adequacy of the related disclosures of the fair value of biological assets in the consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment	
As at 31 December 2022, the carrying amount of the Group's property, plant and equipment amounted to RMB3,831,079,000, representing 48% of its total assets. As at 31 December 2022, after assessing external and internal sources of information, management considered that impairment indicators existed. Management performed an impairment assessment on the property, plant and equipment in accordance with IAS 36 *Impairment of Assets* and concluded that no impairment should be provided. This matter was significant to our audit because the balance of property, plant and equipment was material to the consolidated financial statements and the impairment assessment involved the determination of the recoverable amounts of the assets which was complex and involved significant judgements and estimates. Relevant disclosures are included in notes 3 and 13 to the consolidated financial statements.	We checked management's procedures in identifying the existence of any impairment indicators. In addition, we involved our internal valuation specialists to assist us in assessing management's assumptions in calculating the value in use of property, plant and equipment focusing on growth rate and discount rate.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	**2,090,343**	1,776,538
Cost of sales		**(1,568,628)**	(1,297,213)
Gross profit		**521,715**	479,325
Other income and gains	5	**90,999**	73,126
Administrative expenses		**(135,112)**	(116,234)
Other expenses		**(54,962)**	(37,954)
Finance costs	7	**(10,196)**	(3,532)
Changes in fair value less costs to sell of biological assets	17	**(389,603)**	(237,741)
PROFIT BEFORE TAX	6	**22,841**	156,990
Income tax expense	10	**–**	–
PROFIT FOR THE YEAR		**22,841**	156,990
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**2,839**	(688)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**25,680**	156,302
Attributable to:			
Owners of the Company		**25,680**	156,302
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	12	**RMB0.49 cent**	RMB3.35 cents

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,831,079**	3,206,392
Investment properties	14	**109,812**	77,469
Right-of-use assets	15	**74,776**	78,117
Prepayments, other receivables and other assets	16	**271,571**	58,124
Biological assets	17	**2,025,292**	1,707,317
Total non-current assets		**6,312,530**	5,127,419
CURRENT ASSETS			
Inventories	18	**787,544**	543,306
Trade receivables	19	**26,017**	52,874
Prepayments, other receivables and other assets	16	**6,578**	5,305
Time deposits	20	**232,332**	–
Cash and cash equivalents	20	**576,309**	959,411
Total current assets		**1,628,780**	1,560,896
CURRENT LIABILITIES			
Trade payables	21	**388,667**	282,252
Other payables and accruals	22	**1,132,462**	682,244
Interest-bearing bank and other borrowings	23	**120,000**	–
Lease liabilities	15	**20,293**	11,563
Total current liabilities		**1,661,422**	976,059
NET CURRENT (LIABILITIES)/ASSETS		**(32,642)**	584,837
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,279,888**	5,712,256
NON-CURRENT LIABILITIES			
Other payables and accruals	22	**383,134**	402,411
Interest-bearing bank and other borrowings	23	**716,534**	190,000
Lease liabilities	15	**92,082**	67,047
Total non-current liabilities		**1,191,750**	659,458
Net assets		**5,088,138**	5,052,798
EQUITY			
Issued capital	25	**37,674**	37,674
Reserves	27	**5,050,464**	5,015,124
Total equity		**5,088,138**	5,052,798

Zhao Hong Liang
Director

Chen Xiang Qing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

		Attributable to owners of the Company							
	Note	Issued capital RMB'000	Merger reserve RMB'000 (Note 27)	Share premium RMB'000	Capital reserve RMB'000 (Note 27)	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2021		37,674	186,000	2,977,020	455,505	–	10,031	1,230,266	4,896,496
Profit for the year		–	–	–	–	–	–	156,990	156,990
Other comprehensive loss for the year:									
Exchange differences related to foreign operations		–	–	–	–	–	(688)	–	(688)
Total comprehensive (loss)/income for the year		–	–	–	–	–	(688)	156,990	156,302
At 31 December 2021 and 1 January 2022		37,674	186,000	2,977,020	455,505	–	9,343	1,387,256	5,052,798
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**22,841**	**22,841**
Other comprehensive income for the year:									
Exchange differences related to foreign operations		**–**	**–**	**–**	**–**	**–**	**2,839**	**–**	**2,839**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**2,839**	**22,841**	**25,680**
Equity-settled share option arrangements	*26*	**–**	**–**	**–**	**–**	**9,660**	**–**	**–**	**9,660**
At 31 December 2022		**37,674**	**186,000***	**2,977,020***	**455,505***	**9,660***	**12,182***	**1,410,097***	**5,088,138**

* These reserve accounts comprise the consolidated reserves of RMB5,050,464,000 (2021: RMB5,015,124,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**22,841**	156,990
Adjustments for:			
Finance costs	7	**10,196**	3,532
Interest income	5	**(19,553)**	(13,027)
Depreciation of property, plant and equipment	6	**96,640**	90,100
Depreciation of investment properties	6	**19,700**	12,474
Depreciation of right-of-use assets	6	**5,385**	5,141
Loss on disposal of items of property, plant and equipment	6	**18,693**	1,790
Changes in fair value less costs to sell of biological assets	17	**389,603**	237,741
Equity-settled share option expense		**9,660**	–
Recognition of government grants		**(17,715)**	(13,558)
Foreign exchange differences, net	6	**67**	12,695
		535,517	493,878
Increase in inventories		**(244,238)**	(219,313)
Decrease in trade receivables		**26,857**	81,532
(Increase)/decrease in prepayments, other receivables and other assets		**(478)**	8,189
Increase in trade payables		**106,415**	64,495
Increase in other payables and accruals		**360,772**	279,325
Cash generated from operations		**784,845**	708,106
Interest received		**18,361**	15,509
Interest paid		**(3,500)**	(3,508)
Net cash flows from operating activities		**799,706**	720,107

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(657,395)**	(430,532)
Additions to biological assets		**(930,137)**	(566,616)
Proceeds from disposal of biological assets		**155,775**	158,524
Proceeds from disposal of items of property, plant and equipment		**5,673**	267
Receipt of government grants for property, plant and equipment		**–**	125,000
(Increase)/decrease in time deposits		**(232,332)**	137,023
Acquisition of a business	28	**(135,883)**	(68,837)
Acquisition of net assets		**–**	18,008
Net cash flows used in investing activities		**(1,794,299)**	(627,163)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**836,534**	–
Repayment of other borrowing		**(190,000)**	–
Interest paid		**(13,753)**	(2,232)
Principal portion of lease payments		**(21,223)**	(11,166)
Net cash flows from/(used in) financing activities		**611,558**	(13,398)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(383,035)**	79,546
Cash and cash equivalents at beginning of year		**959,411**	892,560
Effect of foreign exchange rate changes, net		**(67)**	(12,695)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**576,309**	959,411
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**280,174**	521,736
Non-pledged time deposits with original maturity of less than three months when acquired	20	**296,135**	437,675
Cash and cash equivalents as stated in the statements of financial position and cash flows		**576,309**	959,411

1. CORPORATE AND GROUP INFORMATION

YuanShengTai Dairy Farm Limited (the "**Company**") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

During the year, the Company and its subsidiaries (together, the "**Group**") were principally engaged in the production and sale of milk in the People's Republic of China (the "**PRC**").

In the opinion of the directors, the holding company and the ultimate holding company of the Company is China Feihe Limited, which is incorporated in the Cayman Islands.

Information about subsidiaries

Particulars of the Company's subsidiaries (all of which are private companies with limited liability) are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Natural Dairy Farm Limited	BVI/Mainland China	US$100	100	–	Investment holding
Royal Dairy Farm Limited	Hong Kong/ Mainland China	HKD100	–	100	Investment holding
黑龍江甘南瑞信達原生態牧業有限公司 Heilongjiang Gannan Ruixinda Dairy Farming Co Ltd. ("**Ruixinda Gannan**")#*	PRC/Mainland China	RMB38,000,000	–	100	Production and sale of raw milk
黑龍江克東和平原生態牧業有限公司 Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. ("**YST Heping**")#*	PRC/Mainland China	RMB246,520,000	–	100	Production and sale of raw milk
黑龍江克東瑞信達原生態牧業股份有限公司 Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd. ("**YST Heilongjiang**")#*	PRC/Mainland China	RMB186,850,000	–	100	Production and sale of raw milk
鎮賚瑞信達原生態牧業有限公司 Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd.#*	PRC/Mainland China	RMB60,000,000	–	100	Production and sale of raw milk
哈爾濱市瑞信達牧業有限公司 Harbin Ruixinda Dairy Farming Co., Ltd. ("**Ruixinda**")#*	PRC/Mainland China	RMB380,000,000	–	100	Investment holding
哈爾濱市瑞信誠商貿有限公司 Harbin Ruixincheng Trading Co., Ltd. ("**Ruixincheng**")#*	PRC/Mainland China	RMB550,000,000	–	100	Inactive
克東勇進原生態牧業有限公司 Kedong Yongjin YuanShengTai Dairy Farming Joint Stock Co., Ltd.#*	PRC/Mainland China	RMB1,216,000,000	–	100	Production and sale of raw milk

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries (all of which are private companies with limited liability) are as follows: (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
克東瑞信達商貿有限公司 Kedong Ruixinda Commercial Trade Co., Ltd.#*	PRC/Mainland China	RMB430,000,000	–	100	Inactive
甘南瑞信誠商貿有限公司 Gannan Ruixincheng Commercial Trade Co., Ltd.#*	PRC/Mainland China	RMB400,000,000	–	100	Inactive
拜泉瑞信誠牧業有限公司 Baiquan Ruixincheng Dairy Farming Co., Ltd. ("**Baiquan Ruixincheng Farm**")#*	PRC/Mainland China	RMB534,113,940	–	100	Production and sale of raw milk
克山瑞信誠牧業有限公司 Keshan Ruixincheng Dairy Farming Co., Ltd.#*	PRC/Mainland China	RMB100,000,000	–	100	Production and sale of raw milk
龍江瑞信誠牧業有限公司 Longjiang Ruixincheng Dairy Farming Co., Ltd.#*	PRC/Mainland China	RMB20,000,000	–	100	Production and sale of raw milk
黑龍江金源牧業有限公司 Heilongjiang Jinyuan Dairy Farming Co., Ltd.#*	PRC/Mainland China	RMB180,000,000	–	100	Production and sale of raw milk
黑龍江北安瑞信誠牧業有限公司 Heilongjiang Bei'an Ruixincheng Dairy Farming Co., Ltd.#*	PRC/Mainland China	RMB120,000,000	–	100	Production and sale of raw milk
黑龍江依安瑞信達牧業有限公司 Heilongjiang Yian Ruixinda Dairy Farming Co., Ltd.#*	PRC/Mainland China	US$61,000,000	–	100	Production and sale of raw milk
陝西瑞祥誠達牧業有限公司 Shaanxi Ruixiangchengda Dairy Farming Co., Ltd.#*	PRC/Mainland China	RMB200,000,000	–	100	Production and sale of raw milk
黑龍江雙城瑞信達牧業有限公司 Heilongjiang Shuangcheng Ruixinda Dairy Farming Co., Ltd.#*	PRC/Mainland China	RMB30,000,000	–	100	Production and sale of raw milk

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

* Registered as limited liability companies under PRC law.

During the year, the Group acquired the business of dairy goat from a third party. Further details of this acquisition are included in note 28 to the financial statements.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.1 BASIS OF PREPARATION (Continued)

Going concern

In preparation of the consolidated financial statements for the year ended 31 December 2022, the directors have given careful consideration to the future liquidity of the Group in light of the fact that the Group's total current liabilities exceeded its total current assets by RMB32,642,000 (2021: net current assets of RMB584,837,000). Taking into account, (i) the available credit facilities of approximately RMB478,466,000 which remain unutilised as at 31 December 2022 obtained from licensed banks; (ii) the expected net cash inflows generated from the Group's operations for the next twelve months, the directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and impact of the revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "**Conceptual Framework**") issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC Interpretation 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to IFRS Standards 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendment that is applicable to the Group are as follows:

- *IFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1, 5]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "**2020 Amendments**")[2, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants* (the "**2022 Amendments**")[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024.

5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

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

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

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

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

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

Fair value measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and biological assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

Buildings	3-4%
Plant and machinery	6-10%
Furniture and fixtures	18-20%
Motor vehicles	11-12%
Other equipment	18-20%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost less accumulated depreciation and any impairment losses. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Biological assets

Biological assets comprise dairy cows and dairy goats. Dairy cows include milkable cows, heifers and calves. Dairy goats include milkable goats, young goats and lambs. Biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income for the period in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation costs, excluding finance costs and income taxes. The fair value of dairy cows is determined based on their present location and condition and the fair value of dairy goats is determined based on market prices of dairy goats with similar age, breed and genetic merit. The fair value of biological assets is determined independently by professional valuers.

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

Agricultural produce

Agricultural produce represents raw milk harvested from the Group's biological assets. Milk is recognised at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices quoted in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation costs, excluding finance costs and income tax.

Leases

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

Group as a lessee

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

At inception or on reassessment of a contract that contains a lease component and non-lease component, the Group adopts the practical expedient not to separate non-lease component and to account for the lease component and the associated non-lease component (e.g., property management services for leases of properties) as a single lease component.

(a) Right-of-use assets

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

Leasehold land	7 to 50 years

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

When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

(b) Lease liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

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

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

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

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

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

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

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables, as appropriate.

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

The Group's financial liabilities include trade payables, other payables and accruals and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

Government grants

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

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

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

Revenue recognition

Revenue from contracts with customers

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of raw milk

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

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

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

Contract liabilities

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

Contract costs

Other than the costs which are capitalised as inventories, property, plant, and equipment, biological assets, and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the consolidated statement of profit or loss and other comprehensive income on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

China Feihe Limited, the Company's holding company, operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 16% of their payroll costs to the central pension scheme during the year ended 31 December 2022. The contributions are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

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

Borrowing costs

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

Foreign currencies

These financial statements are presented in Renminbi ("**RMB**"). The Company's functional currency is Hong Kong dollars ("**HKD**"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in consolidated statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Estimation uncertainty

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

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the dairy product sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Fair values of dairy cows and dairy goats

The Group's dairy cows and dairy goats are valued at fair value less costs to sell. The fair values of dairy cows and dairy goats are determined based on either the market-determined prices as at the end of each reporting period adjusted with reference to species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of dairy cows and dairy goats; or the present value of expected net cash flows from dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair values of dairy cows and dairy goats significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair values of dairy cows and dairy goats. Further details are given in note 17 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw milk. During the year, the Group commenced the business of sale of raw goat milk, after the acquisition of certain assets from an unaffiliated party, which is regarded as a new operating segment by the chief operating decision maker. As the new operating segment has similar economic characteristics with the existing operating segment and both operating segments are similar in respect of the nature of products and service, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the service, and the nature of the regulatory environment, both operating segments are aggregated for financial reporting purposes.

The Group's revenue from external customers is derived solely from its operations in Mainland China.

All external sales of milk produced by the Group during the year are attributable to customers located in Mainland China.

All non-current assets were located in Mainland China.

During the year, the Group made sales to major customers, the revenue from which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2022 and 2021 is as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Customer A	**1,741,264**	1,545,277
Customer B	**311,180**	162,349
Others	**37,899**	68,912
	2,090,343	1,776,538

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers		
Sale of raw milk	**2,090,343**	1,776,538

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December

Segments	2022 Sale of raw milk RMB'000	2021 Sale of raw milk RMB'000
Types of goods		
Sale of raw milk	**2,090,343**	1,776,538
Total revenue from contracts with customers	**2,090,343**	1,776,538
Geographical market		
Mainland China	**2,090,343**	1,776,538
Total revenue from contracts with customers	**2,090,343**	1,776,538
Timing of revenue recognition		
Goods transferred at a point in time	**2,090,343**	1,776,538
Total revenue from contracts with customers	**2,090,343**	1,776,538

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(a) Disaggregated revenue information (Continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of raw milk	**347,519**	–

(b) Performance obligation

Information about the Group's performance obligation is summarised below:

Sale of raw milk

The performance obligation is satisfied upon delivery of the raw milk and payment is generally due within 30 days from delivery.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022 RMB'000	2021 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**694,692**	347,519

	2022 RMB'000	2021 RMB'000
Other income and gains		
Government subsidies	**47,793**	45,741
Bank interest income	**19,553**	13,027
Gross rental income from investment property operating leases	**21,026**	13,926
Others	**2,627**	432
	90,999	73,126

6. PROFIT BEFORE TAX

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

	Notes	**2022** **RMB'000**	2021 *RMB'000*
Breeding costs to produce		**1,148,864**	927,758
Production costs for raw milk		**419,764**	369,455
Cost of sales		**1,568,628**	1,297,213
Depreciation of property, plant and equipment	*13*	**195,449**	154,993
Less: Capitalised in biological assets		**(98,809)**	(64,893)
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income*		**96,640**	90,100
Depreciation of right-of-use assets	*15*	**5,385**	5,141
Depreciation of investment properties	*14*	**19,700**	12,474
Lease payments for short-term leases	*15*	**131**	87
Auditors' remuneration		**2,900**	3,300
Changes in fair value less costs to sell of biological assets	*17*	**389,603**	237,741
Employee benefit expenses excluding directors' and chief executive's remuneration *(note 8)*:			
Wages and salaries		**180,499**	137,679
Pension scheme contributions		**52,462**	29,220
Equity-settled share option expense		**4,810**	–
Less: Capitalised in biological assets		**(78,529)**	(54,466)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the consolidated statement of profit or loss and other comprehensive income**		**159,242**	112,433
Loss on disposal of items of property, plant and equipment		**18,693**	1,790
Foreign exchange differences, net		**67**	12,695

* Depreciation of approximately RMB95,016,000 (2021: RMB88,843,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022.

** Employee benefit expenses of approximately RMB113,689,000 (2021: RMB91,859,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2022 RMB'000	2021 RMB'000
Interest on bank and other borrowings	**14,396**	2,535
Interest on lease liabilities	**4,401**	3,532
Total interest expense on financial liabilities not at fair value through profit or loss	**18,797**	6,067
Less: Interest capitalized	**(8,601)**	(2,535)
	10,196	3,532

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2022 RMB'000	2021 RMB'000
Fees	**875**	823
Other emoluments:		
Salaries, allowances and benefits in kind	**2,324**	2,290
Pension scheme contributions	**478**	412
Equity-settled share option expense	**4,850**	–
	7,652	2,702
	8,527	3,525

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2022 RMB'000	2021 RMB'000
Mr. Zhang Yuezhou	108	104
Mr. Zhu Zhanbo	108	104
Mr. Meng Jingzong	173	166
Ms. Liu Jinping	108	86
	497	460

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022					
Executive directors:					
Mr. Fu Wenguo*	–	763	2,215	137	3,115
Mr. Zhao Hongliang	–	842	2,215	188	3,245
Mr. Chen Xiangqing	–	589	420	137	1,146
Mr. Liu Gang	378	130	–	16	524
	378	2,324	4,850	478	8,030
Non-executive directors:					
Mr. Leng Youbin	–	–	–	–	–
Mr. Liu Hua	–	–	–	–	–
Mr. Cai Fangliang	–	–	–	–	–
	–	–	–	–	–
	378	2,324	4,850	478	8,030

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

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

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2021					
Executive directors:					
Mr. Fu Wenguo*	–	780	–	130	910
Mr. Zhao Hongliang	–	780	–	137	917
Mr. Chen Xiangqing	–	595	–	130	725
Mr. Liu Gang	363	135	–	15	513
	363	2,290	–	412	3,065
Non-executive directors:					
Mr. Leng Youbin	–	–	–	–	–
Mr. Liu Hua	–	–	–	–	–
Mr. Cai Fangliang	–	–	–	–	–
	–	–	–	–	–
	363	2,290	–	412	3,065

* Mr. Fu Wenguo is also the chief executive of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors including the chief executive (2021: four directors including the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2021: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Salaries, allowances and benefits in kind	**614**	526
Equity-settled share option expense	**420**	–
Pension scheme contributions	**166**	113
	1,200	639

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

	2022 ***Number of employees***	2021 *Number of employees*
Nil to RMB1,000,000	**–**	1
RMB1,000,000 to RMB1,500,000	**1**	–
	1	1

10. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2022 as the Group did not generate any assessable profits arising in Hong Kong during the year (2021: nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

According to the prevailing tax rules and regulations, certain subsidiaries of the Group operating in the agricultural business are exempted from enterprise income tax.

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, are as follow:

2022	**Mainland China**		**Hong Kong**		**Others**		**Total**	
	RMB'000	**%**	***RMB'000***	**%**	***RMB'000***	**%**	***RMB'000***	**%**
Profit/(loss) before tax	**22,185**		**16,412**		**(15,756)**		**22,841**	
Tax at the statutory tax rate	**5,546**	**25.0**	**2,708**	**16.5**	**–**	**0.0**	**8,254**	**36.1**
Effect of tax exemptions granted to agricultural entities	**(6,007)**	**(27.1)**	**–**	**0.0**	**–**	**0.0**	**(6,007)**	**(26.3)**
Income not subject to tax	**–**	**0.0**	**(2,848)**	**(17.4)**	**–**	**0.0**	**(2,848)**	**(12.5)**
Expenses not deductible for tax	**69**	**0.3**	**140**	**0.9**	**–**	**0.0**	**209**	**0.9**
Tax losses not recognised	**392**	**1.8**	**–**	**0.0**	**–**	**0.0**	**392**	**1.8**
Tax charge at the Group's effective rate	**–**	**0.0**	**–**	**0.0**	**–**	**0.0**	**–**	**0.0**

2021	Mainland China		Hong Kong		Others		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Profit/(loss) before tax	163,716		(2,541)		(4,185)		156,990	
Tax at the statutory tax rate	40,929	25.0	(419)	16.5	–	0.0	40,510	25.8
Effect of tax exemptions granted to agricultural entities	(41,274)	(25.2)	–	0.0	–	0.0	(41,274)	(26.3)
Income not subject to tax	–	0.0	(1,860)	73.2	–	0.0	(1,860)	(1.2)
Expenses not deductible for tax	53	0.0	2,279	(89.7)	–	0.0	2,332	1.5
Tax losses not recognised	292	0.2	–	0.0	–	0.0	292	0.2
Tax charge at the Group's effective rate	–	0.0	–	0.0	–	0.0	–	0.0

11. DIVIDENDS

No dividend was paid or proposed during 2022, nor has any dividend been proposed since the end of the reporting period.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of RMB22,841,000 (2021: RMB156,990,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2021: 4,690,496,400).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Other equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2022							
At 31 December 2021 and at 1 January 2022							
Cost	2,848,961	345,510	40,889	136,161	99,832	533,343	4,004,696
Accumulated depreciation and impairment	(494,689)	(163,511)	(21,720)	(56,436)	(61,948)	–	(798,304)
Net carrying amount	2,354,272	181,999	19,169	79,725	37,884	533,343	3,206,392
At 1 January 2022, net of accumulated depreciation and impairment	2,354,272	181,999	19,169	79,725	37,884	533,343	3,206,392
Additions	2,450	61,541	2,534	34,936	49,106	602,839	753,406
Additions as a result of acquisition *(note 28)*	65,936	3,239	329	1,052	549	19,991	91,096
Disposals	(8,566)	(12,667)	(2,246)	(477)	(410)	–	(24,366)
Depreciation provided during the year	(119,126)	(34,397)	(5,840)	(15,282)	(20,804)	–	(195,449)
Transfers	576,946	14,999	14,409	–	14,678	(621,032)	–
At 31 December 2022, net of accumulated depreciation and impairment	2,871,912	214,714	28,355	99,954	81,003	535,141	3,831,079
At 31 December 2022:							
Cost	3,442,120	403,522	51,913	168,587	161,714	535,141	4,762,997
Accumulated depreciation and impairment	(570,208)	(188,808)	(23,558)	(68,633)	(80,711)	–	(931,918)
Net carrying amount	2,871,912	214,714	28,355	99,954	81,003	535,141	3,831,079

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Other equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2021							
At 31 December 2020 and at 1 January 2021							
Cost	2,713,219	304,021	39,867	111,281	92,118	112,459	3,372,965
Accumulated depreciation and impairment	(492,977)	(140,954)	(16,600)	(44,501)	(44,985)	–	(740,017)
Net carrying amount	2,220,242	163,067	23,267	66,780	47,133	112,459	2,632,948
At 1 January 2021, net of accumulated depreciation and impairment	2,220,242	163,067	23,267	66,780	47,133	112,459	2,632,948
Additions	775	24,542	5,290	23,048	12,333	596,300	662,288
Additions as a result of acquisition	59,690	3,661	997	3,047	811	–	68,206
Disposals	(206)	(391)	(526)	(134)	(800)	–	(2,057)
Depreciation provided during the year	(86,853)	(23,719)	(9,859)	(13,016)	(21,546)	–	(154,993)
Transfers	160,624	14,839	–	–	(47)	(175,416)	–
At 31 December 2021, net of accumulated depreciation and impairment	2,354,272	181,999	19,169	79,725	37,884	533,343	3,206,392
At 31 December 2021:							
Cost	2,848,961	345,510	40,889	136,161	99,832	533,343	4,004,696
Accumulated depreciation and impairment	(494,689)	(163,511)	(21,720)	(56,436)	(61,948)	–	(798,304)
Net carrying amount	2,354,272	181,999	19,169	79,725	37,884	533,343	3,206,392

14. INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
At 31 December:		
Cost	150,357	98,314
Accumulated depreciation	(40,545)	(20,845)
Net carrying amount	109,812	77,469

A reconciliation of the net carrying amount of investment properties at the beginning and end of the year is as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	77,469	78,134
Additions	52,043	12,755
Revision of a lease term arising from a change in the leased area of a lease	–	(946)
Depreciation charge	(19,700)	(12,474)
Carrying amount at 31 December	109,812	77,469

The Group's investment properties consist of several pieces of leased land in Jilin and Heilongjiang Province.

The Group's investment properties consist of revalued on 31 December 2022 based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), independent professionally qualified valuers, at RMB113,000,000. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

Fair value hierarchy

The fair value measurement hierarchy of the Group's investment properties is as follows:

	2022 RMB'000	2021 RMB'000
Significant unobservable inputs:		
Leased land (Level 3)	113,000	79,700

During the year, there were no transfers into or out of Level 3 (2021: Nil).

The investment properties are measured initially at cost less accumulated depreciation and provision for any impairment in value.

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs
Leased land	Discounted cash flow method	Discount rate

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

15. LEASES

The Group as a lessee

The Group has lease contracts for leased land. Lease contracts are entered into for fixed terms of 7 to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions.

(a) Right-of-use assets

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

	Leasehold lands
	RMB'000
As at 1 January 2021	82,271
Additions	829
Additions as a result of acquisition of a business	158
Depreciation charge	(5,141)
As at 31 December 2021 and 1 January 2022	**78,117**
Additions	**1,478**
Revision of a lease term arising from a change in the consideration of a lease	**111**
Additions as a result of acquisition of a business	**455**
Depreciation charge	**(5,385)**
As at 31 December 2022	**74,776**

At 31 December 2022, all of the Group's leasehold land located in Mainland China did not have land use right certificates as all the land is leased from various independent third parties.

15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

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

	2022 *RMB'000*	2021 *RMB'000*
Carrying amount at 1 January	**78,610**	77,114
New leases	**53,521**	13,584
Additions as a result of acquisition of a business	**455**	–
Accretion of interest recognised during the year	**4,401**	3,532
Payments	**(24,723)**	(14,674)
Revision of a lease term arising from a change in the consideration of a lease	**111**	–
Revision of a lease term arising from a change in the leased area of a lease	**–**	(946)
Carrying amount at 31 December	**112,375**	78,610
Analysed into:		
Current portion	**20,293**	11,563
Non-current portion	**92,082**	67,047

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

(c) The amounts recognised in consolidated statement of profit or loss and other comprehensive income in relation to leases are as follows:

	2022 *RMB'000*	2021 *RMB'000*
Interest on lease liabilities	**4,401**	3,532
Depreciation charge of right-of-use assets	**5,385**	5,141
Depreciation charge of investment properties	**19,700**	12,474
Expense relating to short-term leases	**131**	87
Total amount recognised in profit or loss	**29,617**	21,234

15. LEASES (Continued)

The Group as a lessor

The Group leases its investment properties (note 14) consisting of several leased land in Jilin and Heilongjiang Province under operating lease arrangements. The terms of the leases generally require the tenants to make lump sum upfront rental payments. Rental income recognised by the Group during the year was RMB21,026,000 (2021: RMB13,926,000), details of which are included in note 5 to the consolidated financial statements.

16. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments	**274,042**	61,522
Other receivables	**4,107**	1,907
	278,149	63,429
Impairment allowance	**–**	–
	278,149	63,429
Non-current portion	**(271,571)**	(58,124)
Current portion	**6,578**	5,305

Other receivables mainly represent receivables from purchasers of dairy cows and interest receivables. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

None of above assets is either past due or impaired.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

17. BIOLOGICAL ASSETS

A – Nature of activities

Dairy cows and dairy goats owned by the Group are primarily held to produce milk.

The quantity of dairy cows owned by the Group at 31 December 2022 and 2021 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 31 December 2022 and 2021 are dairy cows that have not had their first calves.

	2022 ***Heads***	2021 *Heads*
Dairy cows		
Heifers and calves	**49,202**	43,276
Milkable cows	**40,235**	36,290
Total dairy cows	**89,437**	79,566

The Group is exposed to fair value risks arising from changes in price of the cow's dairy products. The Group does not anticipate that the price of the cow's dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there are no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the cow's dairy products.

In general, the heifers are inseminated with semen when they reach approximately 16 months old. After approximately nine months following a successful insemination, 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 before an approximately 60 days' dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

The quantity of dairy goats owned by the Group as at 31 December 2022 is shown below. The Group's dairy goats contain lambs, young goats and milkable goats. Lambs and young goats held at 31 December 2022 are dairy goats that have not had their first lambs.

	2022 ***Heads***
Dairy goats	
Lambs and young goats	**1,491**
Milkable goats	**4,482**
Total dairy goats	**5,973**

17. BIOLOGICAL ASSETS (Continued)

A – Nature of activities (Continued)

The Group is exposed to fair value risks arising from changes in the prices of the dairy goats. The fair value of the dairy goats is determined with reference to the market prices of items with similar age, breed and genetic merit. There is an active market for dairy goats in the Mainland China.

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

(i) ***Regulatory and environment risks***

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

(ii) ***Climate, disease and other natural risks***

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

B – Value of dairy cows and goats

The value of dairy cows at the end of the year was:

	2022 ***RMB'000***	2021 *RMB'000*
Dairy cows	**1,996,691**	1,707,317

17. BIOLOGICAL ASSETS (Continued)

B – Value of dairy cows and goats (Continued)

	Heifers and calves *RMB'000*	Milkable cows *RMB'000*	Total *RMB'000*
Balance as at 31 December 2020 and 1 January 2021	542,957	898,983	1,441,940
Increase due to raising (feeding costs and others)	565,802	–	565,802
Increase due to purchase	65,707	–	65,707
Increase due to acquisition of a business	12,710	17,820	30,530
Transfer (out)/in	(376,341)	376,341	–
Decrease due to sales	(50,478)	(108,443)	(158,921)
Gain/(loss) arising from changes in fair value less costs to sell	1,746	(239,487)	(237,741)
Balance as at 31 December 2021 and 1 January 2022	762,103	945,214	1,707,317
Increase due to raising (feeding costs and others)	810,324	–	810,324
Transfer (out)/in	(558,130)	558,130	–
Decrease due to sales	(34,993)	(119,994)	(154,987)
Loss arising from changes in fair value less costs to sell	(47,995)	(317,968)	(365,963)
Balance as at 31 December 2022	931,309	1,065,382	1,996,691

17. BIOLOGICAL ASSETS (Continued)

B – Value of dairy cows and goats (Continued)

The value of dairy goats at the end of the year was:

	2022 *RMB'000*
Dairy goats	28,601

	Lambs and young goats *RMB'000*	Milkable goats *RMB'000*	Total *RMB'000*
Balance as at 1 January 2022	–	–	–
Increase due to acquisition of a business	24,263	20,524	44,787
Increase due to raising (feeding costs and others)	7,845	–	7,845
Transfer (out)/in	(15,199)	15,199	–
Decrease due to sales	(217)	(174)	(391)
Loss arising from changes in fair value less costs to sell	(10,852)	(12,788)	(23,640)
Balance as at 31 December 2022	5,840	22,761	28,601

The Group's dairy cows and dairy goats in Mainland China were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), a firm of independent qualified professional valuers not connected with the Group, who has appropriate qualifications and recent experiences in the valuation of biological assets. The fair value less costs to sell of the heifers and calves and dairy goats are determined with reference to the market prices of items with similar age, breed and genetic merit, if the market prices are available. There is no active market for milkable cows in the Mainland China market. An arm's length negotiation price in Mainland China might deviate from an overseas market price because of transportation costs, administrative costs and other factors. Due to the fact that the market prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less costs to sell of these items.

17. BIOLOGICAL ASSETS (Continued)

B – Value of dairy cows and goats (Continued)

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of the year will reduce at a certain culling rate due to natural or unnatural factors.
- The culling rates adopted are 10%, 13%, 15%, 23%, 35% and 100% for milkable cows in the first to sixth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.
- The average milk yield of each cow per day ranges from 26.25 to 28.21 kg during the projected period of six lactation cycles, which is the estimated amount of milk producible by a cow.
- The expected average prices of milk during the projected period of six lactation cycles, which is the estimated production period of a dairy cow, are estimated after taking into account 3% of growth for each projected year after considering future demand and inflation in Mainland China.
- The cash flows for financing the assets and taxation are not included in accordance with IAS 41 *Agriculture*.
- Costs are average costs based on historical cost information and taking into account a 3% growth for each projected year after considering future supply and inflation in Mainland China.
- The discount rate used was 14.0% (2021: 14.0%) for the year ended 31 December 2022.
- Contributory assets include working capital, plant, property and equipment, and assembled workforce. The rates of return on the respective contributory assets were 3.65% (2021: 3.80%), 4.30% (2021: 4.65%), and 14.0% (2021: 14.0%), respectively, for the year ended 31 December 2022.

The principal valuation assumption adopted in measuring the fair value of heifers and calves and dairy goats are as follows:

- The average market price of a heifer of 14 months old was RMB20,400 (2021: RMB19,500) for the year ended 31 December 2022 and the average feeding cost per day of each calf and heifer was RMB43.03.
- The average market price of a milkable goat and imported young goat was RMB2,750 and RMB12,067, respectively, for the year ended 31 December 2022.

17. BIOLOGICAL ASSETS (Continued)

C – Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's biological assets.

	Fair value measurement using significant unobservable inputs (Level 3)	
	2022	2021
	RMB'000	*RMB'000*
As at 31 December	**2,025,292**	1,707,317

D – Sensitivity analysis

Feeding costs sensitivity analysis for milkable cows

The following table demonstrates the sensitivity to a reasonably possible change in feeding costs, with all other variables held constant, of the Group's profit before tax (through the impact on changes in the feeding costs).

	Increase/(decrease) in profit before tax	
	2022	2021
	RMB'000	*RMB'000*
Increase in feeding costs of 10%	**(260,800)**	(210,210)
Decrease in feeding costs of 10%	**260,800**	210,210

Milk price sensitivity analysis for milkable cows

The following table demonstrates the sensitivity to a reasonably possible change in the milk price, with all other variables held constant, of the Group's profit before tax (through the impact on changes in the milk price).

	Increase/(decrease) in profit before tax	
	2022	2021
	RMB'000	*RMB'000*
Increase in milk price of 10%	**441,130**	355,850
Decrease in milk price of 10%	**(441,130)**	(355,850)

17. BIOLOGICAL ASSETS (Continued)

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

	2022 *RMB'000*	2021 *RMB'000*
Raw milk	**2,066,813**	1,748,422

18. INVENTORIES

	2022 *RMB'000*	2021 *RMB'000*
Feeds	**724,073**	493,739
Others	**63,471**	49,567
	787,544	543,306

At 31 December 2022, no inventories were pledged.

19. TRADE RECEIVABLES

	2022 *RMB'000*	2021 *RMB'000*
Trade receivables	**26,017**	52,874

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a few numbers of customers, there is a concentration of credit risk as disclosed in note 34 to the financial statements. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

19. TRADE RECEIVABLES (Continued)

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

	2022 RMB'000	2021 RMB'000
Within 1 month	**25,828**	52,874
1 to 2 months	**147**	–
2 to 3 months	**42**	–
	26,017	52,874

No loss allowance for impairment of trade receivables for each of the reporting periods was made.

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

20. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**280,174**	521,736
Time deposits	**528,467**	437,675
	808,641	959,411
Less: Non-pledge time deposits with maturity of more than three months when acquired	**(232,332)**	–
Cash and cash equivalents	**576,309**	959,411

20. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS (Continued)

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB258,696,000 (2021: RMB124,311,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one month and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

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

	2022 *RMB'000*	2021 *RMB'000*
Within 2 months	**317,841**	230,298
2 to 6 months	**52,231**	35,874
6 to 12 months	**10,962**	9,787
Over 1 year	**7,633**	6,293
	388,667	282,252

Trade payables are non-interest-bearing and are normally settled on terms of two to six months.

22. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Deferred revenue	(a)	**402,300**	419,995
Contract liabilities	(b)	**694,692**	347,519
Other payables – construction	(c)	**225,960**	150,121
Other payables – equipment and materials	(c)	**39,093**	24,852
Others		**153,551**	142,168
		1,515,596	1,084,655
Non-current portion			
Deferred revenue	(a)	**(383,134)**	(402,411)
		1,132,462	682,244

(a) Deferred revenue represented government grants received by the Group as financial subsidies for the purchases of feed and the construction of farms. Government grants are recognised as income over the period necessary to match the grant on a systematic basis to the costs and expenses that they are intended to compensate on over the weighted average of the expected useful life of the relevant property, plant and equipment.

(b) Details of contract liabilities are as follows:

	2022 RMB'000	2021 RMB'000
Short-term advances received from a customer		
Sale of raw milk	**694,692**	347,519

Contract liabilities include short-term advances received to deliver raw milk. The increase in contract liabilities in 2022 was mainly due to the increase in short-term advances received from a major customer.

(c) Other payables are non-interest-bearing and have no fixed terms of repayment.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2022			2021		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loan – unsecured	**2.95-3.00**	**2023**	**120,000**	–	–	–
Non-current						
Bank loans – secured	**3.80-3.85**	**2027**	**716,534**	–	–	–
Other loan – unsecured	**–**	**–**	**–**	5.22	2024-2025	190,000
			836,534			190,000

	2022 ***RMB'000***	2021 *RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**120,000**	–
In the third to fifth years, inclusive	**716,534**	–
	836,534	–
Other borrowing repayable:		
In the third to fifth years, inclusive	**–**	190,000
	836,534	190,000

(a) Other borrowing represents loan due to an independent third party. During the year, Heilongjiang Jinyuan Dairy Farming Co., Ltd, a wholly owned subsidiary of the Group, repaid the loan to the independent third party in advance. The loan was acquired from the independent third party due to the asset transfer in 2021. According to the asset transfer agreement, the bank loan borrowed by this independent third party shall be transferred to Heilongjiang Jinyuan Dairy Farming Co., Ltd together with certain assets. The novation agreement with the bank had not been signed before the repayment.

(b) As at 31 December 2022, all bank borrowings were denominated in RMB.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

(c) Certain of the Group's bank loan facilities up to RMB875,000,000 (2021: Nil) as at 31 December 2022 were guaranteed by the Group's Chief Executive Officer and his wife, and certain subsidiaries of the Group, and were also secured by receivables in the next 5 years of certain subsidiaries of the Group from certain subsidiaries of a major customer, of which RMB434,582,000 (2021: Nil) have been utilised.

(d) Certain of the Group's bank loan facilities up to RMB320,000,000 (2021: Nil) as at 31 December 2022 were guaranteed by certain subsidiaries of the Group, of which RMB281,952,000 (2021: Nil) have been utilised.

24. DEFERRED TAX

The Group has tax losses arising in Mainland China of RMB11,543,000 (2021: RMB25,987,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

As at 31 December 2022, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled approximately RMB158,338,000 at 31 December 2022 (2021: RMB156,119,000).

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

25. SHARE CAPITAL

Shares

	2022	2021
	RMB'000	*RMB'000*
Authorised:		
50,000,000,000 ordinary shares of HKD0.01 each	**406,897**	406,897
Issued and fully paid:		
4,690,496,400 (2021: 4,690,496,400) ordinary shares of HKD0.01 each	**37,674**	37,674

26. SHARE OPTION SCHEME

China Feihe Limited, the Company's holding company, operated a share option scheme (the "**2020 Share Option Scheme**"), which was adopted and approved by the shareholders of China Feihe Limited on 22 June 2020. Eligible persons of the 2020 Share Option Scheme include, inter alia, any eligible person (including director and employee) of China Feihe Limited and its subsidiaries. The purpose of the 2020 Share Option Scheme were (i) to attract and retain skilled and experienced personnel for positions of substantial responsibility, (ii) to provide additional incentive to directors of China Feihe Limited and its subsidiaries, key employees and other stakeholders of China Feihe Limited, and (iii) to promote the success of the business of China Feihe Limited.

On 15 July 2021, a total of 3,029,400 share options were granted to directors and employees of the Company to subscribe for a total of 3,029,400 new shares of China Feihe Limited of US$0.000000025 each, with the first vesting date on 15 July 2022 ("**First Vesting Date I**") which up to 20% of the granted share options to be vested, and up to 40%, 60%, 80% and 100% of the share options to be vested on the first, second, third and fourth anniversary of the First Vesting Date I. These share options are exercisable at HKD16.84 per share and must be exercisable within ten years from the grant date, and if not so exercised, the share options shall lapse.

On 24 January 2022, a total of 2,400,000 share options were granted to directors of the Company to subscribe for a total of 2,400,000 new shares of China Feihe Limited of US$0.000000025 each, with the first vesting date on 24 January 2023 ("**First Vesting Date II**") which up to 20% of the granted share options to be vested, and up to 40%, 60%, 80% and 100% of the share options to be vested on the first, second, third and fourth anniversary of the First Vesting Date II. These share options are exercisable at HKD11.76 per share and must be exercisable within ten years from the grant date, and if not so exercised, the share options shall lapse.

26. SHARE OPTION SCHEME (Continued)

Share options did not confer rights on the holders to dividends or voting rights at shareholders' meetings.

The movements of options granted to directors and employees of the Company pursuant to the 2020 Share Option Scheme are as follows:

	2022		2021	
	Weight average exercise price per share HKD	Number of options	Weight average exercise price per share HKD	Number of options
At 1 January	16.84	3,029,400	–	–
Granted during the year	11.76	2,400,000	16.84	3,029,400
At 31 December	14.59	5,429,400	16.84	3,029,400

No share options were exercised during the year ended 31 December 2022 (2021: nil).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2022

Number of options	Exercise price per share HKD	Exercise period
3,029,400	16.84	15-07-21 to 14-07-31
2,400,000	11.76	24-01-22 to 23-01-32
5,429,400		–

2021

Number of options	Exercise price per share HKD	Exercise period
3,029,400	16.84	15-07-21 to 14-07-31

26. SHARE OPTION SCHEME (Continued)

The fair value of the share options granted during the year was RMB6,620,000 (RMB2.76 each) (2021: RMB11,463,000, RMB3.78 each), of which the Group recognised a share option expense of RMB9,660,000 (2021: nil) during the year ended 31 December 2022.

The fair value of the share options granted during year ended 31 December 2022 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2022	2021
Dividend yield (%)	**6.50**	6.00
Expected volatility (%)	**42.17**	41.72
Risk-free interest rate (%)	**1.57**	0.98

The expected volatility reflects the assumption that the historical volatility of comparable companies in the same industry is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 83 of the financial statements.

The Group's merger reserve represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor.

The capital reserve represents the amount of a capital contribution from Ms. Li Shuxia, the spouse of Mr. Zhao Hongliang, to YST Heilongjiang for repayment of the total indebtedness.

28. BUSINESS COMBINATION

On 1 January 2022, the Group acquired certain assets from an unaffiliated party engaged in the production and sale of raw milk. The acquisition was made as part of the Group's strategy to expand its business in the fast-growing goat milk market in mainland China and diversify and expand new product lines to meet the customers' need for goat milk powder products in Mainland China. The purchase consideration for the acquisition was in the form of cash of RMB135,883,000.

As acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs, which meets the definition of a business outlined in IFRS 3, the Group determines the acquisition as business combination.

The fair values of the identifiable assets and liabilities acquired as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *RMB'000*
Property, plant and equipment	*13*	**91,096**
Right-of-use assets	*15*	**455**
Biological assets	*17*	**44,787**
Lease liabilities	*15*	**(455)**
Total identifiable net assets at fair value		**135,883**
Satisfied by cash		**135,883**

The Group incurred transaction costs of RMB75,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

28. BUSINESS COMBINATION (Continued)

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration	**135,883**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(135,883)**
Transaction costs of the acquisition included in cash flows from operating activities	**(75)**
	(135,958)

Since the acquisition, the acquired business contributed RMB10,232,000 to the Group's revenue and resulted in a loss of RMB38,250,000 to the consolidated profit for the year ended 31 December 2022.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to investment properties, right-of-use assets and lease liabilities of RMB52,043,000 (2021: RMB12,755,000), RMB2,044,000 (2021: RMB829,000) and RMB54,087,000 (2021: RMB13,584,000), respectively, in respect of lease arrangements for leased land.

(b) Changes in liabilities arising from financing activities

2022

	Interest-bearing bank and other borrowings *RMB'000*	Lease liabilities *RMB'000*
At 1 January 2022	**190,000**	**78,610**
Changes from financing cash flows	**646,534**	**(21,223)**
New leases	–	**53,521**
Additions as a result of acquisition of a business	–	**455**
Interest expense	–	**4,401**
Interest paid classified as operating cash flows	–	**(3,500)**
Reassessment and revision of lease term	–	**111**
At 31 December 2022	**836,534**	**112,375**

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities (Continued)

2021

	Interest-bearing other borrowing *RMB'000*	Lease liabilities *RMB'000*
At 1 January 2021	–	77,114
Changes from financing cash flows	–	(11,166)
New leases	–	13,584
Interest expense	–	3,532
Interest paid classified as operating cash flows	–	(3,508)
Reassessment and revision of lease term	–	(946)
Increase arising from acquisition of net assets	190,000	–
At 31 December 2021	190,000	78,610

(c) Total cash outflow for leases

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

	2022 **RMB'000**	2021 *RMB'000*
Within operating activities	**3,631**	3,619
Within financing activities	**21,223**	11,166
	24,854	14,785

30. COMMITMENTS

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

	2022 **RMB'000**	2021 *RMB'000*
Contracted, but not provided for:		
Plant and machinery	**193,590**	79,032
Dairy cows	**46,724**	–
	240,314	79,032

31. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the year:

	2022 RMB'000	2021 RMB'000
Sale of raw milk	**1,741,264**	1,545,277

(b) Other transaction with related parties:

As at 31 December 2022, the Group's Chief Executive Officer and his wife have provided guarantees to certain of the Group's bank loan facilities up to RMB875,000,000 (2021: Nil), of which an amount of RMB434,582,000 (2021: Nil) has been utilised.

(c) Outstanding balances with related parties:

The Group had an outstanding balance of contract liabilities due to China Feihe Limited (included in other payables and accruals) amounting to RMB694,692,000 as at 31 December 2022 (2021: RMB347,519,000). This balance is unsecured, interest-free and has no fixed terms of repayment.

(d) Compensation of key management personnel of the Group is as follows:

	2022 RMB'000	2021 RMB'000
Short term employee benefits	**4,337**	3,722
Post-employment benefits	**644**	510
Equity-settled share option expense	**5,270**	–
Total compensation paid to key management personnel	**10,251**	4,232

Further details of directors' and the chief executive's remuneration are included in note 8 to the financial statements.

The related party transactions in respect of item (a) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

2022

Financial assets

	Financial assets at amortised cost *RMB'000*
Trade receivables	**26,017**
Financial assets included in prepayments, other receivables and other assets	**4,107**
Time deposits	**232,332**
Cash and cash equivalents	**576,309**
	838,765

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade payables	**388,667**
Financial liabilities included in other payables and accruals	**356,950**
Interest-bearing bank and other borrowings	**836,534**
Lease liabilities	**112,375**
	1,694,526

32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2021

Financial assets

	Financial assets at amortised cost *RMB'000*
Trade receivables	52,874
Financial assets included in prepayments, other receivables and other assets	1,907
Cash and cash equivalents	959,411
	1,014,192

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade payables	282,252
Financial liabilities included in other payables and accruals	270,342
Interest-bearing other borrowing	190,000
Lease liabilities	78,610
	821,204

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial liabilities				
Interest-bearing bank and other borrowings	**836,534**	190,000	**836,177**	190,180

Management has assessed that the fair values of cash and cash equivalents, time deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2022 and 2021 were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
At 31 December 2022				
Interest-bearing bank and other borrowings	**–**	**836,177**	**–**	**836,177**
At 31 December 2021				
Interest-bearing bank and other borrowings	–	190,180	–	190,180

The Group did not have any financial assets or financial liabilities measured at fair value as at 31 December 2022 (2021: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets and financial liabilities (2021: Nil).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances and interest-bearing bank borrowings with floating interest rates. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	2022		2021	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		RMB'000		*RMB'000*
RMB	**100**	**(4,959)**	100	4,806
HKD	**100**	**176**	100	394
USD	**100**	**39**	100	4,395
RMB	**(100)**	**4,959**	(100)	(4,806)
HKD	**(100)**	**(176)**	(100)	(394)
USD	**(100)**	**(39)**	(100)	(4,395)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from cash and cash equivalents and time deposits held by operating units in currencies other than the units' functional currencies. Approximately 66% (2021: 46%) of the Group's cash and cash equivalents and time deposits were denominated in currencies other than the functional currency of the operating units.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD and USD exchange rates, with all other variables held constant, of the Group's profit before tax (arising from HKD and USD denominated financial instruments).

	2022		2021	
	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax *RMB'000*
If RMB weakens against HKD	3%	96	3%	30
If RMB strengthens against HKD	(3%)	(96)	(3%)	(30)
If RMB weakens against USD	3%	15,911	3%	13,073
If RMB strengthens against USD	(3%)	(15,911)	(3%)	(13,073)

Credit risk

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

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB'000*	**Stage 2** *RMB'000*	**Stage 3** *RMB'000*	**Simplified approach** *RMB'000*	**Total** *RMB'000*
Trade receivables*	**–**	**–**	**–**	**26,017**	**26,017**
Financial assets included in prepayments, other receivables and other assets					
– Normal**	**4,107**	**–**	**–**	**–**	**4,107**
Time deposits					
– Not yet past due	**232,332**	**–**	**–**	**–**	**232,332**
Cash and cash equivalents					
– Not yet past due	**576,309**	**–**	**–**	**–**	**576,309**
	812,748	**–**	**–**	**26,017**	**838,765**

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Simplified approach *RMB'000*	Total *RMB'000*
Trade receivables*	–	–	–	52,874	52,874
Financial assets included in prepayments, other receivables and other assets					
– Normal**	1,907	–	–	–	1,907
Cash and cash equivalents					
– Not yet past due	959,411	–	–	–	959,411
	961,318	–	–	52,874	1,014,192

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging (Continued)

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At the end of the reporting period, the Group had certain concentrations of credit risk as nil (2021: nil) and 66% (2021: 94%) of the Group's trade receivables were due from the Group's largest customer and the two largest customers, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines that there are minimal concentrations of credit risk within the Group as the customers of the Group's trade receivables are recognised and creditworthy.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and lease liabilities.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	2022			
	On demand or no later than 1 year *RMB'000*	**1 to 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Lease liabilities	**24,291**	**97,709**	**2,410**	**124,410**
Interest-bearing bank and other borrowings	**148,718**	**811,548**	**–**	**960,266**
Trade payables	**388,667**	**–**	**–**	**388,667**
Financial liabilities included in other payables and accruals	**356,950**	**–**	**–**	**356,950**
	918,626	**909,257**	**2,410**	**1,830,293**

	2021			
	On demand or no later than 1 year *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	14,674	58,925	15,593	89,192
Interest-bearing other borrowing	10,083	214,371	–	224,454
Trade payables	282,252	–	–	282,252
Financial liabilities included in other payables and accruals	270,342	–	–	270,342
	577,351	273,296	15,593	866,240

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, and certain other payables and accruals, less cash and cash equivalents and time deposits. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Interest-bearing bank and other borrowings *(note 23)*	**836,534**	190,000
Trade payables *(note 21)*	**388,667**	282,252
Other payables and accruals	**356,950**	270,342
Less: Cash and cash equivalents *(note 20)*	**(576,309)**	(959,411)
Time deposits *(note 20)*	**(232,332)**	–
Net debt/(asset)	**773,510**	(216,817)
Equity attributable to owners of the parent	**5,088,138**	5,052,798
Capital and net debt	**5,861,648**	4,835,981
Gearing ratio	**13%**	N/A

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Due from subsidiaries	3,162,753	2,903,855
Investments in subsidiaries	1	1
Total non-current assets	3,162,754	2,903,856
CURRENT ASSETS		
Prepayments, other receivables and other assets	432	811
Cash and cash equivalents	16,426	42,100
Total current assets	16,858	42,911
CURRENT LIABILITIES		
Due to subsidiaries	8,136	7,436
Other payables and accruals	4,002	38,424
Total current liabilities	12,138	45,860
NET CURRENT ASSETS/(LIABILITIES)	4,720	(2,949)
Net assets	3,167,474	2,900,907
EQUITY		
Issued capital	37,674	37,674
Reserves *(note)*	3,129,800	2,863,233
Total equity	3,167,474	2,900,907

Zhao Hong Liang
Director

Chen Xiang Qing
Director

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Share premium *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2021	2,977,020	–	62,947	(151,774)	2,888,193
Total comprehensive loss for the year	–	–	(20,791)	(4,169)	(24,960)
At 31 December 2021 and 1 January 2022	2,977,020	–	42,156	(155,943)	2,863,233
Total comprehensive income/(loss) for the year	**–**	**–**	**272,643**	**(15,736)**	**256,907**
Equity-settled share option arrangements	**–**	**9,660**	**–**	**–**	**9,660**
At 31 December 2022	**2,977,020**	**9,660**	**314,799**	**(171,679)**	**3,129,800**

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2023.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements for the years ended 31 December 2018, 2019, 2020, 2021 and 2022 as follows:

RESULTS

	Year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**2,090,343**	1,776,538	1,554,012	1,389,510	1,099,547
Profit/(loss) for the year	**22,841**	156,990	577,951	223,080	(556,313)

ASSETS AND LIABILITIES

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**7,941,310**	6,688,315	5,783,337	4,961,082	4,790,399
Total liabilities	**(2,853,172)**	(1,635,517)	(886,841)	(642,610)	(698,470)
Total equity	**5,088,138**	5,052,798	4,896,496	4,318,472	4,091,929

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