

# 飞鹤

中國飛鶴有限公司  
China Feihe Limited

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 6186

# 2023

Annual Report



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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. LENG Youbin (*Chairman & Chief Executive Officer*)  
Mr. LIU Hua  
Mr. CAI Fangliang  
Ms. Judy Fong-Yee TU

### Non-executive Directors

Mr. GAO Yu  
Mr. Kingsley Kwok King CHAN  
Mr. CHEUNG Kwok Wah

### Independent Non-executive Directors

Ms. LIU Jinping  
Mr. SONG Jianwu  
Mr. FAN Yonghong  
Mr. Jacques Maurice LAFORGE

## AUDIT COMMITTEE

Mr. FAN Yonghong (*Chairman*)  
Mr. GAO Yu  
Mr. Jacques Maurice LAFORGE

## REMUNERATION COMMITTEE

Ms. LIU Jinping (*Chairman*)  
Mr. LIU Hua  
Mr. Jacques Maurice LAFORGE

## NOMINATION COMMITTEE

Mr. LENG Youbin (*Chairman*)  
Ms. LIU Jinping  
Mr. SONG Jianwu

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Mr. LIU Hua (*Chairman*)  
Ms. Judy Fong-Yee TU  
Ms. LIU Jinping

## COMPANY SECRETARY

Ms. Judy Fong-Yee TU

## AUDITOR

Ernst & Young  
Certified Public Accountants  
Registered Public Interest Entity Auditor  
27th Floor, One Taikoo Place, 979 King's Road  
Quarry Bay, Hong Kong

## AUTHORISED REPRESENTATIVES

Mr. LIU Hua  
Ms. Judy Fong-Yee TU

## PRINCIPAL BANK

### China Construction Bank Corporation

Qiqihar Branch  
No. 267, Yong'an Avenue  
Longsha District  
Qiqihar  
Heilongjiang  
PRC

## REGISTERED OFFICE

Maricorp Services Ltd.  
P.O. Box 1103  
George Town  
Grand Cayman KY1-1102  
Cayman Islands

## CORPORATE HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

C-16th Floor, Star City International Building  
10 Jiuxianqiao Road  
Chaoyang District  
Beijing  
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place  
348 Kwun Tong Road  
Kowloon  
Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT**

Maricorp Services Ltd.  
P.O. Box 1103  
George Town  
Grand Cayman KY1-1102  
Cayman Islands

### **HONG KONG BRANCH SHARE REGISTRAR**

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

### **INVESTOR RELATIONS CONTACT**

Email: [ir@feihe.com](mailto:ir@feihe.com)

### **CORPORATE WEBSITE**

[www.feihe.com](http://www.feihe.com)

### **STOCK CODE**

6186

# Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

## RESULTS

	Year ended 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	<b>19,532,203</b>	21,310,933	22,776,265	18,592,465	13,721,509
Gross profit	<b>12,663,353</b>	13,950,600	16,007,589	13,480,278	9,609,591
Profit before tax	<b>4,850,292</b>	6,663,109	9,672,329	9,900,489	5,682,676
Profit for the year	<b>3,290,352</b>	4,948,106	6,914,896	7,436,632	3,934,577
Profit for the year attributable to owners of the parent	<b>3,390,009</b>	4,942,048	6,871,044	7,436,873	3,934,577
Profit/(loss) for the year attributable to non-controlling interests	<b>(99,657)</b>	6,058	43,852	(241)	–

## ASSETS AND LIABILITIES

	As at 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	<b>36,194,678</b>	35,515,773	31,481,424	28,322,838	23,003,749
Total liabilities	<b>(9,860,332)</b>	(10,040,830)	(9,078,054)	(9,137,313)	(9,974,171)
Total equity	<b>26,334,346</b>	25,474,943	22,403,370	19,185,525	13,029,578
Non-current assets	<b>13,640,407</b>	13,286,092	11,511,786	9,778,443	5,715,172
Current assets	<b>22,554,271</b>	22,229,681	19,969,638	18,544,395	17,288,577
Current liabilities	<b>(7,382,230)</b>	(7,459,689)	(6,942,106)	(7,107,369)	(7,438,500)
Net current assets	<b>15,172,041</b>	14,769,992	13,027,532	11,437,026	9,850,077
Non-current liabilities	<b>(2,478,102)</b>	(2,581,141)	(2,135,948)	(2,029,944)	(2,535,671)
Total equity	<b>26,334,346</b>	25,474,943	22,403,370	19,185,525	13,029,578

# Chairman's Statement

Dear Shareholders,

On behalf of the Board, I would like to present to you the annual report of the Company for the year ended 31 December 2023 and the outlook for 2024.

In 2023, the global economy moved slowly, with high inflation, local conflicts and turbulence, as well as increasing unstable and uncertain factors affecting various industries. In the face of difficulties and challenges brought about by the external environment, China Feihe has always adhered to its original mission, upheld the concept of long-term doctrine and calmly responded.

## 2023 REVIEW

### I. Financial Performance

From 2022 to 2023, our revenue decreased from RMB21,310.9 million to RMB19,532.2 million, with a year-on-year decrease of 8.3%; our gross profit decreased from RMB13,950.6 million to RMB12,663.4 million, with a year-on-year decrease of 9.2%; our net profit decreased from RMB4,948.1 million to RMB3,290.4 million, with a year-on-year decrease of 33.5%.

### II. Operating Results

On the one hand, China Feihe highlighted its primary business, continuously strove for quality upgrading and brand empowerment, and shaped its leading brand influence; and on the other hand, it accelerated the transformation of product structure, sought a diversified layout, expedited the development of new quality productivity in the dairy industry, and constantly empowered a healthy China with technological innovation.

In 2023, China Feihe made many milestone new achievements. It officially launched the “14th Five-Year Plan” national key research and development program, aiming at leading the development of a new generation of infant milk formula in China. In October, it fully launched the “Brain Development Strategy”, and jointly set up research and development platforms and foundations with Peking University, Harvard Medical School at Boston Children's Hospital, etc., so as to lead the milk powder industry into the new fields of scientific research and reach new heights; meanwhile, it led and participated in the development of the world's first detection standards for osteopontin and breast milk oligosaccharides, filling multiple testing technology gaps at home and abroad, and also took the lead in adding raw materials to its product lines, effectively enhancing the international competitiveness of domestic milk powder. And it won 11 the “World Dairy Innovation Awards” at the Global Dairy Congress. This year, China Feihe not only built a family of fully functional products throughout the entire life cycle from birth to growth, and from adulthood to longevity, but also took solid steps towards building a strong brand of milk powder; and it also launched a cute IP called “Family of Firmus Baby”, keeping up with the times and constantly revitalizing the brand's youthful vitality.



## Chairman's Statement

While achieving fruitful results, China Feihe thoroughly implemented national strategies, actively fulfilled social responsibilities, and continuously promoted the simultaneous improvement of environmental, social and economic benefits. In 2023, China Feihe attended the Summit on Sustainable Development Goals organized by the United Nations and contributed the strength of Chinese enterprises to achieve sustainable development. It was selected as an excellent case of digital and green collaborative transformation and development in the Asia-Pacific Economic Cooperation and was among the list of "Pioneer 100 ESG Listed Companies in China", and three of its factories were included into the national-level "green factory". In the face of natural disasters that occurred in Hebei, Heilongjiang and other provinces, China Feihe responded at once and actively supported rural revitalization and construction, demonstrating its responsibility and commitment as a national enterprise.

Currently, along with the gradual recovery of the global economy and the successful completion of its own business restructuring, China Feihe is accelerating its multi-functional complementary pattern, and is approaching the fast lane under a high-quality development mode. In the future, China Feihe will closely follow market demands, consolidate its core advantages in infant formula powder, and continuously create new capabilities and new systems. With brain development as the strategic high point, it will continue to lay out in all aspects of nutrition for pregnant women, infants, adolescents and adults. And meanwhile relying on its own resources and its advantages in the front-end and back-end industrial chains, and keeping a foothold on brand, technology and digitization, it will gradually launch higher quality and more diversified innovative products, create a new growth curve and build a strong competitive defense line for itself.

### III. Future Prospect

In the government work tasks for 2024, it was mentioned that promoting a stable consumption growth requires comprehensive measures such as increasing revenue, optimizing supply and reducing restrictive measures to stimulate consumption potentials. As boosted by such policies, it is expected that the consumer market will usher in a new round of prosperity in 2024, thereby creating good development opportunities for China Feihe. China Feihe will fully seize market opportunities, orient to consumer demands, fully utilize its resource advantages of being located in the world's golden milk belt at 47°N latitude and its industrial advantages in the whole dairy industry chain, adhere to innovation-driven, further promote the "brain development" strategy, continue to improve the layout of full life cycle nutrition services, and build itself into a leading brand in the field of full life cycle health.

China Feihe will actively play a leading role, continue to strengthen scientific research innovation, product innovation and business innovation, consolidate its foundation for long-term development with excellent quality, and render babies and all their family members with fresher and more accurate nutrition as well as richer and more intimate services, thereby driving the brand to become stronger day by day. In addition, China Feihe will firmly practice the concept of sustainable development, unify its own development with the realization of environmental, social and economic benefits, do its utmost to give back to the society, and contribute the strength of Chinese enterprises to achieve the double-carbon goal.

Time marches on regardless of day and night. In the future, China Feihe will continue to stand up to the tide, ride the wind, continuously intensify scientific research and innovation, create quality monuments, and strive sincerely towards the goal of "building a great brand in the field of Chinese milk powder", demonstrating its extraordinary style.

**LENG Youbin**

*Chairman*

28 March 2024

# Management Discussion and Analysis

## INDUSTRY OVERVIEW

China has been one of the most populous countries. With continued urbanization and the rise in the number of women in the workplace, an increasing number of mothers in China have grown to realize the convenience and nutritional benefits offered by infant milk formula products as a supplement to and/or substitute for breast milk for their infants. According to the National Bureau of Statistics, China's birth rate dropped from 10.94‰ in 2018 to 6.39‰ in 2023, with number of newborns declining to approximately 9.0 million in 2023. According to Frost & Sullivan, an industry consulting firm, the number of children aging from zero to three decreased accordingly from approximately 50.1 million in 2018 to approximately 28.5 million in 2023, with a compound annual growth rate (“**CAGR**”) of -10.6%. Despite the decline from 2018 to 2023, the decline in the number of newborns is expected to slow down from 2023 to 2027, thanks to the supportive measures for the three-child policy. Due to the factors listed below, China's infant milk formula market in terms of retail sales value is expected to remain stable.

- Growth in consumers' confidence in the quality of and preference for China's infant milk formula products. With the enhancement in the quality management regime of China's dairy industry and the increased competitiveness of Chinese dairy brands, consumers' confidence in and consumption preference for China's infant milk formula products continued to increase. Such increase will drive the production and sales of China's infant milk formula products, which could in turn better satisfy consumers' diversified and unique consumption needs.
- Growth of the high-end infant milk formula segment. Due to increasing urbanization, rising disposable income and growing health awareness, the demand for high-end infant milk formula products is expected to be the driving force of the overall infant milk formula industry in China. According to the National Bureau of Statistics, China's per capita annual disposable income in 2023 reached RMB39,218, with a CAGR of 6.8% from 2018 to 2023. Such increase will in turn increase the consumption momentum of China's high-end infant milk formula products.
- Increasing urbanization and rising disposable income. The increase in the urbanization rate and the per capita annual disposable income of Chinese residents will enhance the purchasing power of consumers, allowing them to purchase more infant milk formula products. Lower-tier cities as well as rural areas in China are becoming wealthier and more urbanized, and families in such regions are increasingly able to afford higher-quality infant milk formula products. In general, these regions have larger populations and therefore higher potential for consumption growth.





## Management Discussion and Analysis

- Favorable industrial policies by the PRC government:
  - o The National Development and Reform Commission of China unveiled the Action Plan for the Promotion of Domestic Infant Milk Formula (國產嬰幼兒配方乳粉提升行動方案) in May 2019, aiming to increase the portion of domestically manufactured infant milk formula in China with a target to remain a 60% self-sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula.
  - o On 22 February 2021, a series of national safety standards on infant food and infant milk formula were released by the State Healthcare Commission, such as National Standard for Infant Formula Food Safety (GB10765-2021) (食品安全國家標準嬰兒配方食品) and National Standard for Larger Infant Formula Food Safety (GB 10766-2021) (食品安全國家標準較大嬰兒配方食品). After a transition period of two years, those standards were implemented on 22 February 2023. The new national safety standards have made stricter provisions on areas such as protein, carbohydrate, microelement, which is conducive to the innovation of leading infant milk formula enterprises and the further development of infant milk formula industry.
  - o On 20 July 2021, the State Council issued the Decision on Optimizing Birth Policy to Promote Long-term Balanced Development of Population (關於優化生育政策促進人口長期均衡發展的決定), proposing the implementation of the three-child policy and supporting measures to slow down the decline of birth rate. Later, the National Healthcare Security Administration issued the Notice on Supporting Maternity Insurance under the Three-Child Policy (關於做好支持三孩政策生育保險工作的通知), and the National People's Congress Standing Committee voted to pass the decision on amending the Law of Population and Family Planning, advocating on age-appropriate marriage and childbirth, which promotes childbirths. During the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) in March 2022, the government reported the detailed implementation plan of the three-child policy, such as increasing maternity subsidies and medical security, adjustment of personal income tax on the care for children under three years old, and development of commonly affordable childcare services.
  - o On 12 November 2021, the State Administration for Market Regulation published the Announcement of the State Administration for Market Regulation on the Further Regulation of Labels and Identification of Infant Milk Formula Product (市場監管總局關於進一步規範嬰幼兒配方乳粉產品標籤標識的公告) (the **"SAMR Announcement"**), which made further stipulations on the characteristics, such as the label's main display layout, content claim, pattern, and feeding suggestion form. In addition, it is stipulated that if the product name refers to certain animal origin, all the milk protein raw materials in the product should come from such animal species. For compound ingredients in product ingredient list (excluding compound food additives), the original ingredients must be specified. From the date of the SAMR Announcement, the registration application for the infant formula products shall be carried out according to the stipulations contained therein. With effect from 22 February 2023, labels and markings on manufactured products shall comply with the requirements of the SAMR Announcement. Products manufactured prior to this date can be sold until the expiration of their shelf life.
  - o On 10 July 2023, the State Administration for Market Regulation published the Amendment to the Measures for the Administration of Formula Registration of Infant Milk Formula Product (《嬰幼兒配方乳粉產品配方註冊管理辦法》), which further tightens the registration conditions of infant milk formula products and ensures the quality and food safety of infant milk formula products. The Amendment came into force on 1 October 2023.

### **BUSINESS OVERVIEW**

#### **Dairy Products**

The Group's infant milk formula products are designed to closely simulate the composition of the breast milk of Chinese mothers through in-house developed formulas, with the aim of achieving an optimal balance of key ingredients for Chinese babies based on their biological constitution. The Group offers a diversified portfolio of products which caters to a wide range of customer bases at different prices. In addition to super-premium and premium series, the Group also offers a portfolio of well-known brands including the regular infant milk formula series as well as other products such as dairy products for adults and students.

#### **Sales and Distribution Network**

The Group primarily sells its products through an extensive nationwide distribution network of over 2,800 offline customers with more than 83,000 retail points of sale as at 31 December 2023. The Group's offline customers are distributors who sell its products to retail outlets as well as maternity store operators, supermarkets and hypermarket chains in some cases. Revenue generated through sales to the Group's offline customers accounted for 79.6% of its total revenue from dairy products for the year ended 31 December 2023.

To capture the rapid growth from e-commerce sales in China, particularly among younger generations of consumers, the Group's products are also sold directly on some of the largest e-commerce platforms as well as through its own website and mobile applications.

#### **Production Capacity**

The Group continued to optimize its production arrangements to increase its capacity and efficiency. As at 31 December 2023, the Group had 11 production facilities to manufacture its products with a designed annual production capacity of approximately 327,000 tonnes in total. The Group regularly upgrades its production facilities to meet its production needs.



## Management Discussion and Analysis

### Marketing

The Group is a pioneer in China's infant milk formula market by positioning its brand as “**Fresh, Extracted and Active Nutrition, More Suitable for Chinese Babies**” (鮮萃活性營養·更適合中國寶寶體質) and has established a strong brand association with this message. The Group's innovative online and offline marketing strategies have enabled Feihe to become one of the most widely recognized and reputable infant milk formula brands among Chinese consumers today. The Group's marketing strategy consists of three key components:

- Face-to-face seminars, including Mother's Love seminars, Carnivals and Roadshows. During the year ended 31 December 2023, approximately 950,000 face-to-face seminars were held in total. The number of new customers we acquired exceeded 2.8 million;
- Maximize online interactivity with consumers; and
- Targeted and result-driven exposure on media.

### Vitamin World USA

The Group acquired the retail health care business of Vitamin World in early 2018 through Vitamin World USA Corporation (“**Vitamin World USA**”). Vitamin World USA engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated 45 specialty stores across the United States of America (the “**United States**”), mostly in malls and outlet centres, and employed 178 people as at 31 December 2023. The Group also sells such products through its own website of Vitamin World USA, and e-commerce platforms. Our revenue generated from nutritional supplement products was RMB231.7 million, accounting for 1.2% of the Group's total revenue for the year ended 31 December 2023.

## Management Discussion and Analysis

### OPERATING RESULTS AND ANALYSIS

The table below sets forth the Group's consolidated statement of profit or loss and consolidated statement of comprehensive income in absolute amounts and as a percentage of the Group's total revenue for the years indicated, together with changes (expressed in percentages) from 2022 to 2023.

#### Consolidated statement of profit or loss

	Year Ended 31 December				Year-on-Year Change
	2023		2022		
	(In thousands of RMB, except percentages)				
Revenue	19,532,203	100.0%	21,310,933	100.0%	(8.3)%
Cost of sales	(6,868,850)	(35.2)%	(7,360,333)	(34.5)%	(6.7)%
<b>Gross profit</b>	<b>12,663,353</b>	<b>64.8%</b>	13,950,600	65.5%	(9.2)%
Other income and gains, net	1,659,531	8.5%	1,368,642	6.4%	21.3%
Selling and distribution expenses	(6,709,067)	(34.3)%	(6,545,373)	(30.7)%	2.5%
Administrative expenses	(1,762,049)	(9.0)%	(1,535,012)	(7.2)%	14.8%
Other expenses	(100,862)	(0.5)%	(135,252)	(0.6)%	(25.4)%
Finance costs	(53,132)	(0.3)%	(33,640)	(0.2)%	57.9%
Share of loss of an associate	(5,958)	(0)%	(15,548)	(0.1)%	(61.7)%
Share of loss of a joint venture	(1,450)	(0)%	(1,705)	(0)%	(15.0)%
Impairment losses on property, plant and equipment and right-of-use assets	(89,812)	(0.5)%	–	–	–
Changes in fair value less costs to sell of biological assets	(750,262)	(3.8)%	(389,603)	(1.8)%	92.6%
<b>Profit before tax</b>	<b>4,850,292</b>	<b>24.8%</b>	6,663,109	31.3%	(27.2)%
Income tax expense	(1,559,940)	(8.0)%	(1,715,003)	(8.0)%	(9.0)%
Profit for the year	3,290,352	16.8%	4,948,106	23.2%	(33.5)%
<b>Other comprehensive income</b>					
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of financial statements of group companies	153,660	0.8%	161,927	0.8%	(5.1)%
<b>Total comprehensive income for the year</b>	<b>3,444,012</b>	<b>17.6%</b>	5,110,033	24.0%	(32.6)%

## Management Discussion and Analysis

### Revenue

The Group's revenue decreased by 8.3% from RMB21,310.9 million in 2022 to RMB19,532.2 million in 2023, primarily due to low birth rate in China and high competitive pressure in the industry.

The following table sets forth a breakdown of the Group's revenue by product category for the years indicated.

	Year Ended 31 December				Year-on-Year Change
	2023		2022		
	(In thousands of RMB, except percentages)				
Infant milk formula products	<b>17,876,825</b>	<b>91.5%</b>	19,932,290	93.5%	(10.3)%
Other dairy products*	<b>1,423,680</b>	<b>7.3%</b>	1,153,365	5.4%	23.4%
Nutritional supplement products	<b>231,698</b>	<b>1.2%</b>	225,278	1.1%	2.8%
<b>Total revenue</b>	<b>19,532,203</b>	<b>100%</b>	21,310,933	100%	(8.3)%

\* Our other dairy products include adult milk powder, liquid milk, rice powder supplement products and other products, among others.

### Cost of Sales

The Group's cost of sales decreased by 6.7% from RMB7,360.3 million in 2022 to RMB6,868.9 million in 2023, primarily due to the decrease of revenue.

## Management Discussion and Analysis

### Gross Profit and Gross Profit Margin

The table below sets forth a breakdown of the Group's gross profit and gross profit margin by product category for the years indicated.

	Year Ended 31 December				Year-on-Year Change in Gross Profit
	2023		2022		
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	
	(In thousands of RMB, except percentages)				
Infant milk formula products	12,411,334	69.4%	13,713,628	68.8%	(9.5)%
Other dairy products	118,830	8.3%	142,556	12.4%	(16.6)%
Nutritional supplement products	133,189	57.5%	94,416	41.9%	41.1%
<b>Gross profit</b>	<b>12,663,353</b>	<b>64.8%</b>	<b>13,950,600</b>	<b>65.5%</b>	<b>(9.2)%</b>

As a result of the foregoing, the Group's gross profit decreased by 9.2% from RMB13,950.6 million in 2022 to RMB12,663.4 million in 2023.

### Other Income and Gains, Net

Other income and gains, net increased by 21.3% from RMB1,368.6 million in 2022 to RMB1,659.5 million in 2023, primarily due to an increase in bank interest and government grants.

### Selling and Distribution Expenses

Selling and distribution expenses increased by 2.5% from RMB6,545.4 million in 2022 to RMB6,709.1 million in 2023, primarily due to the increase in advertising and publicity expenses.



## Management Discussion and Analysis

### Administrative Expenses

Administrative expenses increased by 14.8% from RMB1,535.0 million in 2022 to RMB1,762.0 million in 2023, primarily due to the increase in staff costs and research and development costs.

### Other Expenses

Other expenses decreased by 25.4% from RMB135.3 million in 2022 to RMB100.9 million in 2023, primarily due to the decrease in public donations and loss on disposal of fixed assets.

### Finance Costs

Finance costs increased by 57.9% from RMB33.6 million in 2022 to RMB53.1 million in 2023, primarily due to the increase of the Group's borrowing interest.

### Profit before Tax

As a result of the foregoing, the Group's profit before tax decreased by 27.2% from RMB6,663.1 million in 2022 to RMB4,850.3 million in 2023.

### Income Tax Expense

Our income tax expense decreased by 9.0% from RMB1,715.0 million in 2022 to RMB1,559.9 million in 2023 as a result of a decrease in our profit before tax in 2023.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 25.7% in 2022 and 32.2% in 2023.

### Profit for the Year

As a result of the foregoing, our profit for the year decreased by 33.5% from RMB4,948.1 million in 2022 to RMB3,290.4 million in 2023.

### LIQUIDITY AND CAPITAL RESOURCES

In 2023, the Group financed its operations primarily through cash flows from operations, interest-bearing bank and other borrowings, and net proceeds from the global offering of the Company (the “**Global Offering**”). The Group monitors its bank balances on a daily basis and conduct monthly reviews of our cash flows. We also prepare a monthly cash flow plan and forecast, which is submitted for approval by our Chief Financial Officer and Vice President of Finance Department, to ensure that we are able to maintain an optimum level of liquidity and meet our working capital needs.

In addition, we also used cash to purchase wealth management products. The underlying financial assets of the wealth management products generally are a basket of assets with a combination of money market instruments such as money market funds, interbank lending and time deposits, debt, bonds and other assets such as assets in insurance, trust fund plans and letters of credit. We form our portfolio of wealth management products with the view of achieving (i) a relatively low level of risk, (ii) good liquidity and (iii) an enhanced yield. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to our overall financial condition, market and investment conditions, economic developments, investment cost, duration of investment and the expected returns and potential risks of such investment.

#### Cash and Cash Equivalents

As at 31 December 2023, the Group had cash and cash equivalents of RMB10,440.9 million, which primarily consisted of cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted for use.

#### Net Proceeds from the Global Offering

For net proceeds from the Global Offering, please see “Use of Net Proceeds from the Global Offering”.

#### Bank and Other Borrowings

As at 31 December 2023, the Group’s interest-bearing bank and other borrowings were approximately RMB1,377.8 million.

### CAPITAL STRUCTURE

As at 31 December 2023, the Group had net assets of RMB26,334.3 million, comprising current assets of RMB22,554.3 million, non-current assets of RMB13,640.4 million, current liabilities of RMB7,382.2 million and non-current liabilities of RMB2,478.1 million.

The Group’s gearing ratio was calculated by net debt divided by the capital. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statements of financial position less cash and bank balances. Total capital is calculated as equity holders’ funds (i.e., total equity attributable to equity holder of the Company), as shown in the consolidated statements of financial position. The Group’s gearing ratio was (0.33) as at 31 December 2022 and (0.36) as at 31 December 2023.





## Management Discussion and Analysis

### CASH FLOW

The Group's net cash flows from operating activities was RMB4,145.3 million in 2023, as compared with RMB6,279.1 million in 2022. The Group's net cash flows from investing activities was RMB386.7 million in 2023, as compared with net cash flows used in investing activities of RMB4,803.7 million in 2022. The Group's net cash flows used in financing activities was RMB2,705.3 million in 2023, as compared with RMB1,975.3 million in 2022.

### INTEREST RATE RISK AND EXCHANGE RATE RISK

We are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. During the year ended 31 December 2023, we have not used any derivatives to hedge interest rate risk.

We have transactional currency exposures mainly with respect to our operation of the overseas plant in Canada, which was made in Canadian dollars. During the year ended 31 December 2023, we did not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure in accordance with our plans to develop overseas business.

### CAPITAL EXPENDITURE AND COMMITMENTS

For the year ended 31 December 2023, the capital expenditures incurred by the Group was approximately RMB1,510.1 million, primarily attributable to property, plant and equipment, investment properties, intangible assets and biological assets. As at 31 December 2023, the capital commitments of the Company was approximately RMB294.0 million, primarily attributable to construction of plant and purchases of item of equipment.

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the year ended 31 December 2023, the Group did not have any material acquisitions and disposals of subsidiaries or associated companies.

### PLEDGE OF THE GROUP'S ASSETS

As at 31 December 2023, the total pledged group assets amounted to approximately RMB418.9 million, representing a decrease of RMB1,195.2 million as compared with the beginning of 2023.

### FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the prospectus of the Company dated 30 October 2019 (the "**Prospectus**"), the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

### CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any contingent liabilities.

### SUBSEQUENT EVENTS

The Group has no material subsequent events after 31 December 2023 as at the Latest Practicable Date.

### FUTURE PROSPECTS

In close alignment with market changes and consumer demands, the Company will extract the active nutrient essence from the golden milk source at north latitude 47 degrees and innovate the more sophisticated “fresh-keeping” technology, thus continuing to lead the industry innovation, with the creation of a new-generation infant milk formula which is “Fresh, Extracted and Active Nutrition, More Suitable for Chinese Babies” as the driving force, and with a focus on the first 1,000 days of the life based on Chinese breast milk. Based on this, the Company will expand its business to cover four business segments, namely pregnant women and infants, children and students, healthy food, nutrition and health, and build a family of functional products covering the age cycle from birth to growth and from adulthood to longevity, so that each consumer of the Company’s products will become healthier.

With firm strategic direction and investment, the Company will continuously build strong and core capacities, namely the front-end industrial chain capacity with unique resource endowment at north latitude 47 degrees, the back-end industrial chain capacity with online and offline integration, the brand capacity to lead the attitude of consumers, the nutrition technology capacity to lead industry innovation, and the digital technology capacity for independent evolution, thus building a high barrier to competition. The Company will also persist in and innovate the green and circular development model, actively support rural revitalization, assume social responsibilities, and consolidate the “industry chain for common prosperity” to achieve higher quality sustainable development.

# Directors and Senior Management

## DIRECTORS

Name	Age	Position	Date of appointment	Responsibilities
Mr. LENG Youbin (冷友斌)	55	Executive Director, Chairman, Chief Executive Officer	9 January 2013	Responsible for the overall development strategies and business plans of the Group
Mr. LIU Hua (劉華)	51	Executive Director, Vice Chairman, Chief Financial Officer	26 June 2013	Responsible for the audit, accounting and financial management of the Group
Mr. CAI Fangliang (蔡方良)	55	Executive Director, President	26 June 2013	Responsible for the overall management and business development of the Group
Ms. Judy Fong-Yee TU (涂芳而)	48	Executive Director, Vice President, Company Secretary	26 June 2013	Responsible for the international business development, capital market matters and legal affairs of the Group
Mr. GAO Yu (高煜)	50	Non-executive Director	26 June 2013	Responsible for providing strategic advice on the business development of the Group
Mr. Kingsley Kwok King CHAN (陳國勁)	47	Non-executive Director	26 June 2013	Responsible for providing strategic advice on the business development of the Group
Mr. CHEUNG Kwok Wah (張國華)	59	Non-executive Director	28 April 2019	Responsible for providing strategic advice on the business development of the Group
Ms. LIU Jinping (劉晉萍)	52	Independent Non-executive Director	18 June 2019	Responsible for overseeing and providing independent judgment to the Board
Mr. SONG Jianwu (宋建武)	60	Independent Non-executive Director	18 June 2019	Responsible for overseeing and providing independent judgment to the Board
Mr. FAN Yonghong (范勇宏)	56	Independent Non-executive Director	18 June 2019	Responsible for overseeing and providing independent judgment to the Board
Mr. Jacques Maurice LAFORGE	68	Independent Non-executive Director	18 June 2019	Responsible for overseeing and providing independent judgment to the Board

### Directors Retiring by Rotation

In accordance with Article 109 of the Articles of Association, Mr. LENG Youbin, Ms. LIU Jinping, Mr. SONG Jianwu and Mr. Jacques Maurice LAFORGE will retire from office as Directors by rotation at the forthcoming annual general meeting of the Company. All retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

### Executive Directors

**Mr. LENG Youbin (冷友斌)**, aged 55, is an executive Director, the chairman of the Board, the chairman of the Nomination Committee and the chief executive officer of the Company. 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 the Company since January 2013, and was re-designated as an executive Director in April 2017. He has been a non-executive director of YST since December 2020. Mr. Leng has been a director of 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 HLJ since August 1996, during which he concurrently served as the general manager of Feihe HLJ from August 1996 to March 2020 and the deputy head of Zhaoguang Farm from December 1999 to December 2001. Before that, he worked in Zhaoguang Dairy from March 1987 to May 1993.

Mr. Leng has received various honors and awards. He was successively awarded titles such 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 “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” (全國脫貧攻堅獎奉獻獎) 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 People’s Republic of China. 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 (“CPC”), the State Council and the Central Military Commission, the “Integrity Star” (誠信之星) in 2020 jointly issued by the Propaganda Department of the Central Committee of the CPC and the National Development and Reform Commission, the “Advanced Individuals Nationwide in Fighting the Coronavirus Pneumonia Epidemic” (全國抗擊新冠肺炎疫情先進個人), and “the Sixth National Outstanding Professional Technology Figures” (第六屆全國傑出專業技術人才). 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 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.



## Directors and Senior Management

**Mr. LIU Hua (劉華)**, aged 51, is an executive Director, the vice chairman of the Board, the chairman of the Environmental, Social and Governance Committee, a member of Remuneration Committee, an authorised representative under the Listing Rules and the chief financial officer of the Company. He joined 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 the Company 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 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 the Company on the Stock Exchange in 2019. Mr. Liu has been a non-executive director of YST since December 2020.

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. CAI Fangliang (蔡方良)**, aged 55, is an executive Director and the President of the Company. 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 Company 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 Group and the overall management and business development of the Company. He has been a non-executive director of YST (listed on Hong Kong Stock Exchange, Stock Code: 1431) since December 2020. Before joining the 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).

**Ms. Judy Fong-Yee TU (涂芳而)**, aged 48, is an executive Director, a member of the Environmental, Social and Governance Committee, a vice president, the company secretary and an authorised representative under the Listing Rules of the Company. She joined Feihe HLJ in October 2006 and has been a vice president of Feihe HLJ since then. She has been a Director and a vice president of the Company since June 2013, and was appointed as a joint company secretary of the Company in July 2017. She was re-designated as an executive Director in April 2017, and has been serving as the sole company secretary of the Company since 15 November 2022. Ms. Tu has been a director of Vitamin World USA since June 2018. Ms. Tu has been extensively involved in the international business development and capital market matters of the Group, including the listing of Flying Crane U.S. on the NYSE in 2009, the FCUS Privatization in 2013, the establishment of Feihe Nutrition Laboratory with Beth Israel Deaconess Medical Center of Harvard Medical School in 2014, the Group's expansion in Canada in 2015, the acquisition of the retail health care business of Vitamin World in 2018, and the listing of the Company on the Stock Exchange in 2019.

Ms. Tu obtained a bachelor's degree of arts in mass communications and political science with a minor in Asian studies from the University of California, Berkeley in the United States in May 1999, and a Juris Doctor degree from Loyola Law School in the United States in May 2006. She was admitted to the State Bar of California in December 2006 and is a licensed attorney in the State of California, the United States.

### Non-executive Directors

**Mr. GAO Yu (高煜)**, aged 50, has been a Director since June 2013, and was re-designated as a non-executive Director in April 2017. Mr. Gao currently act as a member of the Audit Committee. Mr. Gao has been working in the Morgan Stanley group of companies from August 2005 to July 2022 and was a managing director of the Private Credit & Equity Division, the co-chief investment officer of Private Equity Asia and head of China Investment business, the chairman of RMB Fund's investment committee of Morgan Stanley Asia Limited as well as the member of Morgan Stanley's China Management Committee. He currently serves as an independent non-executive director of China Dongxiang (Group) Co., Ltd. (listed on the Hong Kong Stock Exchange, Stock Code: 3818) from May 2013, an independent non-executive director of New Sparkle Roll International Group Limited (listed on the Hong Kong Stock Exchange, Stock Code: 0970) from October 2020 and a director of Shandong Buchang Pharmaceuticals Co., Ltd. (山東步長製藥股份有限公司, listed on the Shanghai Stock Exchange, Stock Code: 603858) from March 2012. Mr. Gao served as an independent director and vice chairman of the board of AMTD International Inc. (listed on the New York Stock Exchange, Stock Code: HKIB) from October 2014 to February 2022 and a non-executive director and chairman of the board of Home Control International Limited (listed on the Hong Kong Stock Exchange, Stock Code: 1747) from November 2015 to July 2022 and June 2019 to July 2022, respectively. Mr. Gao has a long history of working within the investment banking industry before joining Morgan Stanley Asia Limited.

Mr. Gao received a dual bachelor's degree in engineering and economics from the Department of Precision Instrument and Engineering (精密儀器及機械學系) and the School of Economics and Management (經濟管理學院), respectively, of Tsinghua University (清華大學) in Beijing, China in July 1997. He also obtained a master's degree in engineering-economic system and operations research from Stanford University in the United States in September 1999.

**Mr. Kingsley Kwok King CHAN (陳國勁)**, aged 47, has been a Director since June 2013, and was re-designated as a non-executive Director in April 2017. He is the co-founder and managing director of VisionStone Investment Management (Hong Kong) Co., Ltd., which is licensed by the Hong Kong Securities and Futures Commission under the Securities and Futures Ordinance.

Previously, Mr. Chan was a managing director of the Private Credit & Equity Division of Morgan Stanley Asia Limited from May 2007 to July 2023. He held directorship in various companies invested by Morgan Stanley as its representative. Mr. Chan served as a non-executive director of IVD Medical Holding Limited (listed on the Hong Kong Stock Exchange, Stock Code: 1931) from June 2019 to August 2023, as a non-executive director of Home Control International Limited (listed on the Hong Kong Stock Exchange, Stock Code: 1747) from November 2015 to October 2023, and as a non-voting observer on the board of Yiren Digital Ltd. (宜人金科, listed on the New York Stock Exchange, NYSE: YRD) from January 2015 to October 2023.

Before joining Morgan Stanley Asia Limited, Mr. Chan worked in Credit Suisse (Hong Kong) Limited from July 2004 to April 2007 and the Asia Investment Banking Department of Citigroup Global Markets Asia Limited from September 1999 to June 2004.

Mr. Chan obtained a bachelor's degree in business economics from the University of London in the United Kingdom in July 1998 and a master's degree in philosophy from the University of Cambridge in the United Kingdom in October 1999.



## Directors and Senior Management

**Mr. CHEUNG Kwok Wah (張國華)**, aged 59, is a non-executive director of the Company and was re-designated from an executive Director to non-executive Director on 1 April 2021. From April 2019 to March 2021, he served as the Chairman of Vitamin World International and the Chairman of Vitamin World USA, and responsible for the development of the overseas infant nutrition market of the Group. He serves as the chief executive officer of Zhejiang Supor Co., Ltd. (浙江蘇泊爾股份有限公司) (listed on the Shenzhen Stock Exchange, Stock Code: 002032) since April 2021 and an independent non-executive director of Tate & Lyle PLC (listed on the London Stock Exchange, LSE: TATE) since January 2021. Before joining the Group, Mr. Cheung held various senior positions within the Nestle Group from 2012 to 2018, including the global business head of Wyeth Infant Nutrition from 2016 to 2018, the chairman and chief executive officer of Nestle Greater China Region from 2014 to 2016, and a regional president of Wyeth Nutrition, Greater China Region from 2012 to 2014. Before that, Mr. Cheung also took the following positions within the Wyeth Nutrition, including the regional president of China and Hong Kong of Pfizer Nutritionals and the associate vice president of Wyeth Nutritional (China) Co., Ltd. Mr. Cheung worked at the Coca-Cola China Company Limited, a subsidiary of The Coca-Cola Company (listed on the New York Stock Exchange, Stock Code: KO) from 1997 to 2004 and was appointed as the vice president and director of Strategic Marketing of Coca-Cola in 2000. Before that, Mr. Cheung worked in the marketing department of Procter & Gamble (listed on the New York Stock Exchange, Stock Code: PG) until 1996.

Mr. Cheung obtained an honours bachelor's degree of social science from the Chinese University of Hong Kong in 1987, and an MBA degree from Kelley School of Business in Indiana University in the United States in 1989.

### Independent Non-executive Directors

**Ms. LIU Jinping (劉晉萍)**, aged 52, was appointed as an independent non-executive Director in June 2019, with effect from October 2019. Ms. Liu currently act as the chairlady of the Remuneration Committee, a member of the Nomination Committee, and a member of the Environmental, Social and Governance Committee. Ms. Liu has been an independent non-executive director of YST since December 2020. Ms. Liu is currently 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 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.

**Mr. SONG Jianwu (宋建武)**, aged 60, was appointed as an independent non-executive Director since in June 2019, with effect from October 2019. Mr. Song currently act as a member of the Nomination Committee. Mr. Song has been a professor and doctoral supervisor of Renmin University of China (中國人民大學) since August 2015. Before that, he served in several positions in China University of Political Science and Law (中國政法大學), including the director of the School of Journalism and Communication from October 2008 to March 2013 and a deputy director of the School of Humanities from January 2006 to October 2008.

## Directors and Senior Management

Mr. Song served as an independent director of Shenzhen Topway Video Communication Co., Ltd. (深圳天威視訊股份有限公司, listed on the Shenzhen Stock Exchange, Stock Code: 002238) from September 2014 to December 2020. He serves as an independent director of Shaanxi Broadcast & TV Network Intermediary (Group) Co., Ltd. (陝西廣電網絡傳媒(集團)股份有限公司, listed on the Shanghai Stock Exchange, Stock Code: 600831) since September 2022 and an independent director of Beijing Baination Pictures Co., Ltd. (北京百納千成影視股份有限公司, listed on the Shenzhen Stock Exchange, Stock Code: 300291) since March 2023. He is now an executive council member of Beijing Internet Association (首都互聯網協會).

Mr. Song received a bachelor's degree in journalism and a doctorate degree in communication from Renmin University of China in Beijing, China in July 1984 and June 2005, respectively. He obtained the qualification certificate of independent directors from the Shanghai Stock Exchange in August 2011.

**Mr. FAN Yonghong (范勇宏, former name: 范永紅)**, aged 56, was appointed as an independent non-executive Director in June 2019, with effect from October 2019. Mr. Fan currently act as the chairman of the Audit Committee. He has extensive experience in financial management. Mr. Fan served as an independent director and a member of the audit committee of Yintech Investment Holdings Limited (銀科投資控股有限公司, listed on the Nasdaq Stock Exchange, Stock Code: YIN) from May 2018 to November 2020, and is responsible for, among other things, reviewing the financial statements of Yintech Investment Holdings Limited. Mr. Fan has been an independent director and a member of the Audit committee, Compensation Committee and Nominating and Corporate Governance Committee of Puxin Limited (listed on the New York Stock Exchange, Stock Code: NEW) from June 2019 to April 2022. Mr. Fan used to serve as the general manager of Hongshi Capital Management Co., Ltd., (宏實資本管理有限公司) and is responsible for, among other things, overseeing the overall financial performance of the company since March 2016. He also held various management positions in China Construction Bank Corporation (中國建設銀行) and Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from 1988 to 1998. Mr. Fan served as the general manager of China Asset Management Co., Ltd. (華夏基金管理有限公司) and then the chairman of the board of China Asset (Hong Kong) Co., Ltd. (華夏基金(香港)有限公司) from 1998 to 2013. Mr. Fan served as the chief investment officer (首席投資執行官) of China Life Asset Management Company Limited (中國人壽資產管理有限公司) from December 2013 to April 2015. Mr. Fan has also accumulated extensive experience in financial management (including reviewing financial statements) during his work as the general manager of China Asset Management Co., Ltd. and the chief investment officer of China Life Asset Management Company Limited.

Mr. Fan served as the vice chairman of Asset Management Association of China (中國證券投資基金業協會) from 2007 to 2011 and a member of the third and fourth sessions of Issuance Examination Committee of China Securities Regulatory Commission (中國證券監督管理委員會發行審核委員會) from 1997 to 2001, where he was involved in the review of listing applications from all aspects (including financial) of PRC companies.

Mr. Fan graduated from the Postgraduate Department of Institute of Fiscal Finance under the Ministry of Finance (財政部財政科學研究所, renamed as Chinese Academy of Fiscal Sciences (中國財政科學研究院) in 2016) in July 1998 and obtained a doctor's degree in economics. Mr. Fan currently serves as an external postgraduate supervisor (外聘研究生導師) of Chinese Academy of Fiscal Sciences.



## Directors and Senior Management

**Mr. Jacques Maurice LAFORGE**, aged 68, was appointed as an independent non-executive Director in June 2019, with effect from October 2019. Mr. Laforge currently act as a member of the Audit Committee and a member of the Remuneration Committee. He has extensive experience in Canadian dairy industry. He was the chief executive officer and commissioner with Canadian Dairy Commission from February 2012 to May 2018. Before that, he served in Dairy Farmers of Canada, a non-profit organization funded by dairy farmers from January 1989 to July 2011 at several positions, including a board member from January 1989 to August 1999, a member of executive committee from August 1999 to March 2001, the second vice president from March 2001 to August 2003, the first vice president from August 2003 to August 2004 and the president from August 2004 to July 2011. Mr. Laforge currently serves as the president of Laforge Environmental Inc. and Laforge Holsteins Ltd., a waste to energy facilities and mixed farming operation located in Canada.

Mr. Laforge obtained a high school diploma from Polyvalente Thomas Albert in June 1973. He was awarded the New Brunswick Innovation Recognition Award for Small Business and the Order of New Brunswick in October 2011, and the Queen Elizabeth II Diamond Jubilee Medal in 2012.

Save as disclosed in this annual report, no Directors or members of our senior management held any directorship positions in any other listed companies within the three years immediately preceding the Latest Practicable Date, and there is no other information relating to our Directors or members of our senior management that should be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

### SENIOR MANAGEMENT

Name	Age	Position	Date of joining the Group	Responsibilities
Mr. LENG Youbin (冷友斌)	55	Executive Director, Chairman, Chief Executive Officer	21 August 1996	Responsible for the overall development strategies and business plans of the Group
Mr. LIU Hua (劉華)	51	Executive Director, Vice Chairman, Chief Financial Officer	6 November 2000	Responsible for the audit, accounting and financial management of the Group
Mr. CAI Fangliang (蔡方良)	55	Executive Director, President	22 November 2010	Responsible for the overall management and business development of the Group
Ms. Judy Fong-Yee TU (涂芳而)	48	Executive Director, Vice President, Company Secretary	1 October 2006	Responsible for the international business development, capital market matters and legal affairs of the Group

For the biography of the senior management, please refer to “Directors” in this section.

### COMPANY SECRETARY

#### Ms. Judy Fong-Yee TU

For the biography of Ms. Judy Fong-Yee TU, please refer to “Directors” in this section.



# Report of the Directors

The Board is pleased to present this annual report and the audited financial statements of the Group for the year ended 31 December 2023.

## GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 26 October 2012 as an exempted company with limited liability. The Shares were listed on the Main Board of the Stock Exchange on 13 November 2019 through the Global Offering. For details of the Global Offering, please refer to the Prospectus.

## PRINCIPAL BUSINESSES AND ACTIVITIES

The Group primarily produces and sells a broad range of infant formula products, as well as other products to a lesser extent. The infant formula products are grouped into two main product categories, namely, high-end infant formulas and regular infant formulas in order to satisfy various demands of our customers. The Group also manufactures and sells a range of adult milk powders, liquid milk products and health care products. There were no significant changes in the nature of the Group's activities during the year ended 31 December 2023.

## BUSINESS REVIEW AND PROSPECT

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" section. Particulars of important events affecting the Group that have occurred since the end of the financial year are provided in the "Management Discussion and Analysis" section. An analysis of the Group's performance during the year using financial key performance indicators and details of the capital structure of the Company are provided in the "Management Discussion and Analysis" section.

In addition, information of the Company's environmental policies and performance can be found in the section headed "Environmental Policies and Performance" of this report of the Directors. The Company's compliance with relevant laws and regulations which have a significant impact on the Group are provided in the section headed "Compliance with Laws and Regulations" of this report of the Directors. The description of possible risks and uncertainties facing the Group is set out in the section headed "Principal Risks and Uncertainties" of this report of the Directors. An account of the Company's relationship with its employees, customers, and suppliers is disclosed in the section headed "Relationship with Stakeholders" of this report of the Directors.



## Report of the Directors

### RESULTS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss on page 74.

Discussion and analysis about the operating performance and significant elements affecting the results of operations and financial condition of the Group during the year are set out in “Management Discussion and Analysis” of this annual report on pages 7 to 17.

### DIVIDEND POLICY

The Company intends to distribute to the Shareholders no less than 30% of the net profit for each financial year going forward after Listing, subject to the future investment plans of the Company. The Board may declare dividends in the future after taking into account our results of operations, financial conditions, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to the constitutional documents of the Company and the Companies Law. The Shareholders at a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by the Board. In addition, the Directors may from time to time pay such interim dividends as the Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. The future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

Future dividend payments will also depend upon the availability of dividends received from the subsidiaries of the Company in the PRC. PRC laws require that dividends be paid only out of net profits calculated according to PRC accounting principles, which differ in certain aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from the subsidiaries of the Company in the PRC may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or the subsidiaries of the Company in the PRC may enter into in the future.

### FINAL DIVIDEND

The Board resolved to recommend a final dividend of HK\$0.1484 per Share for the year ended 31 December 2023 (the “**2023 Final Dividend**”) with an aggregate amount of approximately HK\$1,345,580,000 (equalling approximately RMB1,220,923,000) to the Shareholders whose names are listed on the Company’s register of members as at 29 May 2024, subject to the approval by the Shareholders at the forthcoming AGM. The 2023 Final Dividend is based on our dividend policy set out in the Prospectus of intending to distribute no less than 30% of our net profit for each financial year, which consists of 30% of our profit for the six months ended 31 December 2023 and an additional approximately 40% of our profit for the six months ended 31 December 2023, totalling approximately 70% of our profit for the six months ended 31 December 2023 in RMB denomination being converted into Hong Kong dollar denomination based on the average central parity rate of RMB to Hong Kong dollar as announced by the People’s Bank of China for the five business days prior to 28 March 2024. For the avoidance of doubt, such profit for the six months ended 31 December 2023 does not include the profit/loss of YST. The 2023 Final Dividend will be declared and paid in Hong Kong dollars. Once the relevant resolution is passed at the AGM, the 2023 Final Dividend is expected to be paid on or around 5 June 2024. The Company also paid an interim dividend of HK\$0.1349 per Share with an aggregate amount of approximately HK\$1,223,021,000 (equalling approximately RMB1,136,522,000) in September 2023.

We intend to maintain our dividend policy of distributing no less than 30% of our total net profit for each financial year to our Shareholders going forward, subject to our future investments plans.

The Company was not aware of any Shareholders who had waived or agreed to waive any dividend arrangement during the Reporting Period.

### ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM will be held on 22 May 2024, for considering, among other things, the 2023 Final Dividend. A notice convening the AGM will be published and dispatched to the Shareholders in accordance with the requirements of the Articles of Association and the Listing Rules in due course. In order to ascertain Shareholders’ entitlement to attend and vote at the AGM and to the 2023 Final Dividend, the register of members of the Company will be closed from 17 May 2024 to 22 May 2024 (both days inclusive) and from 28 May 2024 to 29 May 2024 (both days inclusive) respectively, during which periods no transfer of Shares will be registered.

In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant Share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 16 May 2024. Shareholders whose names appear on the register of members of the Company on 22 May 2024 will be entitled to attend and vote at the AGM.

In order to qualify for the 2023 Final Dividend (subject to the approval by Shareholders at the AGM), all transfer documents accompanied by the relevant Share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above-mentioned address for registration no later than 4:30 p.m. on 27 May 2024. The 2023 Final Dividend will be paid to the Shareholders whose names are listed on the Company’s register of members as at 29 May 2024.



## Report of the Directors

### SHARE CAPITAL

As at 31 December 2023, the authorised share capital of the Company was US\$50,000, divided into 2,000,000,000,000 shares of US\$0.000000025 each. Details of movements in the share capital of the Company during the year ended 31 December 2023 are set out in note 34 to the consolidated financial statements.

### SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements.

### AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, namely Mr. FAN Yonghong, Mr. GAO Yu and Mr. Jacques Maurice LAFORGE. Mr. FAN Yonghong is the chairman of the Audit Committee. The Audit Committee has reviewed the Group's 2023 annual results announcement, this annual report and the audited financial statements of the Group prepared in accordance with the IFRSs for the year ended 31 December 2023.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2023 are set out in the note 45 to the consolidated financial statements and the consolidated statement of changes in equity on pages 181 and 78, respectively.

### DISTRIBUTABLE RESERVES

As at 31 December 2023, the amount of reserves available for distribution of the Company was approximately RMB11,323.6 million, of which RMB1,220.9 million has been proposed as final dividend for the year.

### DONATIONS

During the year ended 31 December 2023, the Group made charitable donations of approximately RMB27,044,000.

### BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Group as at 31 December 2023 are set out in note 32 to the consolidated financial statements.

## USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Stock Exchange on 13 November 2019 and the net proceeds raised from the Global Offering were approximately HK\$6,554.7 million. During the Reporting Period, there was no change in the intended use of net proceeds as disclosed in the Prospectus.

The following table sets forth a breakdown of the utilization of the net proceeds as at 31 December 2023.

Intended use of proceeds	Initial intended allocation (HK\$ million)	Utilized	Unutilized	Expected timeline for utilizing the remaining proceeds <sup>(1)</sup>
		amount for the year ended 31 December 2023 (HK\$ million)	amount as at 31 December 2023 (HK\$ million)	
Repayment of offshore debts	2,621.9	692.4	208.3	Before 31 December 2025
Potential merger and acquisition opportunities	1,310.9	–	–	–
Operation of the Company's Kingston Plant	655.5	–	574.9	Before 31 December 2025
Research and development activities of overseas infant milk formula and nutritional supplement products	655.5	–	655.5	Before 31 December 2025
Expansion of Vitamin World USA operations	327.7	–	–	–
Marketing initiatives	327.7	97.9	226.3	Before 31 December 2025
Working capital and general corporate purposes	655.5	–	0.5	Before 31 December 2025
	6,554.7	790.3	1,665.5	

Note:

- (1) The Company expects that part of net proceeds will be delayed by two year from the expected time. The delay is mainly due to the macroeconomic environment in the PRC being affected by social and economic factors, in particular, changes in the market environment of the infant formula industry in the PRC.

For the unutilized amounts of HK\$1,665.5 million as at 31 December 2023, the Company will bring them forward from prior year and apply the remaining net proceeds in the manner set out in the Prospectus. It is expected that the remaining net proceeds from the Global Offering will be fully utilized by 31 December 2025.



## Report of the Directors

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, purchases from the Group's five largest suppliers accounted for 25.3% of the Group's total purchases. In addition, purchases from the Group's single largest supplier accounted for 10.2% of the Group's total purchases during the same period.

For the year ended 31 December 2023, the Group's five largest customers accounted for 12.4% of the Group's total revenue. In addition, the revenue from the Group's single largest customer accounted for 8.0% of the Group's total revenue during the same period.

During the year ended 31 December 2023, to the knowledge of the Directors, none of the Directors, their close associates, or Shareholders (which, to the knowledge of the Directors, owned more than 5% of the number of issued Shares of the Company) had interests in the five largest suppliers or customers of the Company.

### SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

During the Reporting Period, we invested in wealth management products to preserve the time value of our cash reserves. For details, please refer to the announcements of the Company dated 19 April 2023, 8 December 2023, 26 December 2023 and 27 December 2023.

Save as disclosed in this annual report, the Company did not have any significant investment, acquisition and disposal for the year ended 31 December 2023.

### PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Company are set out in note 14 to the consolidated financial statements.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Kingsley Kwok King Chan resigned as a managing director of the Private Credit & Equity Division of Morgan Stanley Asia Limited on 28 July 2023, resigned as a non-executive director of IVD Medical Holding Limited (listed on the Hong Kong Stock Exchange, Stock Code: 1931) on 17 August 2023, resigned as a non-voting observer on the board of Yiren Digital Ltd. (宜人金科, listed on the New York Stock Exchange, NYSE: YRD) on 12 October 2023 and resigned as a non-executive director of Home Control International Limited (listed on the Hong Kong Stock Exchange, Stock Code: 1747) on 24 October 2023.

Mr. FAN Yonghong has been serving as an independent non-executive director of JF Wealth Holdings Ltd (listed on the Hong Kong Stock Exchange, Stock Code: 9636) since 28 February 2023.

Mr. Song Jianwu has been serving as an independent director of Beijing Baination Pictures Co., Ltd. (北京百納千成影視股份有限公司, listed on the Shenzhen Stock Exchange, Stock Code: 300291) since 20 March 2023, and resigned as an independent director of Shanghai Orient Webcasting Co., Ltd. (上海東方網股份有限公司, listed on the National Equities Exchange & Quotations, NEEQ: 834678) on 25 May 2023.

Save as disclosed above, during the Reporting Period and as at the Latest Practicable Date, there was no change in the information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

During the Reporting Period and as at the date of this annual report, the Board comprises eleven Directors in total. There are four members of senior management of the Company, including Mr. LENG Youbin, Mr. LIU Hua, Mr. CAI Fangliang and Ms. Judy Fong-Yee TU.

Information about the details of the Directors and senior management of the Company is set out in the section headed "Directors and Senior Management".

### **CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules, and considers all the independent non-executive Directors to be independent.

### **SERVICE CONTRACTS OF DIRECTORS**

The Company has entered into a letter of appointment with each of the Directors for a term of three years, which may be terminated pursuant to relevant terms of the respective letter of appointment.

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

### **TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE**

Save as disclosed in this annual report, (i) there were no other transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors or its connected entities had, directly or indirectly, a material interest at any time during the Reporting Period; (ii) there were no contracts of significance in relation to the Group's business between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries at any time during the Reporting Period; and (iii) there were no contracts of significance in relation to the Group's business whether or not for provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries at any time during the Reporting Period.

### **MANAGEMENT CONTRACTS**

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

### **INTERESTS OF DIRECTORS IN BUSINESSES COMPETING WITH THE COMPANY**

The Directors have confirmed that other than the business of the Group, none of the Directors holds any interest in business which directly or indirectly competes or is likely to compete with the business of the Group.

### **INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register kept by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:



## Report of the Directors

### (i) Interest in Shares/derivative shares of the Company

Name of Director/ Chief Executive	Nature of interest	Capacity	Long position/ Short position	Number of Shares/ derivative shares	Approximate Percentage of shareholding in the Company <sup>(1)</sup>
LENG Youbin	Corporate interest	Interest of controlled corporation	Long	587,516,458 <sup>(2)</sup>	6.48%
	Other interest	Founder of a discretionary trust	Long	3,889,911,881 <sup>(3)</sup>	42.90%
LIU Hua	Other interest	Founder of a discretionary trust	Long	345,681,920 <sup>(4)</sup>	3.81%
Cheung Kwok Wah	Beneficial interest	Beneficial owner	Long	326,000 <sup>(5)</sup>	0.00%
Cai Fangliang	Corporate interest	Interest of controlled corporation	Long	101,647,734 <sup>(6)</sup>	1.12%
Judy Fong-Yee Tu	Other interest	Founder of a discretionary trust	Long	23,717,804 <sup>(7)</sup>	0.26%
GAO Yu	Beneficial interest	Beneficial owner	Long	7,536,151 <sup>(8)</sup>	0.08%
Kingsley Kwok King CHAN	Beneficial interest	Beneficial owner	Long	3,368,918 <sup>(9)</sup>	0.04%

#### Notes:

- (1) The percentage has been computed based on the total number of Shares of the Company in issue as at 31 December 2023 (i.e. 9,067,251,704 Shares).
- (2) 587,516,458 Shares were held by Mr. Leng Youbin through his controlled corporation – Dasheng Limited. Two-thirds of the equity interests in Dasheng Limited were held directly by Mr. Leng.
- (3) 3,889,911,881 Shares were held by Harneys Trustees Limited as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited, which in turn holds the entire issued share capital of Garland Glory Holdings Limited. Leng Family Trust was established by Mr. Leng Youbin as the settlor and the only discretionary object. Mr. Leng Youbin deemed to be interested in 3,889,911,881 Shares held by Garland Glory Holdings Limited by virtue of the SFO.
- (4) 345,681,920 Shares were held by Harneys Trustees Limited as the trustee of LH Family Trust, which in its capacity as trustee holds the entire issued share capital of RL Equity LLC, which in turn holds the entire issued share capital of LH Financial Holding Limited. LH Family Trust was established by Mr. Liu Hua as the settlor and the only discretionary object. Mr. Liu was deemed to be interested in 345,681,920 Shares directly held by LH Financial Holding Limited by virtue of the SFO.
- (5) 326,000 Shares were held by Mr. Cheung Kwok Wah as beneficial owner.
- (6) 101,647,734 Shares were held by Mr. Cai Fangliang through his controlled corporation – Adroit Shipping Limited. Adroit Shipping Limited is directly wholly owned by Mr. Cai Fangliang.
- (7) 23,717,804 Shares were held by the J.T. Living Trust, which was established by Ms. Judy Fong-Yee Tu as the settlor and the only discretionary object. Ms. Judy Fong-Yee Tu was deemed to be interested in the 23,717,804 Shares.
- (8) 7,536,151 Shares were held by Mr. Gao Yu, which was the result of the distribution of shares or interests of the Company from each of Morgan Stanley Private Equity Asia III, LLC and Morgan Stanley Private Equity Asia Fund III from 11 October 2022 and up until 31 December 2023.
- (9) 3,368,918 Shares were held by Mr. Kingsley Kwok King Chan, which was the result of the distribution of shares or interests of the Company by each of Morgan Stanley Private Equity Asia, Morgan Stanley Private Equity Asia Fund III and North Haven Private Equity Asia III, L.P. from 10 October 2022 and up until 31 December 2023.

## (ii) Interest in associated corporations

Name of Director/ Chief Executive	Nature of interest	Capacity	Associated corporation	Number of ordinary shares	Percentage of shareholding in the associated corporation
Cai Fangliang	Beneficial interest	Beneficial owner	Jilin Green Energy Ecological Livestock Co., Limited <sup>(1)</sup>	N/A <sup>(2)</sup>	7.66%

*Notes:*

- (1) Jilin Green Energy Ecological Livestock Co., Limited is held as to 40% by the Company and therefore is an associated corporation of the Company under the SFO.
- (2) Jilin Green Energy Ecological Livestock Co., Limited is a limited liability company incorporated in the PRC and does not issue any shares.

Save as disclosed above, as at 31 December 2023, none of the Directors or the chief executive of the Company have any interest in the Shares or debentures of the Company or any interests in the shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which: (i) will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO); (ii) will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at 31 December 2023, neither the Directors nor chief executive of the Company have any short position in the Shares or debentures of the Company, or in shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO).

# Report of the Directors

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2023, the following persons (other than the Directors and chief executive of the Company) had interest or short positions in the Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which will be required, pursuant to Section 336 of the SFO, to be recorded in the register kept by the Company:

Name of shareholder	Capacity	Long position/ Short position	Number of Shares/ derivative shares	Percentage of shareholding in the Company <sup>(1)</sup>
Harneys Trustees Limited	Trustee of a trust	Long	4,461,740,357 <sup>(2)</sup>	49.21%
LYB International Holding Limited	Interest in a controlled corporation	Long	3,889,911,881 <sup>(2)</sup>	42.90%
Garland Glory Holdings Limited	Beneficial owner and founder of a discretionary trust	Long	3,889,911,881 <sup>(2)</sup>	42.90%
Mr. Liu Shenghui	Interest in a controlled corporation and founder of a discretionary trust	Long	813,663,014 <sup>(3)</sup>	8.97%
Dasheng Limited	Beneficial owner	Long	587,516,458 <sup>(4)</sup>	6.48%

*Notes:*

- (1) The percentage has been computed based on the total number of Shares of the Company in issue as at 31 December 2023 (i.e. 9,067,251,704 Shares).
- (2) Harneys Trustees Limited is deemed to be interested in 4,461,740,357 Shares in aggregate by virtue of the Securities and Futures Ordinance (Cap. 571) ("**SFO**"). By virtue of the SFO:
  - (a) 3,889,911,881 Shares were held by Harneys Trustees Limited as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited, which in turn holds the entire issued share capital of Garland Glory Holdings Limited. Leng Family Trust is a discretionary trust established by Mr. Leng as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 3,889,911,881 Shares directly held by Garland Glory Holdings Limited;
  - (b) 345,681,920 Shares were held by Harneys Trustees Limited, the trustee of LH Family Trust, 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 is a discretionary trust established by Mr. Liu Hua as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 345,681,920 Shares directly held by LH Financial Holding Limited; and
  - (c) 226,146,556 Shares were held by Harneys Trustees Limited, the trustee of Liu Family Trust, in its capacity as trustee holds the entire issued share capital of LSH International Holding Limited, which in turn holds the entire issued share capital of LSH Investment Holding Limited. Liu Family Trust is a discretionary trust established by Mr. Liu Shenghui as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 226,146,556 Shares directly held by LSH Investment Holding Limited.
- (3) 813,663,014 Shares include 226,146,556 Shares held by Harneys Trustees Limited as trustee (as described in note (2c) above) and 587,516,458 Shares through Mr. Liu Shenghui's controlled corporation – Dasheng Limited (as described in note (4) below).
- (4) Dasheng Limited holds 587,516,458 Shares. Mr. Leng holds two-thirds of and Mr. Liu Shenghui holds one-third of the equity interests in Dasheng Limited. Therefore, Mr. Leng and Mr. Liu Shenghui are deemed to be interested in the Shares directly held by Dasheng Limited.

Save as disclosed above, as at 31 December 2023, no other person (other than the Directors and chief executive of the Company) had any interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

### **DEBENTURE ISSUED**

The Company has not issued any debentures during the year ended 31 December 2023.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any of its associated corporations were granted to any Directors or their respective spouse or children under 18 years of age and no such rights have been exercised by them during the year ended 31 December 2023. Neither the Company nor any of its subsidiaries were a party to any arrangements to enable any Directors or their respective spouses or children under the age of 18 years to acquire such rights from the Company or any other body corporate.

### **EQUITY-LINKED AGREEMENT**

Save as disclosed in this annual report, the Company did not enter into any equity-linked agreement during the year ended 31 December 2023.

### **PERMITTED INDEMNITY PROVISION**

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force during the year ended 31 December 2023.

The Company has maintained appropriate liability insurance for its Directors and senior management during the Reporting Period.

### **LOAN AGREEMENTS OR FINANCIAL ASSISTANCE OF THE COMPANY**

The Company did not provide any financial assistance or guarantee to its affiliated companies during the Reporting Period, which gives rise to a disclosure under Rule 13.16 of the Listing Rules. The Company did not enter into any loan agreement with covenants relating to specific performance of its controlling Shareholder nor breach the terms of any loan agreements that are significant to its operations during the Reporting Period.

### **PRE-IPO SHARE OPTION SCHEME**

The Company adopted the Pre-IPO Share Option Scheme on 14 October 2019 and a summary of the principal terms of the Pre-IPO Share Option Scheme is set out as below.



## Report of the Directors

### Purposes

The purposes of the Pre-IPO Share Option Scheme are to: (i) replace the DIF Share Option Schemes; (ii) attract and retain the best available personnel for positions of substantial responsibility; (iii) provide additional incentive to the Directors and employees of the Group (the “**Employee(s)**,” together with the Directors, the “**Service Providers**”); and (iv) promote the success of the business of the Group.

### Participants

A grant of the option (the “**Option**”) under the Pre-IPO Share Option Scheme (the “**Award**”) may be made to the Service Providers selected by the Board (including any committee of Directors or of other individuals appointed by the Board or by the compensation committee of the Board satisfying relevant requirements of applicable laws) of the Company (the “**Administrator**”). A holder of an outstanding Award will be a participant (the “**Participant**”) under the Pre-IPO Share Option Scheme. For the avoidance of doubt, Awards may be granted to any holder of the outstanding DIF Share Options, who is a company wholly owned, directly or indirectly, by (i) one or more Service Providers or (ii) any trusts, if all of the beneficiaries consist only of the Service Providers (in the case of a discretionary trust, all discretionary objects consist only of the Service Providers).

### Maximum Number of Shares in Respect of Which Awards May Be Granted

The maximum number of the Shares that may be subject to Awards and issued under the Pre-IPO Share Option Scheme at the date of approval of the scheme is 190,190,704, representing approximately 2.10% of the total number of the issued shares of the Company as at the date of this annual report. On 29 September 2022, Dasheng Limited exercised all of the Pre-IPO Share Options granted for a total of 190,190,704 Shares.

### Grant of Options

Subject to the terms and provisions of the Pre-IPO Share Option Scheme, the Administrator may grant Options in such amounts as the Administrator, in its sole discretion, will determine; provided that, no Option authorized by the Pre-IPO Share Option Scheme shall be granted upon and following the Listing.

The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

### Exercise Price

The per Share exercise price for the Shares to be issued pursuant to the exercise of an Option shall be determined by the Administrator, provided that such exercise price shall be no less than one hundred percent of the fair market value (the “**Fair Market Value**”) per Share on the date of grant. For the avoidance of doubt, for the per Share exercise price for the Shares to be issued upon the exercise of an Option granted in order to replace the existing DIF Share Options as at the date of adoption of the Pre-IPO Share Option Scheme, the relevant Fair Market Value per Share shall be with reference to that of the respective date of grant of such outstanding DIF Share Options.

### Duration of Pre-IPO Share Option Scheme

Unless sooner terminated in accordance with the terms of the Pre-IPO Share Option Scheme, it will continue in effect for a term of seven years from the effective date. The term of each Option will be stated in the Award Agreement and will be no more than five years from the date of grant thereof.

### Time of Vesting and Exercise of Options

Any Option granted will be exercisable according to the terms of the Pre-IPO Share Option Scheme and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

In respect of any particular Option, the exercise period shall commence on the later of:

- (1) the business day immediately following the expiry of six months from the Listing Date, or
- (2) where the exercise of such Option is subject to any performance target being met, the date of such performance target being proved (to the reasonable satisfaction of the Administrator) to have been met.

### Details of the Options Granted and Exercised under the Pre-IPO Share Option Scheme

All the Pre-IPO Share Options representing 190,190,704 Shares were granted to Dasheng Limited on 14 October 2019 under the Pre-IPO Share Option Scheme with a term of five years. Dasheng Limited is not required to pay for the grant of any Pre-IPO Share Option. On 29 September 2022, Dasheng Limited exercised all of the Pre-IPO Share Options granted for a total of 190,190,704 Shares. There was no outstanding Pre-IPO Share Option available for grant under the Pre-IPO Share Option Scheme at the beginning and at the end of the Reporting Period.

During the Reporting Period, no option was granted under the Pre-IPO Share Option Scheme, and none of the options granted under the Pre-IPO Share Option Scheme had been cancelled or lapsed.

Further details of the Pre-IPO Share Option Scheme are set out in appendix IV to the Prospectus.

## 2020 SHARE OPTION SCHEME

The Company adopted the 2020 Share Option Scheme on 22 June 2020 and a summary of the principal terms of the 2020 Share Option Scheme is set out as below.

### Purposes

The purposes of the 2020 Share Option Scheme are (i) to attract and retain skilled and experienced personnel for positions of substantial responsibility, (ii) to provide additional incentive to directors of the Company and its subsidiaries, key employees and other stakeholders of the Group, and (iii) to promote the success of the Company's business.



## Report of the Directors

### Participants

Participants (the “**Participants**”) include:

- (a) any Eligible Employee;
- (b) any director (including executive director, non-executive director and independent non-executive director) of the Company or the subsidiaries; and
- (c) any consultant, adviser, agent, business partner, joint venture partner, service provider, contractor of the Company or the subsidiaries.

The basis of eligibility of any of the class of Participants to the grant of any 2020 Share Options shall be determined by the Board from time to time.

### Maximum Number of Shares in Respect of Which Awards May Be Granted

The maximum number of the Shares that may be subject to awards and issued under the 2020 Share Option Scheme at the date of approval of the scheme is 134,000,100, representing approximately 1.48% of the total number of the issued shares of the Company as at the date of this annual report.

### Maximum Entitlement of Each Participant under the 2020 Share Option Scheme

The total number of Shares issued and to be issued upon exercise of the 2020 Share Options granted to each eligible Participant (including exercised, cancelled and outstanding 2020 Share Options) in any 12-month period shall not exceed 1% of the Shares in issue.

### Grant of 2020 Share Options

On and subject to the terms of the 2020 Share Option Scheme and the Listing Rules, the Board shall be entitled at any time within ten (10) years after 22 June 2020 to offer to grant to any Participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an 2020 Share Option to subscribe for such number of Shares as the Board may determine at the Subscription Price (the “**Offer**”).

An Offer shall be made to a Participant by an Offer Letter in such form as the Board may from time to time determine requiring the Participant to undertake to hold the 2020 Share Option on the terms on which it is to be granted and to be bound by the terms of the 2020 Share Option Scheme and any other terms and conditions as contained in the Offer Letter and shall remain open for acceptance by the Participant concerned for such time to be determined by the Board, provided that no such Offer shall be open for acceptance after the expiry of ten (10) years after 22 June 2020 or after the 2020 Share Option Scheme has been terminated in accordance with the terms hereof or after the Participant to whom the Offer is made has ceased to be a Participant. The Offer Letter shall specify the terms on which the 2020 Share Option is to be granted.

An Offer shall be deemed to have been accepted and the 2020 Share Option to which such Offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Grantee, together with the payment of HK\$1.00 to the Company as the consideration for the grant thereof is received by the Company. Such payment shall in no circumstances be refundable. Once accepted, the 2020 Share Option is granted as from the Offer Date.

### Exercise of Options

A 2020 Share Option may, subject to the terms and conditions upon which such 2020 Share Option is granted, be exercised in whole or in part in the manner as set out below by the Grantee (or, as the case may be, his or her legal personal representative(s)) giving notice in writing to the Company stating that the 2020 Share Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Subscription Price for the Shares in respect of which the notice is given. The aggregate Subscription Price shall be paid by cash, cheque or any other means deemed acceptable by the Board. Any exercise of a 2020 Share Option by a Grantee shall be subject to the applicable laws, regulations, rules and requirements of any relevant country or jurisdiction. Within ten (10) business days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate of the auditor or the independent financial adviser retained by the Company, the Company shall allot and issue, and shall instruct the share registrar to issue, the relevant Shares to the Grantee (or his or her legal personal representative(s)) credited as fully paid and issue to the Grantee (or his or her legal personal representative(s)) a share certificate in respect of the Shares so allotted. Subject to the terms and conditions upon which such 2020 Share Option was granted and any restrictions applicable under the Listing Rules, an 2020 Share Option may be exercised by the Grantee (or their legal personal representatives) at any time during the Option Period, provided that it satisfies the requirements as set out in the supplemental circular of the Company dated 5 June 2020.

### Vesting Period

The Options shall vest on the vesting date as determined by the Board in its absolute discretion. The periods over which the Options will vest may exceed any minimum vesting periods prescribed by any laws, regulations or rules to which the 2020 Share Option Scheme may be subject, including the Listing Rules or regulations of any stock exchange on which the Shares may be listed and quoted. Furthermore, the Shares to be issued and allotted to a Grantee pursuant to the exercise of any Option under the 2020 Share Option Scheme may or may not at the discretion of the Board, be subject to any retention period.

There is no general requirement for any performance target that has to be achieved before the exercise of any Option except as otherwise imposed by the Board in the offer letter by which an offer to grant an Option is made to a Participant.

### Subscription Price

The Subscription Price shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant 2020 Share Option (and shall be stated in the Offer Letter), but in any case the Subscription Price shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day;



## Report of the Directors

- (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant; and
- (c) the nominal value of a Share.

### Duration of the 2020 Share Option Scheme

The 2020 Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the 22 June 2020. After the expiry of the ten (10) year period, no further 2020 Share Options will be offered or granted but in all other aspects the provisions of the 2020 Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any 2020 Share Option granted prior thereto. 2020 Share Options granted hereunder shall continue to be exercisable subject to the terms of the 2020 Share Option Scheme and in accordance with their terms of grant after the end of the ten (10) year period of the 2020 Share Option Scheme until the end of the Option Period.

Further details of the 2020 Share Option Scheme are set out in the supplemental circular of the Company dated 5 June 2020.

Movements of the share options granted under the 2020 Share Option Scheme during the year ended 31 December 2023 are as follows:

Grantees <sup>(1)</sup>	Date of Grant	Date of expiry <sup>(2)</sup>	Vesting period	Exercise Price (HK\$)	Number of underlying ordinary shares comprised in the options outstanding as at 1 January 2023	Number of underlying ordinary shares comprised in the options granted during the year ended 31 December 2023	Number of underlying ordinary shares comprised in the options lapsed or cancelled during the year ended 31 December 2023 <sup>(3)</sup>	Number of underlying ordinary shares comprised in the options exercised during the year ended 31 December 2023	Number of underlying ordinary shares comprised in the options outstanding as at 31 December 2023
<b>February 2021 Grant</b>									
Employees	2 February 2021	1 February 2031	2 February 2022 to 2 February 2026	23.80	28,044,000	-	20,623,000	-	7,421,000
<b>July 2021 Grant</b>									
Employees	15 July 2021	14 July 2031	15 July 2022 to 15 July 2026	16.84	7,712,900	-	6,883,100	-	829,800
<b>January 2022 Grant</b>									
Employees	24 January 2022	23 January 2032	24 January 2023 to 24 January 2027	11.76 <sup>(4)</sup>	7,442,000	-	5,550,000	-	1,892,000

*Notes:*

- (1) None of the Grantees were directors, chief executives or substantial shareholders of the Company or any of their respective associate (as defined in the Listing Rules).
- (2) The relevant 2020 Share Options can be exercised prior to the date of expiry upon vesting.
- (3) Such share options granted under the 2020 Share Option Scheme lapsed upon the resignation of the relevant employees of the Company or were cancelled by the Company.

During the Reporting Period, no share option has been granted under the 2020 Share Option Scheme. Save as disclosed above, during the Reporting Period, no other share options under the 2020 Share Option Scheme had been exercised, cancelled nor lapsed.

As at the beginning of the Reporting Period, 80,696,300 share options were available for grant under the 2020 Share Option Scheme, representing approximately 0.89% of the total number of the issued shares of the Company as at the date of this annual report. As at the end of the Reporting Period, 80,696,300 share options were available for grant under the 2020 Share Option Scheme, representing approximately 0.89% of the total number of the issued shares of the Company as at the date of this annual report.

All the grantees being granted the share options under the 2020 Share Option Scheme on 2 February 2021, 15 July 2021 and 24 January 2022 are employees of the Company working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance. None of the numbers of the share options granted to each of such grantees in any 12-month period exceeds the Individual Limit.

For more details, please refer to the announcements of the Company dated 2 February 2021, 15 July 2021 and 24 January 2022.

### **2023 SHARE AWARD PLAN**

The Company adopted the 2023 Share Award Plan on 25 May 2023 and a summary of the principal terms of the 2023 Share Award Plan is set out as below.

#### **Purposes**

The 2023 Share Award Plan aims at (i) recognise and reward the contribution of certain Eligible Participants to the growth and development of the Group and give incentives thereto in order to retain them for the continual operation and development of the Group; and (ii) attract suitable personnel for further development of the Group.

#### **Participants**

Eligible Participant is any person belonging to the following classes of participants: (i) Employee Participant; (ii) Related Entity Participant; and (iii) Service Provider. The eligibility of any of the Eligible Participants to a Share Award shall be determined by the Board or the Committee from time to time on the basis of the Board’s or the Committee’s opinion as to his contribution and/or future contribution to the development and growth of the Group.



## Report of the Directors

### Shares Pool

The Shares Pool is comprised of the following: (i) such Shares as may be purchased by the Trustee on the Stock Exchange or off the market by utilising the Group Contribution and other distributions in accordance with the terms of the 2023 Share Award Plan; (ii) such Shares which remain unvested and revert to the Trustee pursuant to the terms of the 2023 Share Award Plan; (iii) such Shares which any person or company recommended by the Company may irrevocably donate or transfer to or irrevocably vest or caused to be vested in the Trustee to be held upon trusts and with and subject to the powers and provisions in the Trust Deed; and (iv) the Returned Shares.

### Duration

The 2023 Share Award Plan shall be valid and effective for a term of 10 years commencing from 25 May 2023, and after the expiry of such 10-year term, no further Share Awards may be made, but the terms of the 2023 Share Award Plan shall remain in full force and effect to the extent necessary to give effect to any Share Awards made prior thereto and the administration of the trust property held by the Trustee pursuant to the Trust Deed.

### Administration

The 2023 Share Award Plan shall be subject to the administration by the Board or the Committee in accordance with the terms of the 2023 Share Award Plan and the Trust Deed.

### Maximum Grant Limit

The Board or the Committee shall not make any further Share Awards which will result in the number of Shares awarded by the Board or the Committee under the 2023 Share Award Plan exceeding 10 per cent (10%) of the issued share capital of the Company as at 25 May 2023 (i.e. 906,825,170 Shares) (the “**Plan Mandate Limit**”). The Board or the Committee shall not make any further Share Awards to any Service Provider which will result in the number of Shares awarded by the Board or the Committee to all Service Providers under the 2023 Share Award Plan exceeding 0.5 per cent (0.5%) of the issued share capital of the Company as at 25 May 2023 (i.e. 45,341,258 Shares) (the “**Service Provider Sub-limit**”). The Board or the Committee shall not instruct the Trustee to purchase any Shares for the purpose of the 2023 Share Award Plan when such purchase will result in the Plan Mandate Limit or the Service Provider Sub-limit being exceeded. As at 31 December 2023, the number of Shares that may be awarded under Share Awards available for grant under the Plan Mandate Limit and Service Provider Sub-limit are 906,825,170 Shares and 45,341,258 Shares, respectively.

In particular, any grant of Share Awards to any Director, chief executive or substantial Shareholder of the Company, or any of their respective associates, shall be subject to the prior approval of the remuneration committee of the Board and the independent non-executive Directors of the Company (excluding anyone who is a proposed recipient of the grant of the Share Award).

In addition, (i) where any grant of Share Awards (excluding grant of share options) to any Director (other than an independent non-executive Director) or chief executive of the Company, or any of their respective associates, would result in the Shares issued and to be issued in respect of all Share Awards granted (excluding any Share Awards lapsed in accordance with the terms of the 2023 Share Award Plan) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue at the date of such grant; or (ii) where any grant of Share Awards to an independent non-executive Director or substantial Shareholder of the Company or any of their respective associates would result in the number of Shares issued and to be issued upon exercise of all Share Awards already granted (excluding any Share Awards lapsed in accordance with the terms of the 2023 Share Award Plan) to such person in the 12 month period up to and including the date of such grant representing in aggregate over 0.1% of Shares in issue at the date of such grant, such further grant of Share Awards must be approved by Shareholders in general meeting in the manner as required under the Listing Rules.

### Vesting and Vesting Period

Pursuant to the terms of the 2023 Share Award Plan, the Trustee shall vest in and transfer to any Selected Participant the legal and beneficial ownership of the Awarded Shares to which such Selected Participant is entitled under the relevant Share Awards as soon as practicable after the latest of: (i) the earliest vesting date as specified in the Award Notice to which such Share Awards relates; (ii) the receipt by the Trustee of the requisite information and documents stipulated by the Trustee within the stipulated period; and (iii) where applicable, the date on which the condition(s) and/or performance target(s) (if any) to be attained or paid by such Selected Participant as specified in the related Award Notice having been attained or paid and notified to the Trustee by the Board or the Committee in writing.

### Rights Contained in the Share Award

The Trustee shall not exercise the voting rights in respect of any Shares held under the trust constituted by the Trust Deed. In particular, the Trustee holding unvested Shares under the 2023 Share Award Plan, whether directly or indirectly, shall abstain from voting on matters that require Shareholders' approval under the Listing Rules, unless otherwise required by law to vote in accordance with the beneficial owner's direction and such a direction is given. The Selected Participants shall not have any right to receive any Awarded Shares set aside for them pursuant to the terms of the 2023 Share Award Plan unless and until the Trustee has vested and transferred the legal and beneficial ownership of such Awarded Shares in and to the Selected Participants in accordance with the terms of the 2023 Share Award Plan. Prior to the vesting of any Awarded Shares, a Selected Participant is not entitled to any interest or rights attaching to the unvested Awarded Shares, including but not limited to voting rights and rights to receive dividends.

### Lapse of Awards and Returned Shares

In the event (i) a Selected Participant ceases to be an Employee Participant or Related Entity Participant other than for reason as provided in certain terms of the 2023 Share Award Plan, or (ii) the Subsidiary or Related Entity by which a Selected Participant is employed or, in respect of a deceased or retired Selected Participant under certain terms of the 2023 Share Award Plan, was employed immediately prior to his death or retirement, ceases to be a Subsidiary or Related Entity of the Company (or of a member of the Group), or (iii) the Board or the Committee shall at its absolute discretion determine in respect of a Service Provider that (a) the Service Provider or his associate has committed any breach of any contract entered into between the Service Provider or his associate on one part and any member of the Group or any Related Entity on the other part as the Board or the Committee may in its absolute discretion determine; or (b) the Selected Participant has been guilty of misconduct, or has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally, or has been convicted any criminal offence involving his integrity or honesty; or (c) the Selected Participant could no longer make any contribution to the growth and development of any member of the Group or the Related Entity by reason of the cessation of its relationship with the Group or its Related Entity or by any other reasons whatsoever; or (iv) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company (otherwise than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of the Company pass to a successor company) (each of these, an event of "**Total Lapse**"), the Share Award shall automatically lapse forthwith and all the Awarded Shares shall not vest on the relevant Vesting Date but shall become Returned Shares and the dividends and other distributions declared and made in respect of the deemed vested Awarded Shares shall form part of the income of the trust fund for the purposes of the 2023 Share Award Plan.

## Report of the Directors

In the event (i) a Selected Participant is found to become an Excluded Participant or (ii) a Selected Participant fails to return duly executed transfer documents prescribed by the Trustee (or such later date as may be determined by the Board or the Committee at its sole and absolute discretion having to all relevant circumstances) for the relevant Awarded Shares within the stipulated period (each of these, an event of “**Partial Lapse**”), the relevant part of a Share Award made to such Selected Participant shall automatically lapse forthwith and the relevant Awarded Shares shall not vest on the relevant Vesting Date but shall become Returned Shares and the dividends and other distributions declared and made in respect of the deemed vested Awarded Shares shall form part of the income of the trust fund for the purposes of the 2023 Share Award Plan.

### Termination

The 2023 Share Award Plan shall terminate on the earlier of: (i) the 10th anniversary date of the 25 May 2023; and (ii) such date of early termination as determined by the Board or the Committee and notified to the Trustee in writing, provided that such termination shall not affect any subsisting rights of any Selected Participant. Subject to the decision of the Board or the Committee and the terms of the 2023 Share Award Plan, all the Awarded Shares shall become vested in the Selected Participant on such date of termination, save in respect of any event of Total Lapse.

The Company has not granted any Share Awards pursuant to 2023 Share Award Plan since its adoption on 25 May 2023.

For more details, please refer to the announcements of the Company dated 25 May 2023.

### SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on the information that is available to the Company and to the knowledge of the Directors, the Company’s public float complies with the requirements of Rule 8.08 of the Listing Rules.

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

During the Reporting Period, the Company exercised its powers under the general mandate to repurchase the Shares granted by the Shareholders to the Board, which shall expire on the conclusion of the next annual general meeting of the Company, and repurchased a total of 1,000,000 Shares on the Stock Exchange at an aggregate consideration of approximately HK\$4.7 million (the “**Share Repurchase**”). As at 31 December 2023, all of these Shares repurchased during the Reporting Period have been cancelled and the total number of Shares in issue is 9,067,251,704. Details of the repurchase of Shares during the Reporting Period are summarized as follows:

Date of repurchases	Number of Shares repurchased	Highest price paid HK\$	Lowest price paid HK\$
29 August 2023	1,000,000	4.69	4.63
<b>Total</b>	<b>1,000,000</b>		

The Board considers that the then trading price of the Shares did not reflect their intrinsic value and the business prospects as perceived by investors. The Share Repurchase reflects the confidence of the Board and the management team in the current and long-term business outlook and growth of the Company, driven by the Company's market leading position. The Board considers that the Share Repurchase is in the best interest of the Company and its Shareholders as a whole.

Save as disclosed above, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

### **CONNECTED TRANSACTION**

Certain related party transactions disclosed in the financial statements of this annual report, which constitute connected transactions under Chapter 14A of the Listing Rules, are fully exempted from shareholders' approval, annual review and disclosure requirements under Chapter 14A of the Listing Rules.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

### **EMPLOYEES AND REMUNERATION**

As at 31 December 2023, the Group had 9,554 full-time employees (31 December 2022: 9,489), 2,389 of whom are from YST. As at 31 December 2023, the majority of the Group's employees are based in China.

In compliance with the CG Code, the Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The Company offers the executive Directors and senior management with remuneration in the form of fees, salaries, bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. Non-executive Directors and independent non-executive Directors receive compensation according to their duties (including serving as members or chairmen of the Board committees).

In line with the performance of the Group and individual employees, the Group strives to offer a good working environment, a diversified range of training programs as well as an attractive remuneration package to its employees. The Group provides training programs to our employees, including new hire training for new employees and regular quality control, production safety and other technical training for our personnel to enhance their skill and knowledge. The Group takes measures to promote equal opportunities, anti-discrimination, and diversity among employees. In addition, the Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward staff with outstanding performance by way of bonuses, honorary awards, promotions or a combination of the above to further align the interests of the employees and the Company, to attract talented individuals, and to create long-term incentive for its staff.



## Report of the Directors

Remuneration of the Directors is determined based on their roles and duties and with reference to the Company's remuneration policy and the prevailing market conditions, subject to the approval of the Shareholders general meetings. Details of remuneration of Directors and the five highest paid individuals of the Company for the year ended 31 December 2023 are set out in notes 9 and 10 to the consolidated financial statements.

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting good corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency and responsibility in all aspects, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders.

Save as disclosed in this annual report, the Company has complied with the applicable code provisions of the CG Code during the Reporting Period.

### COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

The Company has adopted the Model Code as its own code of conduct for dealing in the securities of the Company by the Directors.

Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period. The Company has also established the "Code of Conduct for Securities Transactions for Relevant Employees" on terms no less exacting than the Model Code to regulate dealings by relevant employees who are likely to be in possession of inside information of the Company in respect of securities in the Company as referred to code provision C.1.3 of the CG Code.

### AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2023 have been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming AGM.

### SIGNIFICANT LEGAL PROCEEDINGS

During the Reporting Period, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

### TAX ALLOWANCES

The Company is not aware of any particular tax allowances granted to the Shareholders due to their interests in its securities.

### COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes the importance of compliance with regulatory requirements and the risks and consequences of non-compliance with such requirements. The Group has allocated abundant resources to ensure ongoing compliance with laws and regulations and to maintain healthy relationships with regulators through effective communications. During the Reporting Period, to the best of our knowledge, the Group has complied with all relevant rules and regulations that have a significant impact on it.

### PRINCIPAL RISKS AND UNCERTAINTIES

#### Financial Risks

The Group is exposed to a variety of financial risks, including interest rate risk, credit risk, foreign currency risk, and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. For further details, please see note 44 to the consolidated financial statements.

#### Interest Rate Risk

We are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. During the year ended 31 December 2023, we have not used any derivatives to hedge interest rate risk.

#### Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. The credit risk of our other financial assets, which comprise cash and cash equivalents, restricted cash, structured deposits, a financial asset at fair value through other comprehensive income, deposits and other receivables, and amount due from a related company, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

#### Foreign Currency Risk

We have transactional currency exposures mainly with respect to our operation of the overseas plant in Canada, which is made in Canadian dollars. During the year ended 31 December 2023, we did not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure in accordance with our plans to develop overseas business.





## Report of the Directors

### Business Risks

#### Publicity Risk

We produce and sell dairy products and we also sell nutritional supplements. Our business is highly sensitive to consumers' perception of safety, quality, hygiene and awareness for health. Any tampering, adulteration, counterfeiting or other quality control concerns relating to any infant milk formula and nutritional supplements, whether real or perceived and whether or not manufactured by us, may result in negative publicity that could adversely affect us. Any substantial and sustained negative publicity concerning the infant milk formula and nutritional supplement markets could lead to loss of consumer confidence, reduction in sales and prices of our products, or a widespread recall of infant milk formula products or nutritional supplements involved in such incident, thereby potentially having a material and adverse effect on our business, reputation and results of operations.

#### Product Risk

We consider quality and reliability of our products to be vital to our business. There may be a risk that contamination or spoilage could take place during the production and transportation of our products due to factors that may or may not be within our control. In the event our products are found to be contaminated, spoiled, or defective, or to possess any quality or safety problems, we may experience sales returns, be required to recall products from the market, or be exposed to liability claims, reduced sales volumes, imposition of penalties against us by relevant authorities or compensation awards by courts, any of which could damage our brand image, reputation and relationships with our customers.

#### Operation Risk

The manufacture of our products is an exact and complex process, partly due to strict quality and safety requirements. In particular, certain stages of our production process must occur in sterile or temperature-controlled environments to preserve the quality of fresh milk and other ingredients as well as to reduce the risk of contamination. Problems may arise during the production process for a variety of reasons, including equipment malfunction, power outages, failure to follow specific protocols and procedures, and quality defects in raw materials, which could compromise the quality of our products. We rely on the timely supply of raw materials that meet our quality standards, such as fresh milk, whey powder, lactoferrin, in order to carry out our production plans as scheduled. Any delays or disruptions in raw material supplies from our suppliers, may have a material and adverse impact on our ability to meet our contractual obligations to customers.

Our production and profitability depend on our ability to purchase key raw materials from our suppliers at reasonably acceptable prices. The primary ingredient for our infant milk formula production is fresh milk, which we source locally. As we continue to expand our business and operations, we expect our cost of fresh milk procurement to continue to account for a significant portion of our total cost of sales. The market for our fresh milk and other raw materials may be subject to price volatility depending on a variety of factors beyond our control, including the global and PRC economy and related government policies. The abnormal price volatility of raw materials may have a material and adverse impact on our business, financial condition and results of operations.

### **Competition Risk**

Our success depends on our ability to anticipate, identify, interpret and react to the evolving tastes, dietary habits and nutritional needs of end consumers and to offer products that appeal to them. If we are unable to respond to rapid changes in consumer preferences in a timely manner or at all, or if our competitors are able to address these concerns more effectively, our business, financial condition and results of operations could be materially and adversely affected.

### **Expansion Risk**

We have already invested in some overseas businesses and we may consider to further expand our operations overseas in the future. Overseas operations will expose us to various risks associated with conducting business in foreign countries and territories, which could have a material and adverse effect on our business, results of operations and overall growth strategies.

## **ENVIRONMENTAL POLICIES AND PERFORMANCE**

The Group promotes the philosophy of environmental responsibility and strictly complies with environmental protection laws and regulations including the Environmental Protection Law of the People's Republic of China and the Environmental Impact Assessment Law of the People's Republic of China. Based on such philosophy, the Group has formulated environmental management systems at the group level and built a top-down environmental management system. In its daily operations, the Group has started from technology innovation, management enhancement and awareness development, etc., and strived to improve the resource use efficiency, propel energy-saving and low-carbon operations, strictly control pollutant emissions and properly dispose of waste, build green factories, promote green office practices, fulfill corporate environmental responsibilities and drive the long-term sustainable development of the environment and communities in which the Group operates.

Detail information on the environment and social practices adopted by the Company is set out in the Environmental, Social and Governance Report which will be presented in a separate report and published on the website of the Company at [www.feihe.com](http://www.feihe.com) under the "Investor Relations > Information Disclosure > ESG Report" section and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

## **RELATIONSHIP WITH STAKEHOLDERS**

The Group acknowledges the importance of stakeholders to the Group's development, always pays attention to stakeholders including the government, shareholders and potential investors, employees, customers, suppliers, distributors and the community, and dedicates to maintaining good relationship with these stakeholders. The Group strives to achieve sustainable growth through motivating our employees, providing high-quality products to our customers and collaborating with our business partners.



## Report of the Directors

The Group has always treated legal compliance as a basic requirement for our operations and maintains good communication with the government and regulatory agencies through reporting and filing, cooperating with reviews and inspections, and recommending good industry practices. The Group treats the realization of the interests of Shareholders and investors as a key business objective, actively communicates with Shareholders and investors through shareholder meetings, roadshow and timely information disclosure. The Group regards employees as valuable assets, incentivizes employees with a competitive salary and sound promotion policy, and provides them with a fair, non-discrimination and healthy working environment. The Group also supports their career development through internal trainings and trainings from external experts to keep them abreast of the latest developments in the market and industry. The Group sticks to the customer-oriented culture and is committed to providing customers with high-quality and reliable products. The Group creates various online and offline channels to obtain feedbacks from customers and addresses customer's concern in a timely manner. Raw materials are essential to the dairy industry and the Group communicates with its suppliers in a proactive and effective manner to ensure the supply and quality of raw materials, including regular visits and surveys regarding the product quality and price movements. We maintain real-time interactions in daily operations with suppliers in order to obtain first-hand information from them. The Group strives to establish stable and long-term relationship with our distributors. We enter into standard distribution agreements with our distributors and strictly follow the distributor agreements to manage them. We actively communicate with the distributor to get to know their sale amounts, stock status and financial positions. We conduct regular spot inspections of our distributors to ensure that our distributors adhere to our sales and marketing policies and branding strategies.

For details of the Group's relationship with stakeholders, please refer to the Environmental, Social and Governance Report of the Group to be published on the websites of the Company and the Stock Exchange.

By order of the Board

**China Feihe Limited**

**LENG Youbin**

*Chairman*

Beijing, the PRC

28 March 2024

# Corporate Governance Report

The Board is pleased to report to the shareholders on the corporate governance of the Company for the year ended 31 December 2023 (the “**Reporting Period**”).

## CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of maintaining and promoting sound corporate governance. The principles of the Company’s corporate governance are to promote effective internal control measures, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to the Company and its shareholders. The Board of the Company is committed to maintaining high corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted and applied the principles and code provisions of the CG Code as the basis of the Company’s corporate governance practices.

The Board is of the view that throughout the Reporting Period, the Company has complied with all the applicable code provisions as set out in the CG Code, except for code provision C.2.1 described in the paragraph headed “Board of Directors – Chairman and Chief Executive Officer”.

## CULTURE AND VALUES

Under Code provision A.1.1 of the 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 Company develops and inherits the culture for employee teams. The corporate culture system, with a focus on upgrading corporate values, covers four dimensions – spirit, behavior, system and material. The Company also hosts activities, offers benefits and care and publicises the cultures to comfort employees and create a healthy and dynamic corporate atmosphere in the new era.

## BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group’s businesses, strategic decisions and performance and makes decisions objectively in the best interest of the Company.

The Board should regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them. The Board has delegated the day-to-day operation of the Company to the management while matters affecting the Company’s overall strategies, policies and financial matters are reserved to the Board.



# Corporate Governance Report

## Board Composition

The Board currently comprises eleven Directors, consisting of four executive Directors, three non-executive Directors and four independent non-executive Directors.

The composition of the Board is as follows:

### **Executive Directors**

Mr. LENG Youbin (*Chairman, Chief Executive Officer*)

Mr. LIU Hua

Mr. CAI Fangliang

Ms. Judy Fong-Yee TU

### **Non-executive Directors**

Mr. GAO Yu

Mr. Kingsley Kwok King CHAN

Mr. CHEUNG Kwok Wah

### **Independent Non-executive Directors**

Ms. LIU Jinping

Mr. SONG Jianwu

Mr. FAN Yonghong

Mr. Jacques Maurice LAFORGE

The biographical information of the Directors are set out in the section headed “Directors and Senior Management” on pages 18 to 24 of this annual report for the Reporting Period. The Board members have no financial, business, family, or other material/relevant relationship with each other.

### Chairman and Chief Executive Officer

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Chairman and Chief Executive Officer of the Company are both held by Mr. Leng Youbin (“**Mr. Leng**”), who has in-depth industry experience and knowledge about the operation and management of the business of the Company.

Mr. Leng is the founder of the Group and has been operating and managing the Group. He is responsible for the overall development strategies and business plans of the Group.

The Board believes that it is beneficial to the business operations and management of the Group that Mr. Leng continues to service as both the Chairman of the Board and the Chief Executive Officer of the Company.

The Board is of the view that given that Mr. Leng had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership, and should be overall beneficial to the management and development of the Group’s business.

### Board Independence and Independent Non-executive Directors

The Company recognizes that Board independence is key to good corporate governance. The Company has put in place effective mechanisms that ensure independent views and input are available to the Board. There are four independent non-executive Directors on the Board. The Remuneration Committee and the Audit Committee are both chaired by Independent Non-executive Directors. The independence of each independent non-executive Director is assessed upon his/her appointment and annually.

Directors are requested to declare their direct or indirect interests, if any, in proposals or transactions to be considered by the Board at the Board meetings and abstain from voting, where appropriate. External independent professional advice is available to all Directors, including independent non-executive Directors, whenever deemed necessary. The independent non-executive Directors have consistently demonstrated strong commitment and the ability to devote sufficient time to discharging their responsibilities at the Board.

The Company has also established formal and informal channels whereby independent non-executive Directors can express their views in an open manner, and in a confidential manner, should circumstances require.



## Corporate Governance Report

The Board reviews the implementation and effectiveness of the above mechanisms on an annual basis and is of the view that the mechanisms were effective in ensuring that independent views and input were available to the Board during the Reporting Period.

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

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

### **Appointment and Re-election of Directors**

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a term of three years, subject to renewal after the expiry of their term and may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

All the Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

The Articles of Association also provides that all Directors appointed to fill a casual vacancy or as an additional Director shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election.

### **Responsibilities, Accountabilities and Contributions of the Board and the Management**

The Board is responsible for and has general powers over the management and operation of our business, including determining our business strategies and investment plans, implementing resolutions passed at our general meetings, and exercising other powers, functions and duties as conferred by the Articles of Association. The Board also assumes the responsibilities for developing and reviewing the policies and practices of the Company on corporate governance, risk management and internal control and compliance with legal and regulatory requirements. The Board consists of 11 Directors, including four executive Directors, three non-executive Directors and four independent non-executive Directors.

Our senior management is responsible for the day-to-day management and operation of our business. Our senior management consists of our four executive Directors.

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

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

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

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

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

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.



# Corporate Governance Report

## Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and written material on relevant topics would be provided to Directors where appropriate.

During the Reporting Period, the Company organized training sessions conducted by the qualified professionals/legal advisers for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, corporate governance and regulatory updates.

In addition, relevant written materials including compliance manual/legal and regulatory updates have been provided to the Directors for their reference and studying.

The training records of the Directors for Reporting Period and up to date of this report are summarized as follows:

Directors	Training (Note)
<b>Executive Directors</b>	
Mr. LENG Youbin	✓
Mr. LIU Hua	✓
Mr. CAI Fangliang	✓
Ms. Judy Fong-Yee TU	✓
<b>Non-Executive Directors</b>	
Mr. GAO Yu	✓
Mr. Kingsley Kwok King CHAN	✓
Mr. CHEUNG Kwok Wah	✓
<b>Independent Non-Executive Directors</b>	
Ms. LIU Jinping	✓
Mr. SONG Jianwu	✓
Mr. FAN Yonghong	✓
Mr. Jacques Maurice LAFORGE	✓

Note: During the Reporting Period, all Directors attended training sessions and received training materials.

### BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Environmental, Social and Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which clearly state their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

#### Audit Committee

Rule 3.21 of the Listing Rules requires the Audit Committee to comprise non-executive directors only, with a minimum of three members with independent non-executive Directors in majority and at least one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee consists of two independent non-executive Directors, namely Mr. FAN Yonghong, Mr. Jacques Maurice LAFORGE and one non-executive Director, namely Mr. GAO Yu. Mr. FAN Yonghong is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to oversee the financial reporting, risk management and internal control systems and procedures of the Company, review the financial information of the Company and effectiveness of the internal audit function, consider issues relating to the external auditor and its appointment, arrangements to enable employees of the Group to raise concerns about possible improprieties in financial reporting and internal control and perform other duties and corporate governance responsibilities as may be assigned by the Board. The Audit Committee shall discuss the risk management and internal control system with the management to ensure that the management has performed its duty to establish and maintain effective systems, consider major investigation findings on risk management and internal control matters as delegated by the Board, ensure the coordination between the internal and external auditors, ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness.

During the Reporting Period, two Audit Committee meetings were held to review, with the Company's management and the external auditor, the interim and annual financial results and reports, the accounting principles and practices adopted by the Company, significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor and engagement of non-audit services and relevant scope of works and whistleblowing policy and system. The Audit Committee also met the external auditor twice without the presence of the executive Directors.



## Corporate Governance Report

### Remuneration Committee

Rule 3.25 of the Listing Rules requires an issuer to establish a Remuneration Committee chaired by independent non-executive Director and comprising a majority of independent non-executive Directors.

The Remuneration Committee consists of three members, namely Mr. LIU Hua, executive Director, Ms. LIU Jinping, independent non-executive Director, and Mr. Jacques Maurice LAFORGE, independent non-executive Director. Ms. Liu Jinping is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee are to advise on and formulate the remuneration and appraisal policy in respect of our Directors, senior management and other management members of the Group, assess the performance of Directors and senior management and make recommendations to the Board on the remuneration packages of Directors and senior management.

During the Reporting Period, two Remuneration Committee meetings were held to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management.

Details of the remuneration of the senior management by band are set out in notes 9 and 10 of the consolidated financial statements.

### Highest Paid Individuals and the Remuneration of the Directors and Senior Management

For details of the Directors' remuneration and the five individuals with highest emoluments, please refer to notes 9 and 10, respectively of the consolidated financial statements in this annual report.

### Nomination Committee

The Nomination Committee consists of three members, namely Mr. LENG Youbin, executive Director, Ms. LIU Jinping, independent non-executive Director and Mr. SONG Jianwu, independent non-executive Director. Mr. Leng Youbin is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee are to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and make recommendations to the Board on the appointment and removal of Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, two Nomination Committee meetings were held to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, consider the qualifications of the retiring directors standing for re-election at the annual general meeting and consider and recommend to the Board on the appointment of Directors. The Nomination Committee considered an appropriate balance of diversity of the Board is maintained.

### **Board Diversity Policy**

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes and embraces the benefits of having a diverse Board and sees diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will be primarily responsible for identifying candidates, formulating selection standards and procedures, examining candidates for directors and senior management of the Company, and providing recommendation to the Board.

The Nomination Committee will give adequate consideration to this policy in identifying and selecting suitably qualified director candidates of the Company.

Selection of director candidates shall be based on a range of measurable diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, cultural and education background, professional experience, skills, relevant knowledge and/or length of service.

As at the date of this report, the Board comprises eleven Directors, two of which are female. Two of our Directors are between the age group of 40–49, seven of our Directors are between the age group of 50–59, and two of our Directors are between the age group of 60–69. We have four senior management, one of which is female.

The Company aims to maintain an appropriate balance of skills, experience and diversity necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance.

The Board will consider the 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. At present, the Nomination Committee considered that the Board is sufficiently diverse. The Board possesses a good gender diversity with two women on the Board and has a well-balanced cultural background, educational background, industry experience and professional experience.



## Corporate Governance Report

As at the date of this report, the proportion of female representation at board level is 18.2%. The Nomination Committee has reviewed and targeted to maintain at least the current level for female representation of the Board, with the ultimate goal of achieving gender parity. The Nomination Committee will continue reviewing the targeted female representation percentage over time. In considering the Board's succession, the Nomination Committee would identify and select the potential candidates for Directors in accordance with the Company's Director Nomination Policy and Board Diversity Policy and may engage independent professional search firm to identify potential candidates for independent non-executive Directors.

Currently, among 9,554 employees of the Group, the male to female ratio in the workforce of the Group is approximately 6:4, which is line with the industry-specific characteristics. The Company has taken, and will continue to take, steps to promote gender diversity at all levels of its workforce. Opportunities for recruitment, promotion, training and career development are equally open to all eligible employees without discrimination.

The Board and the Nomination Committee has reviewed and will continue to review the Board Diversity Policy annually to ensure its implementation and effectiveness.

### Director Nomination Policy

The Board has delegated certain responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following factors:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

Director Nomination Policy has been adopted by the Company setting out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity appropriate to the Company, maintain the continuity of the Board and build appropriate leadership at Board level.

During the Reporting Period, there was no change in the composition of the Board.

### **Environmental, Social and Governance Committee**

The Board established the Environmental, Social and Governance Committee on 28 March 2022 and the terms of reference of the Environmental, Social and Governance Committee are available on the website of the Company.

The Environmental, Social and Governance Committee consists of three members, namely Mr. Liu Hua, Ms. Judy Fong-Yee Tu and Ms. Liu Jinping. Mr. Liu Hua is the chairman of the Environmental, Social and Governance Committee.

The main responsibilities of the Environmental, Social and Governance Committee are to assist the Board in reviewing policies and overseeing matters with respect to environmental, social and governance, including quality of work environment, environmental protection, operating practices, community participation and social responsibility.

During the Reporting Period, two Environmental, Social and Governance Committee meetings were held to review the objectives, strategies, policies and performance of the Group's ESG governance and the report on ESG risk management and internal control system.

### **Corporate Governance Functions**

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

During the Reporting Period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

# Corporate Governance Report

## BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

A summary of the attendance records of the Directors at the meetings of the Board, Board committees and the general meeting of the Company held during the Reporting Period is set out below:

Name of Director	Attendance/Number of Meetings during the Reporting Period					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Environmental, Social and Governance Committee	Annual General Meeting
<b>Executive Directors</b>						
Mr. LENG Youbin	4/4	N/A	N/A	2/2	N/A	1/1
Mr. LIU Hua	4/4	N/A	2/2	N/A	2/2	1/1
Mr. CAI Fangliang	4/4	N/A	N/A	N/A	N/A	1/1
Ms. Judy Fong-Yee TU	4/4	N/A	N/A	N/A	2/2	1/1
<b>Non-executive Directors</b>						
Mr. GAO Yu	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Kingsley Kwok King CHAN	3/4	N/A	N/A	N/A	N/A	1/1
Mr. CHEUNG Kwok Wah	3/4	N/A	N/A	N/A	N/A	1/1
<b>Independent Non-executive Directors</b>						
Ms. LIU Jinping	4/4	N/A	2/2	2/2	2/2	1/1
Mr. SONG Jianwu	4/4	N/A	N/A	2/2	N/A	1/1
Mr. FAN Yonghong	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Jacques Maurice LAFORGE	4/4	2/2	2/2	N/A	N/A	1/1

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

### RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness on an annual basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems. The Audit Committee is responsible to review and supervise our financial reporting process and internal control system. The Audit Committee consists of three members, namely Mr. FAN Yonghong, who serves as chairman of the committee, Mr. GAO Yu and Mr. Jacques Maurice LAFORGE.

To monitor the ongoing implementation of risk management policies and corporate governance measures, the Company has established risk management systems with relevant procedures and the following risk management measures:

- establish the Audit Committee to review and supervise our financial reporting process and internal control system. The Audit Committee consists of three members, namely Mr. FAN Yonghong, who serves as chairman of the committee, Mr. GAO Yu and Mr. Jacques Maurice LAFORGE. For the qualifications and experience of these committee members, see "Directors and Senior Management";
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to matters related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks; and
- provide training session for the Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information disclosure. Self-evaluation has been conducted annually to confirm that internal control policies are properly complied with by each department.





## Corporate Governance Report

The management, in coordination with department heads, assessed the likelihood of risk occurrence, formulated contingency plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all material findings and the effectiveness of the systems.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period. Based on the internal controls established and maintained by the Group, the reviews performed by the management and the Audit Committee, the Board, with the concurrence of the Audit Committee, is of the opinion that the internal control and risk management systems were adequate and effective to address the financial, compliance, operational risks which the Group considers material and relevant to its operation.

The Internal Audit Department is responsible for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems associated with our major business processes, identify deficiencies and improvement opportunities, provide recommendations on remedial actions and review the implementation status of these remedial actions. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee and has not identified any material deficiencies in the internal control system.

The Board, as supported by the Audit Committee as well as the management report, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2023, and considered that such systems are effective and adequate. The annual review also covered the financial reporting, staff qualifications and experiences and relevant resources.

The Company has established a whistleblowing policy and system for employees and those who deal with the Company to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company.

The Company has also established anti-corruption policies, including Anti-Fraud System of Feihe Dairy, Inquiry Measures for Employees' Violations and the Audit System Management of Feihe Dairy, which aim at preventing or penalizing illegal behaviour such as corruption and money-laundering. Anti-corruption has been added as a metric for assessing the overall performance of the Group, to encourage all employees to behave properly and legally. The Company continues to promote anti-corruption systems, promises to operate in good faith, and maintains a clean and upright business environment. The Company establishes integrity supervision for clean operation and healthy development. The Audit and Internal Control Center of the Company is a permanent anti-corruption department, responsible for the daily oversight of the headquarters and subsidiaries.

The Group has adopted a Guideline on Disclosure on Inside Information (the “**Guideline**”) which sets out comprehensive guidelines in respect of handling and dissemination of inside information. The Guideline sets out the procedures and internal controls to ensure timely disclosure of inside information of the Group and the fulfilment of the Group’s continuous disclosure obligations, including:

- the processes for identifying, assessing and escalating potential inside information to the designated representative of the Board;
- restricting access to inside information to a limited number of employees on a “need to know” basis;
- identifying members of senior management who are authorised to release inside information; and
- the requirements of all directors and employees of the Group to observe the Guideline.

### **DIRECTORS’ RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS**

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

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor’s Report on pages 69 to 73.

### **AUDITOR’S REMUNERATION**

The remuneration paid/payable to the external auditor of the Group, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2023 amounted to RMB8,450,000 and RMB1,450,000, respectively. The fees included those paid/payable to the external auditor of YST, a subsidiary of the Group listed on the Main Board of the Stock Exchange. The non-audit services mainly include interim review and other transactions relating to the Group’s business development.



## Corporate Governance Report

### COMPANY SECRETARY

Ms. Judy Fong-Yee Tu has been appointed as the Company's joint company secretary in July 2017 and has been serving as the sole company secretary of the Company since 15 November 2022.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Ms. Judy Fong-Yee Tu, an executive Director, vice president and authorized representative of the Company, has been designated as the primary contact person at the Company which would work on the Company's corporate governance and secretarial and administrative matters.

Ms. Judy Fong-Yee Tu has undertaken not less than 15 hours of relevant professional training during the year ended 31 December 2023 in compliance with Rule 3.29 of the Listing Rules.

### SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels and a Shareholders Communication Policy is put in place to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. Resolutions (except resolutions which relate purely to procedural or administrative matters) put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

#### Convening General Meetings and Putting Forward Proposals

One or more Shareholders holding, as at the date of deposit of the requisition, in aggregate not less than one-tenth of the voting rights (on a one vote per share basis) in the share capital of the Company may make a requisition to convene an extraordinary general meeting and add resolutions to the agenda of a meeting pursuant to Article 64 of the Articles of Association.

Shareholders should follow the requirements and procedures as set out in the Companies Law and where applicable, the Articles of Association, for convening a general meeting.

#### Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

### Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong  
(For the attention of the Board of Directors)  
Fax: +86 10 8456 7871  
Email: ir@feihe.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an ongoing dialogue with shareholders and in particular, through annual general meetings and other general meetings.

The Company has put in place the Shareholders Communication Policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

To promote effective communication, the Company maintains a website at [www.feihe.com](http://www.feihe.com), where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The Company has also established a range of communication channels with its Shareholders, investors and other stakeholders. These include (i) the publication of interim and annual reports and/or dispatching circulars, notices, and other announcements; (ii) the annual general meeting or extraordinary general meeting providing a forum for Shareholders to raise comments and exchange views with the Board; (iii) the provision of updated and key information of the Group available on the Company's website and the Stock Exchange's website; (iv) the Company's website offering communication channel between the Company and its stakeholders; (v) the Company's share registrar in Hong Kong serving the Shareholders in respect of all share registration matters; (vi) holding press conference(s) from time to time; and (vii) convening investor meeting and/or analyst briefings, which are held by our executive Directors with existing and potential investors.



## Corporate Governance Report

Having considered the multiple channels of communication and shareholders engagement held during the year, the Board is satisfied that the shareholders communication policy has been properly implemented during 2023 and is effective.

During the Reporting Period, the Company had not made any changes to the Articles of Association. An up to date version of the Articles of Association is also available on the websites of the Company and the Stock Exchange.

### **Dividend Policy**

The Company has adopted a Dividend Policy on payment of dividends to shareholders. The Company intends to distribute to the Shareholders no less than 30% of the net profit for each financial year going forward after the Listing, subject to the future investment plans of the Company. The Board may declare dividends in the future after taking into account the results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends and the ability to pay dividends will be subject to the requirements of the Listing Rules, all relevant applicable laws, rules and regulations in the Cayman Islands and Hong Kong as well as all the constitutional documents of the Company.

# Independent Auditor's Report



**To the shareholders of China Feihe Limited**

*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Feihe Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 74 to 181, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2023, 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 (the “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 (“HKASAs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

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

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

# Independent Auditor's Report

## KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Fair value of biological assets</b></p> <p>As at 31 December 2023, the carrying value of the Group's biological assets, mainly including dairy cows and dairy goats, amounted to RMB2,252,706,000.</p> <p>During the year ended 31 December 2023, the Group recorded a loss of RMB750,262,000 arising from the changes in fair value less costs to sell of biological assets.</p> <p>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.</p> <p>The related disclosures are included in notes 2.4, 3 and 23 to the consolidated financial statements.</p>	<p>Our audit procedures for the year ended 31 December 2023 included: (i) conducting a stocktaking of biological assets; and (ii) 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.</p>
<p><b>Write-down of inventories to net realisable value</b></p> <p>As at 31 December 2023, the Group recorded net inventories of RMB2,258,059,000. The Group performs regular reviews of the carrying amounts of inventories to determine whether any write-down of inventories to net realisable value is required after considering, inter alia, the ageing analysis of inventories, current market conditions, and the expected future sales of goods and usage of feeds and raw materials.</p> <p>The determination of net realisable value requires management to make significant assumptions and estimates that affect the reported amount of inventories and related disclosures.</p> <p>The related disclosures are included in notes 2.4, 3 and 24 to the consolidated financial statements.</p>	<p>In evaluating management's assessment of the net realisable value of inventories, our procedures included: (i) observing the physical inventory counts and the condition of inventories at major locations; (ii) obtaining an understanding of the approach adopted by management for their net realisable value assessments; (iii) on a sample basis, reviewing and testing the inventory ageing and the usage of feeds and raw materials subsequent to year end; (iv) on a sample basis, comparing the actual selling prices of finished goods subsequent to the year end to their carrying amounts at the year end; and (v) assessing the adequacy of the disclosures included in the consolidated financial statements.</p>

### **OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT**

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

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

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

### **RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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.





## Independent Auditor's Report

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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 Chung Chi Ming.

#### **Ernst & Young**

*Certified Public Accountants*

27/F, One Taikoo Place

979 King's Road

Quarry Bay, Hong Kong

28 March 2024

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	<b>2022</b> <b>RMB'000</b>
<b>REVENUE</b>	5	<b>19,532,203</b>	21,310,933
Cost of sales		<b>(6,868,850)</b>	(7,360,333)
Gross profit		<b>12,663,353</b>	13,950,600
Other income and gains, net	5	<b>1,659,531</b>	1,368,642
Selling and distribution expenses		<b>(6,709,067)</b>	(6,545,373)
Administrative expenses		<b>(1,762,049)</b>	(1,535,012)
Other expenses	7	<b>(100,862)</b>	(135,252)
Finance costs	8	<b>(53,132)</b>	(33,640)
Share of loss of an associate		<b>(5,958)</b>	(15,548)
Share of loss of a joint venture		<b>(1,450)</b>	(1,705)
Impairment losses on property, plant and equipment and right-of-use assets		<b>(89,812)</b>	–
Changes in fair value less costs to sell of biological assets	23	<b>(750,262)</b>	(389,603)
<b>PROFIT BEFORE TAX</b>	6	<b>4,850,292</b>	6,663,109
Income tax expense	11	<b>(1,559,940)</b>	(1,715,003)
<b>PROFIT FOR THE YEAR</b>		<b>3,290,352</b>	4,948,106
Attributable to:			
Owners of the parent		<b>3,390,009</b>	4,942,048
Non-controlling interests		<b>(99,657)</b>	6,058
		<b>3,290,352</b>	4,948,106
<b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	13		
Basic (expressed in RMB per share)		<b>0.37</b>	0.55
Diluted (expressed in RMB per share)		<b>0.37</b>	0.55

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
<b>PROFIT FOR THE YEAR</b>	<b>3,290,352</b>	4,948,106
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of group companies	<b>153,660</b>	161,927
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>3,444,012</b>	5,110,033
Attributable to:		
Owners of the parent	<b>3,543,469</b>	5,103,159
Non-controlling interests	<b>(99,457)</b>	6,874
	<b>3,444,012</b>	5,110,033

# Consolidated Statement of Financial Position

31 December 2023

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	<b>2022</b> <b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	9,494,034	9,500,435
Investment properties	15	211,741	109,812
Right-of-use assets	16	395,097	408,696
Goodwill	17	112,402	112,402
Intangible assets	18	16,334	18,514
Investment in a joint venture	19	3,338	4,578
Investment in an associate	20	99,866	105,824
Financial asset at fair value through other comprehensive income	21	1,800	1,800
Deposits	22	110,873	319,776
Biological assets	23	2,252,706	2,025,292
Deferred tax assets	33	402,216	438,963
Long-term bank deposits	29	540,000	240,000
Total non-current assets		<b>13,640,407</b>	13,286,092
<b>CURRENT ASSETS</b>			
Inventories	24	2,258,059	1,994,166
Trade and bills receivables	25	431,184	430,651
Prepayments, deposits and other receivables	26	694,959	506,691
Due from a related company	27	–	185,824
Structured deposits	28	8,670,910	9,746,305
Restricted cash	29	58,218	30,108
Cash and cash equivalents	29	10,440,941	9,335,936
Total current assets		<b>22,554,271</b>	22,229,681
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	30	1,838,223	1,773,848
Other payables and accruals	31	4,660,948	4,704,704
Interest-bearing bank and other borrowings	32	504,914	446,636
Lease liabilities	16	87,402	66,742
Tax payable		290,743	467,759
Total current liabilities		<b>7,382,230</b>	7,459,689
<b>NET CURRENT ASSETS</b>		<b>15,172,041</b>	14,769,992
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>28,812,448</b>	28,056,084

# Consolidated Statement of Financial Position

31 December 2023

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	<b>2022</b> <b>RMB'000</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	32	<b>872,836</b>	861,994
Other payables and accruals	31	<b>620,756</b>	627,962
Deferred tax liabilities	33	<b>813,250</b>	965,312
Lease liabilities	16	<b>171,260</b>	125,873
Total non-current liabilities		<b>2,478,102</b>	2,581,141
Net assets		<b>26,334,346</b>	25,474,943
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	34	<b>1</b>	1
Reserves	36	<b>24,944,858</b>	23,985,998
		<b>24,944,859</b>	23,985,999
Non-controlling interests		<b>1,389,487</b>	1,488,944
Total equity		<b>26,334,346</b>	25,474,943

**LIU Hua**  
*Director*

**Judy Fong-Yee TU**  
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2023

	Attributable to owners of the parent												
	Notes	Share capital	Treasury shares	Share premium account	Capital contribution reserve	Reserve funds	Share option reserve	Exchange fluctuation reserve	Retained profits	Other reserves	Non-controlling interests	Total equity	
		RMB'000 (note 34)	RMB'000	RMB'000	RMB'000 (note 36)	RMB'000 (note 36)	RMB'000 (note 36)	RMB'000	RMB'000	RMB'000 (note 36)	RMB'000	RMB'000	RMB'000
<b>At 1 January 2022</b>		1	(94,036)	6,279,659	80,346	812,631	361,360	(290,418)	13,896,894	(125,137)	20,921,300	1,482,070	22,403,370
Profit for the year		-	-	-	-	-	-	-	4,942,048	-	4,942,048	6,058	4,948,106
Other comprehensive income for the year:													
Exchange differences on translation of financial statements of group companies		-	-	-	-	-	-	161,111	-	-	161,111	816	161,927
Total comprehensive income for the year		-	-	-	-	-	-	161,111	4,942,048	-	5,103,159	6,874	5,110,033
Final 2021 dividend		-	-	-	-	-	-	-	(1,255,606)	-	(1,255,606)	-	(1,255,606)
Interim 2022 dividend	12	-	-	-	-	-	-	-	(876,896)	-	(876,896)	-	(876,896)
Equity-settled share option arrangements	35	-	-	-	-	-	61,295	-	-	-	61,295	-	61,295
Transfer from retained profits		-	-	-	-	27,142	-	-	(27,142)	-	-	-	-
Shares repurchased		-	(148,173)	-	-	-	-	-	-	-	(148,173)	-	(148,173)
Cancellation of shares repurchased		-	167,434	(167,434)	-	-	-	-	-	-	-	-	-
Issuance of shares upon exercise of share options		-	-	414,412	-	-	(233,492)	-	-	-	180,920	-	180,920
<b>At 31 December 2022 and 1 January 2023</b>		1	(74,775)*	6,526,637*	80,346*	839,773*	189,163*	(129,307)*	16,679,298*	(125,137)*	23,985,999	1,488,944	25,474,943
Profit for the year		-	-	-	-	-	-	-	3,390,009	-	3,390,009	(99,657)	3,290,352
Other comprehensive income for the year:													
Exchange differences on translation of financial statements of group companies		-	-	-	-	-	-	153,460	-	-	153,460	200	153,660
Total comprehensive income for the year		-	-	-	-	-	-	153,460	3,390,009	-	3,543,469	(99,457)	3,444,012
Final 2022 dividend		-	-	-	-	-	-	-	(1,416,761)	-	(1,416,761)	-	(1,416,761)
Interim 2023 dividend	12	-	-	-	-	-	-	-	(1,136,522)	-	(1,136,522)	-	(1,136,522)
Equity-settled share option arrangements	35	-	-	-	-	-	95,776	-	-	-	95,776	-	95,776
Transfer from retained profits		-	-	-	-	20,699	-	-	(20,699)	-	-	-	-
Shares repurchased		-	(4,092)	-	-	-	-	-	-	-	(4,092)	-	(4,092)
Cancellation of shares repurchased		-	78,867	(78,867)	-	-	-	-	-	-	-	-	-
Shares withheld for a share award plan		-	(123,010)	-	-	-	-	-	-	-	(123,010)	-	(123,010)
<b>At 31 December 2023</b>		1	(123,010)*	6,447,770*	80,346*	860,472*	284,939*	24,153*	17,495,325*	(125,137)*	24,944,859	1,389,487	26,334,346

\* These reserve accounts comprise the consolidated reserves of RMB24,944,858,000 (2022: RMB23,985,998,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2023

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	<b>2022</b> <b>RMB'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>4,850,292</b>	6,663,109
Adjustments for:			
Finance costs	8	<b>53,132</b>	33,640
Share of loss of an associate		<b>5,958</b>	15,548
Share of loss of a joint venture		<b>1,450</b>	1,705
Interest income	5	<b>(470,032)</b>	(349,433)
Depreciation of property, plant and equipment	6	<b>533,385</b>	444,928
Depreciation of investment properties	6	<b>45,192</b>	19,700
Depreciation of right-of-use assets	6	<b>27,176</b>	27,636
Amortisation of intangible assets	6	<b>2,180</b>	2,180
Loss on disposal of items of property, plant and equipment, net	6	<b>663</b>	41,777
Fair value gains on structured deposits, net	5	<b>(99,510)</b>	(93,605)
Changes in fair value less costs to sell of biological assets		<b>750,262</b>	389,603
Write-down of inventories to net realisable value	6	<b>42,726</b>	26,634
Impairment of trade receivables, net	6	<b>961</b>	5,828
Impairment of property, plant and equipment and right-of-use assets		<b>89,812</b>	7,423
Gain on lease termination		<b>(1,475)</b>	–
Gain on lease modification		<b>(465)</b>	–
COVID-19-related rent concessions from lessors	16	–	(157)
Amortisation of deferred income	31	<b>(57,221)</b>	(61,238)
Equity-settled share-based expense	6	<b>162,656</b>	61,295
		<b>5,937,142</b>	7,236,573
Increase in inventories		<b>(301,782)</b>	(295,230)
Decrease/(increase) in trade and bills receivables		<b>(1,154)</b>	41,425
Decrease/(increase) in prepayments, deposits and other receivables		<b>(166,502)</b>	69,862
Decrease in an amount due from a related company		<b>190,599</b>	–
Change in an amount due from a director		–	80
Increase in trade and bills payables		<b>63,352</b>	487,711
Increase/(decrease) in other payables and accruals		<b>(122,439)</b>	524,012
Cash generated from operations		<b>5,599,216</b>	8,064,433
Interest received		<b>456,565</b>	343,436
Interest paid		<b>(58,164)</b>	(66,448)
Income taxes paid		<b>(1,852,271)</b>	(2,062,342)
Net cash flows from operating activities		<b>4,145,346</b>	6,279,079



## Consolidated Statement of Cash Flows

Year ended 31 December 2023

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	<b>2022</b> <b>RMB'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment and right-of-use assets		<b>(641,020)</b>	(1,518,760)
Proceeds from disposal of items of property, plant and equipment and right-of-use assets		<b>22,310</b>	36,934
Additions to biological assets		<b>(868,049)</b>	(930,137)
Proceeds from disposal of biological assets		<b>202,592</b>	155,775
Purchases of structured deposits		<b>(10,176,472)</b>	(9,652,700)
Proceeds from redemption of structured deposits		<b>11,351,377</b>	7,539,583
Placement of restricted cash		<b>(136,544)</b>	(67,030)
Withdrawal of restricted cash		<b>108,434</b>	62,538
Acquisitions of businesses	37	–	(135,883)
Receipt of government grants		<b>49,085</b>	28,568
Deposits paid for purchases of items of property, plant and equipment	22	<b>(26,674)</b>	(29,136)
Placement of time deposits with original maturity of more than three months when acquired		<b>(2,345,660)</b>	(3,645,218)
Withdrawal of time deposits with original maturity of more than three months when acquired		<b>2,847,318</b>	3,351,758
Net cash flows from/(used in) investing activities		<b>386,697</b>	(4,803,708)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans		<b>682,652</b>	866,534
Repayment of bank and other loans		<b>(626,907)</b>	(505,140)
Shares repurchased		<b>(4,092)</b>	(148,173)
Shares withheld for a share award plan		<b>(123,010)</b>	–
Dividends paid		<b>(2,553,283)</b>	(2,132,502)
Principal portion of lease payments	38(ii)	<b>(80,661)</b>	(56,004)
Net cash flows used in financing activities		<b>(2,705,301)</b>	(1,975,285)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>5,579,482</b>	5,988,909
Effect of foreign exchange rate changes, net		<b>41,157</b>	90,487
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>7,447,381</b>	5,579,482
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents	29	<b>7,447,381</b>	5,579,482

# Notes to the Financial Statements

31 December 2023

## 1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 26 October 2012. The registered office address of the Company is P.O. Box 1103, George Town, Grand Cayman KY1-1102, Cayman Islands.

During the year, the principal activities of the Group consisted of the production and sale of dairy products and raw milk, and sale of nutritional supplements.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 November 2019.

### Information about subsidiaries

Particulars of the Company's principal subsidiaries 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	
Vitamin World USA	United States	United States dollars ("US\$") 10	-	100	Sale of vitamin products
Canada Royal Milk ULC	Canada	Canadian dollar ("CAD") 1	-	100	Manufacture and sale of milk powder
Heilongjiang Feihe Dairy Co., Ltd. (黑龍江飛鶴乳業有限公司) #	The PRC/ Mainland China	US\$45,000,000	-	100	Manufacture and sale of milk powder
Feihe (Gannan) Dairy Products Co., Ltd. (飛鶴(甘南)乳品有限公司) ^ #	The PRC/ Mainland China	US\$25,000,000	-	100	Manufacture and sale of milk powder
Feihe (Longjiang) Dairy Products Co., Ltd. (飛鶴(龍江)乳品有限公司) #	The PRC/ Mainland China	Renminbi ("RMB") 210,000,000	-	100	Manufacture and sale of milk powder
Jilin Feihe Albeta Dairy Co., Ltd. (飛鶴(鎮賚)乳品有限公司) #	The PRC/ Mainland China	RMB87,000,000	-	100	Manufacture and sale of milk powder
Feihe (Baiquan) Dairy Products Co., Ltd. (飛鶴(拜泉)乳品有限公司) #	The PRC/ Mainland China	RMB51,000,000	-	100	Manufacture and sale of milk powder

# Notes to the Financial Statements

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## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Feihe (Tailai) Dairy Products Co., Ltd. (飛鶴(泰來)乳品有限公司) #	The PRC/ Mainland China	RMB500,000,000	–	100	Manufacture of milk powder
Zuhai Hengqui Xing Ma Electronic Commerce Co., Ltd. (珠海橫琴星媽電子商務有限公司) #	The PRC/ Mainland China	RMB10,000,000	–	100	Sale of milk powder
Feihe (Jilin) Dairy Products Co., Ltd. (飛鶴(吉林)乳品有限公司)#	The PRC/ Mainland China	RMB200,000,000	–	100	Manufacture and sale of milk powder
Feihe (Harbin) Dairy Products Co., Ltd. (飛鶴(哈爾濱)乳品有限公司) #	The PRC/ Mainland China	US\$50,000,000	–	100	Manufacture and sale of milk powder
Royal Milk (Harbin) Food Nutrition Technology Company Limited (皇家妙克(哈爾濱)食品營養科技有限公司) ^#	The PRC/ Mainland China	RMB10,000,000	–	100	Sale of milk powder
Heilongjiang Feihe Dairy Products Selling Co., Ltd. (黑龍江飛鶴乳業銷售有限公司) #	The PRC/ Mainland China	RMB10,000,000	–	100	Sale of milk powder
Feihe (Shaanxi) Dairy Products Co., Ltd. (飛鶴(陝西)乳品有限公司)#	The PRC/ Mainland China	RMB20,100,000	–	100	Manufacture and sale of milk powder
Feihe (Qiqihar) Dairy Products Co., Ltd. (飛鶴(齊齊哈爾)乳品有限公司)#	The PRC/ Mainland China	RMB500,000,000	–	100	Manufacture and sale of milk powder
Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. (黑龍江甘南瑞信達原生態牧業有限公司)#	The PRC/ Mainland China	RMB38,000,000	–	71.26	Production and sale of raw milk

## 1. CORPORATE AND GROUP INFORMATION (Continued)

## Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (黑龍江克東和平原生態牧業有限公司)*	The PRC/ Mainland China	RMB246,520,000	–	71.26	Production and sale of raw milk
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)*	The PRC/ Mainland China	RMB186,850,000	–	71.26	Production and sale of raw milk
Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd. (鎮賚瑞信達原生態牧業有限公司)*	The PRC/ Mainland China	RMB60,000,000	–	71.26	Production and sale of raw milk
Kedong Yongjin YuanShengTai Dairy Farming Joint Stock Co., Ltd. (克東勇進原生態牧業有限公司)*	The PRC/ Mainland China	RMB1,216,000,000	–	71.26	Production and sale of raw milk
Baiquan Ruixincheng Dairy Farming Co., Ltd. (拜泉瑞信誠牧業有限公司)*	The PRC/ Mainland China	RMB534,113,940	–	71.26	Production and sale of raw milk
Keshan Ruixincheng Dairy Farming Co., Ltd. (克山瑞信誠牧業有限公司)*	The PRC/ Mainland China	RMB100,000,000	–	71.26	Production and sale of raw milk
Longjiang Ruixincheng Dairy Farming Co., Ltd. (龍江瑞信誠牧業有限公司)*	The PRC/ Mainland China	RMB20,000,000	–	71.26	Production and sale of raw milk
Heilongjiang Jinyuan Dairy Farming Co., Ltd. (黑龍江金源牧業有限公司)*	The PRC/ Mainland China	RMB180,000,000	–	71.26	Production and sale of raw milk
Heilongjiang Bei'an Ruixincheng Dairy Farming Co., Ltd. (黑龍江北安瑞信誠牧業有限公司)*	The PRC/ Mainland China	RMB120,000,000	–	71.26	Production and sale of raw milk

# Notes to the Financial Statements

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## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Heilongjiang Yian Ruixinda Dairy Farming Co., Ltd. (黑龍江依安瑞信達牧業有限公司)*	The PRC/ Mainland China	US\$61,000,000	–	71.26	Production and sale of raw milk
Shaanxi Ruixiangchengda Dairy Farming Co., Ltd. (陝西瑞祥誠達牧業有限公司)*	The PRC/ Mainland China	RMB200,000,000	–	71.26	Production and sale of raw milk
Heilongjiang Shuangcheng Ruixinda Dairy Farming Co., Ltd. (黑龍江雙城瑞信達牧業有限公司)*	The PRC/ Mainland China	RMB30,000,000	–	71.26	Production and sale of raw milk

*Notes:*

<sup>^</sup> Registered as wholly-foreign-owned enterprises under PRC law.

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

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

## 2. ACCOUNTING POLICIES

### 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 (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a financial asset at fair value through other comprehensive income and structured deposits which have been measured at fair value, and biological assets and agricultural produce which have been measured at fair value less costs to sell. These financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

### 2.1 BASIS OF PREPARATION (Continued)

#### 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 2023. 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 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 the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and 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.

# Notes to the Financial Statements

31 December 2023

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 17	<i>Insurance Contracts</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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

- (a) Amendments to IAS 1 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 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) 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. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* 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.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets, investment properties and lease liabilities separately, which have been reflected in the reconciliation as disclosed in note 33 to the financial statements. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under IAS 12.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. The Group has not yet applied the temporary exception during the current year because the entities comprising the Group are operating in jurisdictions in which the Pillar Two tax law has not yet been enacted or substantively enacted. The Group will disclose known or reasonably estimable information related to its exposure to Pillar Two income taxes in the consolidated financial statements by the time when the Pillar Two tax law has been enacted or substantively enacted and will disclose separately the current tax expense or income related to Pillar Two income taxes when it is in effect.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised IFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i> <sup>1</sup>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the "2020 Amendments") <sup>1</sup>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i> (the "2022 Amendments") <sup>1</sup>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i> <sup>1</sup>
Amendments to IAS 21	<i>Lack of Exchangeability</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2024

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2025

<sup>3</sup> No mandatory effective date yet determined but available for adoption

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





## Notes to the Financial Statements

31 December 2023

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

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 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. 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.

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments 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. Additional disclosures are required for non-current that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application 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 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

### 2.4 MATERIAL 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 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.

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.



## Notes to the Financial Statements

31 December 2023

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Business combinations and goodwill (Continued)

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.

#### Investments in an associate and a joint venture

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

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

### Investments in an associate and a joint venture (Continued)

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### Fair value measurement

The Group measures its financial asset at fair value through other comprehensive income, structured deposits, 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 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.

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.



## Notes to the Financial Statements

31 December 2023

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for a non-financial asset is required (other than inventories, deferred tax 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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

## 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

### Related parties (Continued)

- (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.

### 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. 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 statement of profit or loss 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.

# Notes to the Financial Statements

31 December 2023

## 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

### Property, plant and equipment and depreciation (Continued)

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:

Freehold land	Not depreciated
Buildings	2% – 10%
Plant and machinery	6% – 10%
Furniture, fixtures and equipment	18% – 20%
Motor vehicles	11% – 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 statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings (including right-of-use assets) held to earn rental income and/or for capital appreciation. 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.

### Intangible assets (other than goodwill)

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

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Intangible assets (other than goodwill) (Continued)

##### Trademark

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

##### Research and development costs

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

#### 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 statement of profit or loss 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. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is credited to cost of sales and as initial cost of inventories for the period in which it arises. All raw milk is sold in the period it is produced, and the value resulting from initial measurement is immediately charged to cost of sales.

#### 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.



# Notes to the Financial Statements

31 December 2023

## 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### Group as a lessee (Continued)

(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 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	3 – 50 years
Leased retail stores and office	2 – 10 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.

(c) *Short-term leases*

The Group applies the short-term lease recognition exemption to its short-term leases of retail stores (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). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

## 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### 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 other income in the statement of profit or loss. 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.

### 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.



## Notes to the Financial Statements

31 December 2023

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Investments and other financial assets (Continued)

##### Initial recognition and measurement (Continued)

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

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

##### Subsequent measurement

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

##### Financial assets at amortised cost (debt instruments)

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

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

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

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

##### Financial assets at fair value through profit or loss

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

## 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

### 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.

### 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.



## Notes to the Financial Statements

31 December 2023

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Impairment of financial assets (Continued)

##### General approach (Continued)

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

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

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

##### 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 recognises lifetime ECLs for trade receivables and measures the lifetime ECLs on a specific basis according to management's assessment of the recoverability of an individual receivable. Management considers the number of days that an individual receivable is outstanding, historical experience and forward-looking information to determine the recoverability of the trade receivable.

The Group measures ECLs in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### 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 and bills payables, financial liabilities included in other payables and accruals, lease liabilities 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 (trade and other payables, and borrowings)

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

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

##### Derecognition of financial liabilities

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

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

##### Offsetting of financial instruments

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



## Notes to the Financial Statements

31 December 2023

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

#### 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 work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

#### Restricted cash

Restricted cash represents guaranteed deposits pledged to the banks for issuance of trade facilities, such as guaranteed deposits for issuance of letters of credit. Such restricted cash will be released when the Group repays the related trade facilities.

#### 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 MATERIAL 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, except that deferred tax is not recognised for the Pillar Two income taxes.

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 does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and a joint venture, 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 any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and a joint venture, 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.





## Notes to the Financial Statements

31 December 2023

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Income tax (Continued)

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

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

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

#### Government grants

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

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

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### 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.

##### 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.

##### Sale of goods

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

Some contracts for the sale of goods provide customers with rights of return, giving rise to variable consideration.

##### Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

##### 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.

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



## Notes to the Financial Statements

31 December 2023

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### 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).

#### Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

#### Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

#### Share-based payments

The Company operates share option schemes. 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 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.

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 the statement of 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.

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Share-based payments (Continued)

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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### Other employee benefits

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 a certain specific percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Payments to state-managed retirement benefit schemes in jurisdictions other than Mainland China are charged as expenses when employees have rendered the service entitling them to the 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. 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.



## Notes to the Financial Statements

31 December 2023

### 2.4 MATERIAL ACCOUNTING POLICIES (Continued)

#### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements. Interim dividends are simultaneously proposed and declared, because the Company's Memorandum and Articles of Association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

#### Foreign currencies

These financial statements are presented in RMB, which is different from the Company's functional currency, US\$. As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the financial statements. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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).

The functional currencies of certain overseas subsidiaries and a joint venture are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss 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, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in the statement of profit or loss.

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:

#### Deferred tax liabilities

Deferred tax liabilities are recognised for withholding tax in respect of the unremitted earnings of certain subsidiaries of the Group established in Mainland China to the extent that the directors are of the opinion that they would be probable for distribution in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax liabilities that should be recognised. Further details are contained in note 33 to 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.

#### Write-down of inventories to net realisable value

The Group's management reviews the condition of inventories of the Group and makes provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for obsolete items. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. The Group's management reassesses the estimation at the end of each reporting period. The carrying amount of the Group's inventories as at 31 December 2023 was RMB2,258,059,000 (2022: RMB1,994,166,000).



## Notes to the Financial Statements

31 December 2023

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### Estimation uncertainty (Continued)

##### Provision for income taxes

Provision for income taxes is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amounts of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time. Further details are given in note 11 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.

##### Provision for expected credit losses on trade receivables

The impairment provisions for trade receivables are based on assumptions about expected credit losses. The Group uses judgements and estimates in making these assumptions and selecting the inputs to the impairment calculation, based on information about past events, current conditions and forecasts of future economic conditions at the end of each reporting period. The amount of ECLs is sensitive to changes in circumstances and forecasts of future economic conditions. The forecasts of future economic conditions may also not be representative of debtor's actual default in the future. Changes in these assumptions and estimates could materially affect the results of the assessment and it may be necessary to make an additional impairment charge to profit or loss. The information about the ECLs on the Group's trade receivables is disclosed in note 25 to the financial statements.

##### 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).

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### Estimation uncertainty (Continued)

##### 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 23 to the financial statements.

### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has two reportable operating segments as follows:

- Raw milk segment – manufacture and sale of raw milk; and
- Dairy products and nutritional supplements products segment – manufacture and sale of dairy products and sale of nutritional supplements

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that bank interest income, other interest income, non-lease-related finance costs, share of loss of a joint venture, and share of loss of an associate, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, financial asset at fair value through other comprehensive income, an amount due from a related company, structured deposits, long-term bank deposits, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



# Notes to the Financial Statements

31 December 2023

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2023

	Dairy products and nutritional supplements		
	Raw milk RMB'000	products RMB'000	Total RMB'000
<b>Segment revenue</b> (note 5)			
Sales to external customers	234,060	19,298,143	19,532,203
Intersegment sales	1,974,521	–	1,974,521
	2,208,581	19,298,143	21,506,724
<i>Reconciliation:</i>			
Elimination of intersegment sales			(1,974,521)
Revenue			19,532,203
<b>Segment results</b>	(325,738)	4,756,742	4,431,004
<i>Reconciliation:</i>			
Elimination of intersegment results			2,274
Bank interest income			198,911
Other interest income			269,499
Share of loss of an associate			(5,958)
Share of loss of a joint venture			(1,450)
Finance costs (other than interest on lease liabilities)			(43,988)
Profit before tax			4,850,292
<b>Segment assets</b>	7,374,703	8,593,488	15,968,191
<i>Reconciliation:</i>			
Corporate and other unallocated assets			20,226,487
Total assets			36,194,678
<b>Segment liabilities</b>	2,232,003	5,146,586	7,378,589
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			2,481,743
Total liabilities			9,860,332

**4. OPERATING SEGMENT INFORMATION (Continued)**

Year ended 31 December 2023 (Continued)

	Dairy products and nutritional supplements		Total RMB'000
	Raw milk RMB'000	products RMB'000	
<b>Other segment information:</b>			
Depreciation and amortisation	153,636	454,297	607,933
Impairments recognised in the statement of profit or loss, net	89,812	961	90,773
Share of loss of an associate	–	5,958	5,958
Share of loss of a joint venture	–	1,450	1,450
Investment in a joint venture	–	3,338	3,338
Investment in an associate	–	99,866	99,866
Capital expenditure*	1,134,657	375,455	1,510,112
Equity-settled share-based expense	9,218	153,438	162,656

# Notes to the Financial Statements

31 December 2023

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2022

	Raw milk RMB'000	Dairy products and nutritional supplements RMB'000	Total RMB'000
<b>Segment revenue</b> (note 5)			
Sales to external customers	349,079	20,961,854	21,310,933
Intersegment sales	1,741,264	–	1,741,264
	2,090,343	20,961,854	23,052,197
<i>Reconciliation:</i>			
Elimination of intersegment sales			(1,741,264)
Revenue			21,310,933
<b>Segment results</b>	14,334	6,346,680	6,361,014
<i>Reconciliation:</i>			
Elimination of intersegment results			(3,408)
Bank interest income			114,657
Other interest income			234,776
Share of loss of an associate			(15,548)
Share of loss of a joint venture			(1,705)
Finance costs (other than interest on lease liabilities)			(26,677)
Profit before tax			6,663,109
<b>Segment assets</b>	7,232,299	8,432,136	15,664,435
<i>Reconciliation:</i>			
Corporate and other unallocated assets			19,851,338
Total assets			35,515,773
<b>Segment liabilities</b>	2,016,638	5,282,491	7,299,129
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			2,741,701
Total liabilities			10,040,830

**4. OPERATING SEGMENT INFORMATION (Continued)****Year ended 31 December 2022 (Continued)**

	Raw milk RMB'000	Dairy products and nutritional supplements products RMB'000	Total RMB'000
<b>Other segment information:</b>			
Depreciation and amortisation	126,136	368,308	494,444
Impairments recognised in the statement of profit or loss, net	–	13,251	13,251
Share of loss of an associate	–	15,548	15,548
Share of loss of a joint venture	–	1,705	1,705
Investment in a joint venture	–	4,578	4,578
Investment in an associate	–	105,824	105,824
Capital expenditure*	1,723,870	861,365	2,585,235
Equity-settled share-based expense	9,660	51,635	61,295

\* Capital expenditure consists of additions to property, plant and equipment, investment properties, intangible assets and biological assets including assets from the acquisitions of businesses.

# Notes to the Financial Statements

31 December 2023

## 4. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

#### (a) Revenue from external customers

	2023 RMB'000	2022 RMB'000
Mainland China	19,287,735	21,102,465
United States of America	206,671	208,468
Canada	37,797	–
	19,532,203	21,310,933

The revenue information above is based on the locations of the customers.

#### (b) Non-current assets

	2023 RMB'000	2022 RMB'000
Mainland China	10,971,859	10,879,929
United States of America	42,901	61,670
Canada	1,681,631	1,663,730
	12,696,391	12,605,329

The non-current asset information is based on the locations of the assets and excludes financial instruments and deferred tax assets.

### Information about major customers

There was no single external customer of the Group that individually accounted for 10% or more of the Group's total revenue during the year (2022: Nil).

## 5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced amount of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of revenue is as follows:

	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers	19,532,203	21,310,933

### Revenue from contracts with customers

#### (i) Disaggregated revenue information

For the year ended 31 December 2023

Segments	Dairy products and nutritional supplements		Total RMB'000
	Raw milk RMB'000	products RMB'000	
<b>Type of goods</b>			
Sales of goods	234,060	19,298,143	19,532,203
<b>Geographical markets</b>			
Mainland China	234,060	19,053,675	19,287,735
United States of America	–	206,671	206,671
Canada	–	37,797	37,797
Total revenue from contracts with customers	234,060	19,298,143	19,532,203
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	234,060	19,298,143	19,532,203

## Notes to the Financial Statements

31 December 2023

### 5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

#### Revenue from contracts with customers (Continued)

##### (i) Disaggregated revenue information (continued)

For the year ended 31 December 2022

Segments	Dairy products and nutritional supplements		Total RMB'000
	Raw milk RMB'000	products RMB'000	
<b>Type of goods</b>			
Sales of goods	349,079	20,961,854	21,310,933
<b>Geographical markets</b>			
Mainland China	349,079	20,753,386	21,102,465
United States of America	–	208,468	208,468
Total revenue from contracts with customers	349,079	20,961,854	21,310,933
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	349,079	20,961,854	21,310,933

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:

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of goods	1,067,872	1,457,641

## 5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

### Revenue from contracts with customers (Continued)

#### (ii) Performance obligations

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

##### *Sale of dairy products and raw milk*

The performance obligation is satisfied upon delivery of products. The Group has a policy of requiring payment in advance from customers for the sales of products (other than cash and credit card sales), except for some major customers, where the trading terms are on credit. The Group grants a defined credit period usually ranging from one to three months from the date of invoice to these customers.

##### *Sale of nutritional supplements*

The performance obligation is satisfied when control of goods has been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

An analysis of other income and gains, net is as follows:

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	<b>2022</b> <b>RMB'000</b>
<b>Other income</b>			
Bank interest income		<b>198,911</b>	114,657
Other interest income		<b>271,121</b>	234,776
Government grants related to			
– Assets	31 (i)	<b>57,221</b>	61,238
– Income	(j)	<b>916,199</b>	839,489
Gross rental income from investment property operating leases		<b>52,196</b>	21,026
Others		<b>64,373</b>	3,694
		<b>1,560,021</b>	1,274,880
<b>Gains, net</b>			
Fair value gains on structured deposits, net		<b>99,510</b>	93,605
Others		–	157
		<b>99,510</b>	93,762
<b>Total other income and gains, net</b>		<b>1,659,531</b>	1,368,642

Note:

- (i) Various government grants have been received by the Group's subsidiaries operated in Mainland China. There are no unfulfilled conditions or contingencies relating to these grants.



# Notes to the Financial Statements

31 December 2023

## 6. PROFIT BEFORE TAX

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

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	<b>2022</b> <b>RMB'000</b>
Cost of inventories sold*		<b>5,251,008</b>	5,791,705
Breeding costs to produce		<b>1,195,214</b>	1,148,864
Production costs for raw milk		<b>422,628</b>	419,764
<b>Cost of sales</b>		<b>6,868,850</b>	7,360,333
Depreciation of property, plant and equipment	14	<b>630,037</b>	543,737
Less: Capitalised in biological assets		<b>(96,652)</b>	(98,809)
<b>Depreciation recognised in the consolidated statement of profit or loss</b>		<b>533,385</b>	444,928
Depreciation of investment properties	15	<b>45,192</b>	19,700
Depreciation of right-of-use assets	16	<b>27,176</b>	27,636
Rent expense – short-term leases	16	<b>1,469</b>	4,164
Rent expense – contingent rent	16	<b>–</b>	427
Interest expense on lease liabilities	8	<b>9,144</b>	6,963
Amortisation of intangible assets	18	<b>2,180</b>	2,180
Research and development costs <sup>®</sup>		<b>611,164</b>	493,385
Auditor's remuneration		<b>9,900</b>	9,900
Employee benefit expense* (excluding directors' and chief executive's remuneration ( <i>note 9</i> )):			
Wages and salaries		<b>1,130,052</b>	1,188,836
Pension scheme contributions (defined contribution schemes)**		<b>233,407</b>	218,433
Equity-settled share-based expense		<b>162,656</b>	61,295
Less: Capitalised in biological assets		<b>(96,125)</b>	(78,529)
		<b>1,429,990</b>	1,390,035
Write-down of inventories to net realisable value <sup>#</sup>		<b>42,726</b>	26,634
Impairment of trade receivables, net	25	<b>961</b>	5,828
Impairment of right-of-use assets		<b>–</b>	7,423
Loss on disposal of items of property, plant and equipment, net		<b>663</b>	41,777
Fair value gains on structured deposits		<b>(99,510)</b>	(93,605)

<sup>®</sup> Included in "Administrative expenses" in the consolidated statement of profit or loss.

<sup>#</sup> Included in "Cost of sales" in the consolidated statement of profit or loss.

<sup>\*</sup> Part of the employee benefit expense is included in "Cost of inventories sold".

<sup>\*\*</sup> There are no forfeited contribution that may be used by the Group as the employer to reduce the existing level of contributions.

**7. OTHER EXPENSES**

An analysis of other expenses is as follows:

	2023 RMB'000	2022 RMB'000
Impairment of right-of-use assets	–	7,423
Loss on disposal of items of property, plant and equipment, net	<b>663</b>	41,777
Loss on disposal of old packaging materials	<b>8,444</b>	10,090
Donations	<b>27,044</b>	38,137
Others	<b>64,711</b>	37,825
	<b>100,862</b>	135,252

**8. FINANCE COSTS**

An analysis of finance costs is as follows:

	2023 RMB'000	2022 RMB'000
Interest on:		
Bank loans	<b>39,890</b>	15,207
Other loans	<b>15,312</b>	20,071
Lease liabilities	<b>9,144</b>	6,963
Total interest expense on financial liabilities not at fair value through profit or loss	<b>64,346</b>	42,241
Less: Interest capitalised	<b>(11,214)</b>	(8,601)
	<b>53,132</b>	33,640

## Notes to the Financial Statements

31 December 2023

### 9. 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:

	2023 RMB'000	2022 RMB'000
Fees	1,448	1,372
Other emoluments:		
Salaries and allowances and discretionary bonus	31,582	34,298
Pension scheme contributions	259	242
	31,841	34,540
	33,289	35,912

#### (a) Independent non-executive directors

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

	2023 RMB'000	2022 RMB'000
Mr. SONG Jianwu	362	343
Ms. LIU Jinping	362	343
Mr. Jacques Maurice LAFORGE	362	343
Mr. FAN Yonghong	362	343
	1,448	1,372

There were no other emoluments payable to the independent non-executive directors during the year (2022: Nil).

**9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)****(b) Executive directors, non-executive director and the chief executive**

	Fees RMB'000	Salaries, allowances and bonus* RMB'000	Pension scheme contributions RMB'000	Total RMB'000
<b>2023</b>				
Executive directors				
Mr. LIU Hua	–	5,123	–	5,123
Mr. CAI Fangliang	–	11,208	106	11,314
Ms. Judy Fong-Yee TU	–	1,061	–	1,061
	–	17,392	106	17,498
Chief executive				
Mr. LENG Youbin	–	14,009	153	14,162
Non-executive director				
Mr. CHEUNG Kwok Wah	–	181	–	181
	–	31,582	259	31,841
<b>2022</b>				
Executive directors				
Mr. LIU Hua	–	6,015	–	6,015
Mr. CAI Fangliang	–	12,208	102	12,310
Ms. Judy Fong-Yee TU	–	1,008	–	1,008
	–	19,231	102	19,333
Chief executive				
Mr. LENG Youbin	–	14,895	140	15,035
Non-executive director				
Mr. CHEUNG Kwok Wah	–	172	–	172
	–	34,298	242	34,540

\* Included in the balance was RMB11,000,000 (2022: RMB14,000,000) which represented discretionary bonus of executive directors and the chief executive.

During the years ended 31 December 2023 and 2022, no remunerations were paid by the Group to any of the directors as an inducement to join or upon joining the Group, or as a compensation for loss of office.

There was no emolument paid or payable to the non-executive directors Mr. GAO Yu and Mr. Kingsley Kwok King CHAN during the year (2022: Nil). There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## Notes to the Financial Statements

31 December 2023

### 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two executive directors and the chief executive (2022: two executive directors and the chief executive), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the five highest paid employees of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries and allowances	24,564	22,512
Discretionary bonus	11,000	17,700
Equity-settled share-based expense	5,126	–
Pension scheme contributions	553	520
	41,243	40,732

The number of highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2023	2022
HK\$4,000,001 to HK\$4,500,000	–	2
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$6,000,001 to HK\$6,500,000	1	–
HK\$6,500,001 to HK\$7,000,000	–	1
HK\$12,000,001 to HK\$12,500,000	1	–
HK\$13,500,001 to HK\$14,000,000	–	1
HK\$15,500,001 to HK\$16,000,000	1	–
HK\$17,000,001 to HK\$17,500,000	–	1
	5	5

During the years ended 31 December 2023 and 2022, no remunerations were paid by the Group to any of these highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office.

## 11. INCOME TAX

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2022: 25%) during the year. 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.

	2023 RMB'000	2022 RMB'000
Current – PRC		
Charge for the year	1,665,311	1,462,716
Current – elsewhere		
Charge for the year	12,373	11,374
Deferred ( <i>note 33</i> )	(117,744)	240,913
<b>Total tax charge for the year</b>	<b>1,559,940</b>	<b>1,715,003</b>

A reconciliation of the tax expense applicable to profit before tax at the statutory tax 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 applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2023		2022	
	RMB'000	%	RMB'000	%
Profit before tax	4,850,292		6,663,109	
Tax at the statutory tax rate	1,212,573	25.0	1,665,777	25.0
Effect of tax exemptions granted to agricultural entities	59,323	1.2	(6,171)	(0.1)
Expenses not deductible for tax	118,775	2.4	47,388	0.7
Tax losses not recognised	58,838	1.2	59,348	0.9
Tax losses utilised from previous periods	(95,706)	(2.0)	(257,912)	(3.9)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	206,137	4.2	206,573	3.1
<b>Tax charge at the Group's effective rate</b>	<b>1,559,940</b>	<b>32.2</b>	<b>1,715,003</b>	<b>25.7</b>

## Notes to the Financial Statements

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### 12. DIVIDENDS

Interim dividend of HK\$0.1349 (2022: HK\$0.1131) per ordinary share, equivalent to an aggregate of approximately RMB1.14 billion (2022: RMB0.9 billion) was declared and paid during the year ended 31 December 2023.

The proposed final dividend of HK\$0.1484 (2022: HK\$0.1721) per ordinary share, equivalent to an aggregate of approximately RMB1.22 billion (2022: equivalent to approximately RMB1.37 billion) for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "AGM").

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue as adjusted to reflect the treasury shares during the years ended 31 December 2023 and 2022.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the total of (i) the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options into ordinary shares under the share option scheme and the effect of share award plan.

	2023 RMB'000	2022 RMB'000
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent	3,390,009	4,942,048

	Number of shares	
	2023	2022
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	9,060,350,520	8,941,352,894
Effect of dilution – weighted average number of ordinary shares:		
Share award	17,221,290	–
	9,077,571,810	8,941,352,894

## 14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Construction in progress RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>31 December 2023</b>							
At 1 January 2023:							
Cost	29,720	5,372,921	1,825,387	3,096,048	612,698	155,020	11,091,794
Accumulated depreciation and impairment	-	(543,145)	-	(809,453)	(200,241)	(38,520)	(1,591,359)
Net carrying amount	29,720	4,829,776	1,825,387	2,286,595	412,457	116,500	9,500,435
At 1 January 2023, net of accumulated depreciation and impairment	29,720	4,829,776	1,825,387	2,286,595	412,457	116,500	9,500,435
Additions	-	11,190	321,454	58,493	210,735	23,403	625,275
Transfer from deposits for purchases of items of property, plant and equipment (note 22)	-	-	9,501	15,147	153	-	24,801
Impairment	-	(76,905)	(4,000)	(6,913)	(792)	(887)	(89,497)
Disposals	-	(362)	-	(16,671)	(5,427)	(513)	(22,973)
Transfers	-	677,292	(1,254,928)	480,848	96,121	667	-
Depreciation provided during the year	-	(203,683)	-	(285,485)	(116,561)	(24,308)	(630,037)
Exchange realignment	1,179	51,948	6,346	24,988	1,530	39	86,030
At 31 December 2023, net of accumulated depreciation and impairment	30,899	5,289,256	903,760	2,557,002	598,216	114,901	9,494,034
At 31 December 2023:							
Cost	30,899	6,118,396	907,760	3,657,087	914,880	174,638	11,803,660
Accumulated depreciation and impairment	-	(829,140)	(4,000)	(1,100,085)	(316,664)	(59,737)	(2,309,626)
Net carrying amount	30,899	5,289,256	903,760	2,557,002	598,216	114,901	9,494,034



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### 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Freehold land RMB'000	Buildings RMB'000	Construction in progress RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>31 December 2022</b>							
At 1 January 2022:							
Cost	29,315	4,705,714	1,411,050	2,847,956	456,914	118,287	9,569,236
Accumulated depreciation and impairment	–	(348,288)	–	(575,286)	(187,198)	(21,555)	(1,132,327)
Net carrying amount	29,315	4,357,426	1,411,050	2,272,670	269,716	96,732	8,436,909
At 1 January 2022, net of accumulated depreciation and impairment							
	29,315	4,357,426	1,411,050	2,272,670	269,716	96,732	8,436,909
Additions	–	13,380	1,147,156	136,041	180,767	39,265	1,516,609
Acquisitions of a business (note 37)	–	65,936	19,991	3,239	878	1,052	91,096
Transfer from deposits for purchases of items of property, plant and equipment (note 22)	–	–	45,507	883	–	–	46,390
Disposals	(1,044)	(22,229)	–	(48,367)	(6,419)	(652)	(78,711)
Transfers	–	600,855	(808,086)	166,332	40,597	302	–
Depreciation provided during the year	–	(197,656)	–	(251,082)	(74,790)	(20,209)	(543,737)
Exchange realignment	1,449	12,064	9,769	6,879	1,708	10	31,879
At 31 December 2022, net of accumulated depreciation and impairment	29,720	4,829,776	1,825,387	2,286,595	412,457	116,500	9,500,435
At 31 December 2022:							
Cost	29,720	5,372,921	1,825,387	3,096,048	612,698	155,020	11,091,794
Accumulated depreciation and impairment	–	(543,145)	–	(809,453)	(200,241)	(38,520)	(1,591,359)
Net carrying amount	29,720	4,829,776	1,825,387	2,286,595	412,457	116,500	9,500,435

At 31 December 2023, certain of the Group's buildings, plant and machinery and construction in progress with an aggregate net carrying amount of approximately RMB27,626,000 (2022: RMB1,614,090,000) were pledged to secure certain borrowings (note 32).

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Impairment testing for long-lived assets

As at 31 December 2023, the carrying value of the long-lived assets of the raw goat milk production and sale cash-generating unit (“the goat CGU”) amounted to RMB107,298,000 (2022: RMB117,522,000). The goat CGU’s long-lived assets consisted of property, plant and equipment, biological assets and right-of-use assets of RMB89,497,000, RMB17,486,000 and RMB315,000, respectively.

The recoverable amount of the goat CGU was RMB17,486,000 which has been determined based on the higher of fair value less costs of disposal and value-in-use using cash flow projections based on financial budgets approved by management covering a five-year period. The recoverable amount was based on valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional qualified valuer. The discount rate applied to the cash flow projections is 14% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%.

The key assumptions on which management has based its cash flow projections to undertake impairment testing are as follows: (i) the expected average prices of goat milk are estimated after taking into account a growth rate of 3% for each projected year after considering future demand and inflation in Mainland China; (ii) the expected feeding costs of goats are estimated based on past feeding cost and expectations for the population of goats; (iii) the average milk yield of each goat per day is estimated after taking into account a growth rate of 3% for each projected year based on historical milk producible data by a goat; (iv) the death rate; and (v) the discount rate is before tax and reflects specific risks relating to the relevant unit.

During the reporting period, by comparing the carrying value of the long-lived assets of the goat CGU with the recoverable amount, the Group provided impairment amounting to RMB89,497,000 (2022: Nil) and RMB315,000 (2022: Nil) related to property, plant and equipment and right-of-use assets of the goat CGU, respectively.

## 15. INVESTMENT PROPERTIES

	Note	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January		109,812	77,469
Additions		157,059	52,043
Revision of a lease term arising from a change in the non-cancellable period of a lease		(6,366)	–
Revision of the consideration of a lease		(3,572)	–
Depreciation	6	(45,192)	(19,700)
Carrying amount at 31 December		211,741	109,812
Cost		297,478	150,357
Accumulated depreciation		(85,737)	(40,545)
Carrying amount at 31 December		211,741	109,812

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

## Notes to the Financial Statements

31 December 2023

### 15. INVESTMENT PROPERTIES (Continued)

The Group's investment properties were revalued on 31 December 2023 based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professionally qualified valuers, at RMB220,900,000 (2022: RMB113,000,000). The investment properties are leased to third parties under operating leases, further details of which are included in note 16 to the financial statements.

#### Fair value hierarchy

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

	2023 RMB'000	2022 RMB'000
Significant unobservable inputs: Leased land (Level 3)	220,900	113,000

During the year, there were no transfers into or out of Level 3 (2022: Nil).

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

Set out below is a summary of the valuation technique used and the key input to the valuation of investment properties:

	Valuation technique	Significant unobservable input
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.

## 16. LEASES

### The Group as a lessee

The Group has lease contracts for leasehold land, retail stores and offices used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 3 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of retail stores and office generally have lease terms between 2 and 10 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

#### (a) Right-of-use assets

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

	Leasehold land RMB'000	Leased retail stores and office RMB'000	Total RMB'000
As at 1 January 2022	380,602	47,151	427,753
Additions during the year	2,262	9,641	11,903
Acquisition of a business ( <i>note 37</i> )	455	–	455
Depreciation charge	(12,183)	(15,453)	(27,636)
Impairment	–	(7,423)	(7,423)
Exchange realignment	–	3,644	3,644
As at 31 December 2022 and 1 January 2023	<b>371,136</b>	<b>37,560</b>	<b>408,696</b>
Additions during the year	<b>16,037</b>	<b>3,636</b>	<b>19,673</b>
Depreciation charge	<b>(14,814)</b>	<b>(12,362)</b>	<b>(27,176)</b>
Termination of leases	–	<b>(6,824)</b>	<b>(6,824)</b>
Impairment	<b>(315)</b>	–	<b>(315)</b>
Exchange realignment	–	<b>1,043</b>	<b>1,043</b>
At 31 December 2023	<b>372,044</b>	<b>23,053</b>	<b>395,097</b>

At 31 December 2023, leasehold land amounting to RMB73,436,000 (2022: RMB74,776,000) located in Mainland China did not have land use right certificates as the land is leased from various independent third parties.

## Notes to the Financial Statements

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### 16. LEASES (Continued)

#### The Group as a lessee (Continued)

- (b) The consolidated statement of profit or loss and the consolidated statement of cash flows contain the following amounts relating to leases:

	2023 RMB'000	2022 RMB'000
Depreciation of right-of-use assets	27,176	27,636
Interest expenses on lease liabilities	9,144	6,963
Expenses relating to short-term leases	1,469	4,164
Expenses relating to contingent rent	–	427
Gain on lease termination	(1,475)	–
Gain on lease modification	(465)	–
Covid-19-related rent concessions from lessors	–	(157)
Impairment of right-of-use assets	315	7,423
The cash outflow for leases as financing activities	(80,661)	(56,004)

The Group had applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain leased retail stores and office during the year ended 31 December 2022.

#### (c) Lease liabilities

	2023 RMB'000	2022 RMB'000
Minimum lease payments due:		
– Within one year	93,864	73,343
– More than one year but less than two years	67,621	44,265
– More than two years but less than five years	112,833	85,470
– Five or more years	3,304	6,585
Total minimum lease payments	277,622	209,663
Less: Future finance charges	(18,960)	(17,048)
Total lease liabilities	258,662	192,615
Portion classified as current liabilities	(87,402)	(66,742)
Non-current portion	171,260	125,873

The total cash outflow for leases is disclosed in note 38(iii) to the financial statements.

**16. LEASES (Continued)****The Group as a lessor**

The Group leases its investment properties (note 15) 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 RMB52,196,000 (2022: RMB21,026,000), details of which are included in note 5 to the consolidated financial statements.

**17. GOODWILL**

	RMB'000
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	
Cost	134,514
Accumulated impairment	(22,112)
Net carrying amount	112,402

**Impairment testing of goodwill**

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Jilin Feihe Alfbeta Dairy Co. Ltd. ("Alfbeta Business"), established in Jilin Province, PRC
- Feihe (Shaanxi) Dairy Product Co., Ltd. (formerly known as Shaanxi Xiaoyang Miaohe Dairy Company Limited) ("XYM Business"), established in Shaanxi Province, PRC

	2023 RMB'000	2022 RMB'000
Carrying amount of goodwill – Alfbeta Business	<b>47,976</b>	47,976
Carrying amount of goodwill – XYM Business	<b>64,426</b>	64,426
Total	<b>112,402</b>	112,402



## Notes to the Financial Statements

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### 17. GOODWILL (Continued)

#### Alfbeta Business

The recoverable amount of Alfbeta Business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.0% (2022: 11.6%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3.0% (2022: 3.0%), which is the same as the long term average growth rate of the dairy industry.

Assumptions were used in the value in use calculation of Alfbeta Business cash-generating unit for 31 December 2023 and 31 December 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted revenue* – The basis used to determine the value assigned to the budgeted revenue is the average revenue achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Discount rate* – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development of Alfbeta Business and discount rates are consistent with external information sources.

### 17. GOODWILL (Continued)

#### **XYM Business**

The recoverable amount of XYM Business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.0% (2022: 11.6%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3.0% (2022: 3.0%), which is the same as the long term average growth rate of the dairy industry.

Assumptions were used in the value in use calculation of XYM Business cash-generating unit for 31 December 2023 and 31 December 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted revenue* – The basis used to determine the value assigned to the budgeted revenue is the average revenue achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Discount rate* – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development of XYM Business and discount rates are consistent with external information sources.



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### 18. INTANGIBLE ASSETS

	Trademarks RMB'000
<b>31 December 2023</b>	
Cost at 1 January 2023, net of accumulated amortisation	18,514
Amortisation provided during the year	(2,180)
At 31 December 2023	16,334
At 31 December 2023:	
Cost	21,801
Accumulated amortisation	(5,467)
Net carrying amount	16,334
<b>31 December 2022</b>	
Cost at 1 January 2022, net of accumulated amortisation	20,694
Amortisation provided during the year	(2,180)
At 31 December 2022	18,514
At 31 December 2022:	
Cost	21,801
Accumulated amortisation	(3,287)
Net carrying amount	18,514

### 19. INVESTMENT IN A JOINT VENTURE

	2023 RMB'000	2022 RMB'000
Share of net assets	3,338	4,578

**19. INVESTMENT IN A JOINT VENTURE (Continued)**

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
Canada Agri-food Quality Science Inc.	Common shares of CAD32.67 and Class B shares of CAD1,293,600	Canada	33%	33%	33%	Inspection and certification of agri-food products

The above investment is held through an indirectly wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2023 RMB'000	2022 RMB'000
Share of the joint venture's loss for the year	(1,450)	(1,705)
Carrying amount of the Group's investments in the joint venture	3,338	4,578

**20. INVESTMENT IN AN ASSOCIATE**

	2023 RMB'000	2022 RMB'000
Unlisted shares, at cost	97,336	103,294
Loans to an associate	2,530	2,530
	99,866	105,824

The loans to an associate are unsecured, interest-free and not repayable within 12 months from the end of the reporting period.

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### 20. INVESTMENT IN AN ASSOCIATE (Continued)

In the opinion of the directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investment in the associate. As at 31 December 2023 and 31 December 2022, the loss allowance was assessed to be minimal.

Particulars of the associate are as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Jilin Green Energy Ecological Livestock Co. Ltd. (吉林綠能生態牧業有限公司)	RMB350,000,000	The PRC/ Mainland China	40%	Investment holdings

The Group's shareholding in the associate is held through an indirectly wholly-owned subsidiary of the Company.

The financial year end of the associate is coterminous with that of the Group.

The following table illustrates the summarised financial information of the Group's associate adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2023 RMB'000	2022 RMB'000
Current assets	33,010	32,988
Non-current assets	153,191	150,589
Current liabilities	(88,865)	(80,283)
Net assets	97,336	103,294
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	40%	40%
Carrying amount of the investment #	97,336	103,294
Revenue	–	–
Loss for the year	(5,958)	(15,548)
Total comprehensive loss for the year	(5,958)	(15,548)
Share of the associate's total comprehensive loss for the year	(5,958)	(15,548)

# As at 31 December 2023 and 31 December 2022, other investors of the associate had not injected their agreed proportion of capital.

**21. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	2023 RMB'000	2022 RMB'000
<b>Equity investment designated at fair value through other comprehensive income</b>		
Unlisted equity investment, at fair value	1,800	1,800

An unlisted equity investment with a carrying amount of RMB1,800,000 was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature. There were no significant changes in the market value of the unlisted equity investment at the end of the reporting period. The fair value of the investment has been categorised as Level 3 of the fair value hierarchy. A significant increase/(decrease) in the price-book ratios of comparable companies would result in a significant increase/(decrease) in the fair value of the investment.

**22. DEPOSITS**

	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	319,776	126,254
Additions for items of property, plant and equipment	26,674	29,136
Additions for item of biological assets	–	210,776
Transfer to property, plant and equipment ( <i>note 14</i> )	(24,801)	(46,390)
Transfer to biological assets	(210,776)	–
Carrying amount at 31 December	110,873	319,776

## Notes to the Financial Statements

31 December 2023

### 23. 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 2023 and 2022 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 31 December 2023 and 2022 are dairy cows that have not had their first calves.

	2023 Heads	2022 Heads
Dairy cows		
Heifers and calves	62,636	49,202
Milkable cows	39,861	40,235
Total dairy cows	102,497	89,437

The Group is exposed to fair value risks arising from changes in the price of the dairy products. The Group does not anticipate that the price of the 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 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.

**23. BIOLOGICAL ASSETS (Continued)****(a) Nature of activities (Continued)**

The quantity of dairy goats owned by the Group as at 31 December 2023 and 2022 is shown below. The Group's dairy goats contain lambs, young goats and milkable goats. Lambs and young goats held at 31 December 2023 and 2022 are dairy goats that have not had their first lambs.

	2023 Heads	2022 Heads
Dairy goats		
Lambs and young goats	1,495	1,491
Milkable goats	3,257	4,482
Total dairy goats	4,752	5,973

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.

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### 23. BIOLOGICAL ASSETS (Continued)

#### (b) Value of dairy cows and goats

The value of dairy cows at the end of the reporting period was as follows:

	2023 RMB'000	2022 RMB'000
Dairy cows	2,235,220	1,996,691

  

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance as at 1 January 2022	762,103	945,214	1,707,317
Increase due to raising (feeding costs and others)	810,324	–	810,324
Transfer in/(out)	(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 and 1 January 2023	<b>931,309</b>	<b>1,065,382</b>	<b>1,996,691</b>
Increase due to raising (feeding costs and others)	<b>922,635</b>	–	<b>922,635</b>
Increase due to purchase	<b>248,835</b>	–	<b>248,835</b>
Transfer in/(out)	<b>(677,378)</b>	<b>677,378</b>	–
Decrease due to sales	<b>(41,376)</b>	<b>(160,104)</b>	<b>(201,480)</b>
Loss arising from changes in fair value less costs to sell	<b>(117,805)</b>	<b>(613,656)</b>	<b>(731,461)</b>
Balance as at 31 December 2023	<b>1,266,220</b>	<b>969,000</b>	<b>2,235,220</b>

**23. BIOLOGICAL ASSETS (Continued)****(b) Value of dairy cows and goats (Continued)**

The value of dairy goats at the end of the reporting period was as follows:

	2023 RMB'000	2022 RMB'000
Dairy goats	17,486	28,601

	Lambs and young goats RMB'000	Milkable goats RMB'000	Total RMB'000
Balance as at 1 January 2022	–	–	–
Acquisition of a business (note 37)	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 and 1 January 2023	<b>5,840</b>	<b>22,761</b>	<b>28,601</b>
Increase due to raising (feeding costs and others)	<b>8,798</b>	–	<b>8,798</b>
Transfer in/(out)	<b>(1,260)</b>	<b>1,260</b>	–
Decrease due to sales	<b>(524)</b>	<b>(588)</b>	<b>(1,112)</b>
Loss arising from changes in fair value less costs to sell	<b>(7,465)</b>	<b>(11,336)</b>	<b>(18,801)</b>
Balance as at 31 December 2023	<b>5,389</b>	<b>12,097</b>	<b>17,486</b>

At 31 December 2023, certain of the Group's dairy cows with a carrying amount of approximately RMB391,283,000 (2022: Nil) were pledged to secure general banking facilities granted to the Group (note 32).

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. 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.



## Notes to the Financial Statements

31 December 2023

### 23. 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 13.0% (2022: 14.0%) for the year ended 31 December 2023.
- Contributory assets include working capital, plant, property and equipment, and assembled workforce. The rates of return on the respective contributory assets were 3.45% (2022: 3.65%), 4.20% (2022: 4.30%), and 13.0% (2022: 14.0%), respectively, for the year ended 31 December 2023.

The principal valuation assumptions 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 RMB19,800 (2022: RMB20,400) for the year ended 31 December 2023 and the average feeding cost per day of each calf and heifer was RMB40.07.
- The average market price of a milkable goat and imported young goat was RMB3,067 (2022: RMB2,750) and RMB12,082 (2022: RMB12,067), respectively, for the year ended 31 December 2023.

**23. BIOLOGICAL ASSETS (Continued)****(c) Fair value hierarchy**

The following table illustrates the fair value measurement hierarchy of the Group's biological assets.

	Fair value measurement using significant unobservable inputs (Level 3)	
	2023 RMB'000	2022 RMB'000
As at 31 December	2,252,706	2,025,292

**(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	
	2023 RMB'000	2022 RMB'000
Increase in feeding costs of 10%	(249,410)	(260,800)
Decrease in feeding costs of 10%	249,410	260,800

**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	
	2023 RMB'000	2022 RMB'000
Increase in milk price of 10%	424,990	441,130
Decrease in milk price of 10%	(424,990)	(441,130)

## Notes to the Financial Statements

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### 23. BIOLOGICAL ASSETS (Continued)

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

	2023 RMB'000	2022 RMB'000
Raw milk	2,203,230	2,066,813

### 24. INVENTORIES

	2023 RMB'000	2022 RMB'000
Feed	760,127	724,073
Raw materials	304,880	404,893
Work in progress	676,838	320,529
Finished goods	481,875	481,200
Others	34,339	63,471
	2,258,059	1,994,166

### 25. TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	423,743	427,792
Bills receivable	16,244	10,701
	439,987	438,493
Impairment	(8,803)	(7,842)
	431,184	430,651

The Group has a policy of requiring payment in advance from customers for the sale of products (other than cash and credit card sales and sales of raw milk), except for some major customers, where the trading terms are on credit. The Group grants a defined credit period usually ranging from one to three months from the date of invoice to these customers. The Group seeks to maintain strict control over its receivables 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 and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

**25. TRADE AND BILLS RECEIVABLES (Continued)**

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

	2023 RMB'000	2022 RMB'000
Within 1 month	231,086	186,406
1 to 2 months	144,011	136,654
2 to 3 months	30,321	68,671
Over 3 months	25,766	38,920
	<b>431,184</b>	430,651

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

	<i>Note</i>	2023 RMB'000	2022 RMB'000
At beginning of year		7,842	2,014
Impairment loss recognised, net	6	961	5,828
At end of year		<b>8,803</b>	7,842

An impairment analysis was performed at each reporting date using a probability of default approach to measure expected credit losses. The expected credit losses were estimated by reference to the probability of default and loss given default for the relevant credit rating grades published by international credit rating agencies. The calculation reflected the probability-weighted outcome, the time value of money and reasonable and supportable information that was 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. As at 31 December 2023, the probability of default applied ranged from 0.31% to 100% (2022: from 0.32% to 100%) and the loss given default was estimated to be ranged from 62.2% to 100% (2022: from 61.7% to 100%).

## Notes to the Financial Statements

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### 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2023 RMB'000	2022 RMB'000
Prepayments		315,528	269,114
Deposits		35,008	26,390
Other receivables		373,228	239,992
		723,764	535,496
Impairment	(i)	(28,805)	(28,805)
		694,959	506,691

Note:

- (i) The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9 and considered the historical loss rate and adjusted for macroeconomic data in calculating the expected loss rate.

The movements in provision for impairment of other receivables are as follows:

	2023 RMB'000	2022 RMB'000
At 1 January and 31 December	28,805	28,805

Except as disclosed above, none of the 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.

**27. DUE FROM A DIRECTOR AND A RELATED COMPANY**

The amount due from a related company was unsecured, non-trade nature, interest-free and repayable on demand.

Set out below is additional information of amounts due from a director and a related company.

**2023**

	Maximum amount outstanding		
	31 December 2023 RMB'000	during the year RMB'000	1 January 2023 RMB'000
Due from a related company Dasheng Limited*	–	185,824	185,824

**2022**

	Maximum amount outstanding		
	31 December 2022 RMB'000	during the year RMB'000	1 January 2022 RMB'000
Due from a related company Dasheng Limited*	185,824	185,824	–
Due from a director Mr. Leng Youbin	–	80	80

\* As at 31 December 2022, Mr. Leng Youbin, Mr. Liu Hua and Mr. Liu Shenghui each held one-third equity interests in Dasheng Limited. During the year ended 31 December 2022, Dasheng Limited exercised its rights under the Third Share Option Scheme to subscribe for 190,190,704 ordinary shares of the Company, at the subscription price of US\$0.1416 per share, for a total cash consideration of RMB185,824,000, which had been settled in March 2023.

## Notes to the Financial Statements

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### 28. STRUCTURED DEPOSITS

Structured deposits were stated at fair value and represented fifteen (2022: twenty-one) wealth management products issued by banks. The principals and returns were not guaranteed by the relevant banks and the maximum expected rates of return ranging from 2.30% to 4.20% per annum (2022: from 2.15% to 4.90% per annum). The Group designated these structured deposits as investments at fair value through profit or loss upon initial recognition. The Group uses the structured deposits primarily to enhance the return on investment.

### 29. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2023 RMB'000	2022 RMB'000
Cash and bank balances	11,039,159	9,606,044
Less:		
Long-term bank deposits	(540,000)	(240,000)
Restricted cash	(58,218)	(30,108)
Cash and cash equivalents as stated in the consolidated statement of financial position	10,440,941	9,335,936
Less:		
Non-pledged time deposits with original maturity of more than three months when acquired	(2,993,560)	(3,756,454)
Cash and cash equivalents as stated in the consolidated statement of cash flows	7,447,381	5,579,482

At the end of the reporting period, cash and bank balances of the Group denominated in RMB amounted to RMB9,475,555,000 (2022: RMB7,264,365,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

**30. TRADE AND BILLS PAYABLES**

	2023 RMB'000	2022 RMB'000
Trade and bills payables	<b>1,838,223</b>	1,773,848

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

	2023 RMB'000	2022 RMB'000
Within 3 months	<b>1,730,387</b>	1,728,024
3 to 6 months	<b>68,854</b>	17,524
Over 6 months	<b>38,982</b>	28,300
	<b>1,838,223</b>	1,773,848

The trade and bills payables are unsecured, non-interest-bearing and are normally settled on terms of one to six months.



# Notes to the Financial Statements

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## 31. OTHER PAYABLES AND ACCRUALS

	Notes	2023 RMB'000	2022 RMB'000
Deferred income	(i)	632,893	636,245
Other payables		1,666,270	1,758,402
Accruals		2,299,214	1,870,147
Contract liabilities	(ii)	683,327	1,067,872
		<b>5,281,704</b>	5,332,666
Non-current portion		(620,756)	(627,962)
Current portion		<b>4,660,948</b>	4,704,704

Notes:

- (i) Deferred income represents government grants received by the Group in respect of the construction and acquisition of property, plant and equipment, the purchases of feed and the construction of farms. These government grants are recorded initially at fair value as deferred income, which are amortised to match the depreciation charge of the property, plant and equipment in accordance with their estimated useful lives. The movements in deferred income are as follows:

	2023 RMB'000	2022 RMB'000
At the beginning of the year	636,245	667,906
Received during the year	49,085	28,568
Amortisation during the year	(57,221)	(61,238)
Exchange realignment	4,784	1,009
At the end of the year	<b>632,893</b>	636,245

- (ii) Details of contract liabilities are as follows:

	2023 RMB'000	2022 RMB'000
Short-term advances from customers		
Sale of goods	<b>683,327</b>	1,067,872

Contract liabilities mainly represent short-term advances received from customers to deliver dairy products.

The other payables are non-interest-bearing and have an average term of three months.

## Notes to the Financial Statements

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### 32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2023			31 December 2022		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Bank loan – secured	2.90%-3.80%	2024	254,914	3%	2023	30,000
Bank loan – unsecured	3.60%-3.85%	2024	250,000	2.95%-3.00%	2023	120,000
Other loan – secured	N/A	N/A	-	Canadian Dollar Offered Rate ("CDOR") +1.73%	2023	290,964
Other loan – unsecured	N/A	N/A	-	6%	2023	5,672
			<b>504,914</b>			<b>446,636</b>
<b>Non-current</b>						
Bank loans – secured	3.65%-3.85%	2027	872,836	3.80%-3.85%	2027	716,534
Other loan – secured	N/A	N/A	-	CDOR +1.73%	2024	145,460
			<b>872,836</b>			<b>861,994</b>
			<b>1,377,750</b>			<b>1,308,630</b>

	2023 RMB'000	2022 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	504,914	150,000
In the third to the fifth years, inclusive	872,836	716,534
	<b>1,377,750</b>	<b>866,534</b>
Other borrowings repayable:		
Within one year	-	296,636
In the second year	-	145,460
	-	442,096
	<b>1,377,750</b>	<b>1,308,630</b>



## Notes to the Financial Statements

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### 32. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

- (a) As at 31 December 2023, all bank borrowings were denominated in RMB. As at 31 December 2022, included in the other borrowings were borrowings with carrying amounts of RMB5,672,000 (equivalent to US\$822,000) which were denominated in US\$. Also, included in the other borrowings as at 31 December 2022 were borrowings with carrying amounts of RMB436,424,000 (equivalent to CAD85,723,000) which were denominated in CAD. All other bank and other borrowings were denominated in RMB.
- (b) As at 31 December 2022, loans amounting to RMB466,424,000 were secured by the Group's plant and machinery and construction in progress with an aggregate carrying amount of RMB1,614,090,000, denominated in CAD and RMB and repayable from 2023 to 2024.
- (c) Certain of the Group's bank loan facilities up to RMB510,000,000 (2022: RMB510,000,000) as at 31 December 2023 were guaranteed by YST's then chief executive officer who resigned in February 2024 ("YST Ex-CEO"), his wife and a subsidiary of the Group, and were also secured by mortgages over the Group's dairy cows with an aggregate carrying value at the end of the reporting period of RMB159,616,000 (2022: Nil), of which RMB253,346,000 (2022: RMB213,582,000) have been utilised.
- (d) Certain of the Group's bank loan facilities up to RMB321,000,000 (2022: RMB365,000,000) as at 31 December 2023 were guaranteed by YST's Ex-CEO, his wife and a subsidiary of the Group, and were also secured by mortgages over the Group's dairy cows with an aggregate carrying value at the end of the reporting period of RMB39,357,000 (2022: Nil), and mortgages over the Group's equipment with an aggregate carrying value at the end of the reporting period of RMB27,626,000 (2022: Nil), of which RMB321,000,000 (2022: RMB221,000,000) have been utilised.
- (e) Certain of the Group's bank loan facilities up to RMB510,000,000 (2022: RMB320,000,000) as at 31 December 2023 were guaranteed by a subsidiary of the Group, of which RMB507,300,000 (2022: RMB281,952,000) have been utilised.
- (f) Certain of the Group's bank loan facilities up to RMB100,000,000 (2022: Nil) as at 31 December 2023 were guaranteed by the legal representative of a subsidiary of the Group, his wife and a subsidiary of the Group, and were also secured by mortgages over the Group's dairy cows with an aggregate carrying value at the end of the reporting period of RMB192,310,000 (2022: Nil), of which RMB37,540,000 (2022: Nil) have been utilised.

**33. DEFERRED TAX**

The movements in deferred tax liabilities and assets during the year are as follows:

**Deferred tax liabilities**

	2023						
	Fair value change on structure deposits RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Unrecognised tax benefits and surcharge RMB'000	Right-of-use assets RMB'000	Investment properties RMB'000	Withholding taxes RMB'000	Total RMB'000
At 31 December 2022	-	1,052	82,984	-	-	881,276	965,312
Effect of adoption of amendments to IAS 12 (note 2.2(c))	-	-	-	652	27,442	-	28,094
At 1 January 2023 (restated)	-	1,052	82,984	652	27,442	881,276	993,406
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 11)	24,877	(325)	-	(127)	25,493	(180,863)	(130,945)
Exchange realignment	-	-	2,429	-	-	-	2,429
Gross deferred tax liabilities at 31 December 2023	24,877	727	85,413	525	52,935	700,413	864,890

**Deferred tax assets**

	2023						
	Tax loss RMB'000	Accruals RMB'000	Deferred income RMB'000	Unrealised profits on inventories RMB'000	Write-down of inventories RMB'000	Lease liabilities RMB'000	Total RMB'000
At 31 December 2022	-	314,217	77,596	47,150	-	-	438,963
Effect of adoption of amendments to IAS 12 (note 2.2(c))	-	-	-	-	-	28,094	28,094
At 1 January 2023 (restated)	-	314,217	77,596	47,150	-	28,094	467,057
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	7,731	(20,997)	(6,579)	(30,720)	13,818	23,546	(13,201)
Gross deferred tax assets at 31 December 2023	7,731	293,220	71,017	16,430	13,818	51,640	453,856

## Notes to the Financial Statements

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### 33. DEFERRED TAX (Continued)

#### Deferred tax liabilities

	2022					
	Fair value adjustment arising from acquisition of subsidiaries	Unrecognised tax benefits and surcharge	Right-of-use assets	Investment properties	Withholding taxes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2021	1,378	76,490	-	-	674,703	752,571
Effect of adoption of amendments to IAS 12 (note 2.2(c))	-	-	336	19,317	-	19,653
At 1 January 2022 (restated)	1,378	76,490	336	19,317	674,703	772,224
Deferred tax charged/(credited) to the statement of profit or loss during the year (restated) (note 11)	(326)	-	316	8,125	206,573	214,688
Exchange realignment	-	6,494	-	-	-	6,494
Gross deferred tax liabilities at 31 December 2022 (restated)	1,052	82,984	652	27,442	881,276	993,406

#### Deferred tax assets

	2022				
	Accruals	Deferred income	Unrealised profits on inventories	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2021	210,276	96,266	167,087	-	473,629
Effect of adoption of amendments to IAS 12 (note 2.2(c))	-	-	-	19,653	19,653
At 1 January 2022 (restated)	210,276	96,266	167,087	19,653	493,282
Deferred tax credited/(charged) to the statement of profit or loss during the year (restated) (note 11)	103,941	(18,670)	(119,937)	8,441	(26,225)
Gross deferred tax assets at 31 December 2022 (restated)	314,217	77,596	47,150	28,094	467,057

**33. DEFERRED TAX (Continued)**

	2023 RMB'000	2022 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	<b>402,216</b>	438,963
Net deferred tax liabilities recognised in the consolidated statement of financial position	<b>813,250</b>	965,312

The Group has tax losses arising in Mainland China of RMB30,924,000 (2022: RMB382,823,000) that will expire in one to five years for offsetting against future taxable profits.

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate is 10% for the Group.

At the end of the reporting period, the directors of the Company, based on the Group's operation and expansion plan, estimated that part of the retained earnings of the PRC subsidiaries would be retained in Mainland China for use in future operations and investments. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB10,664,601,000 (2022: RMB8,603,703,000) at 31 December 2023.

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

# Notes to the Financial Statements

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## 34. SHARE CAPITAL

	Notes	Number of shares		RMB'000	
		2023	2022	2023	2022
<b>Authorised</b>					
2,000,000,000,000 ordinary shares of US\$0.000000025 each		2,000,000,000,000	2,000,000,000,000	303	303
<b>Issued and paid-up</b>					
Balance at 1 January		9,083,406,704	8,915,239,000	1	1
Share options exercised	(i)	-	190,190,704	-	-
Cancellation of shares repurchased	(ii)	(16,155,000)	(22,023,000)	-	-
At 31 December		9,067,251,704	9,083,406,704	1	1

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

Notes:

- (i) The subscription rights attaching to 190,190,704 share options were exercised at the subscription price of US\$0.1416 per share, resulting in the issue of 190,190,704 shares for a total cash consideration, before expenses, of RMB185,824,000. An amount of RMB233,492,000 was transferred from the share option reserve to share capital and share premium upon the exercise of the share options.
- (ii) During the year ended 31 December 2023, the Company repurchased 1,000,000 ordinary shares on the Stock Exchange of Hong Kong Limited at total consideration of approximately RMB4,092,000, all of which were cancelled during the year ended 31 December 2023 and the premium paid on the repurchase of these shares has been charged to the share premium account. During the year ended 31 December 2022, the Company repurchased 27,155,000 ordinary shares on the Stock Exchange of Hong Kong Limited at total consideration of approximately RMB148,173,000, of which 12,000,000 and 15,155,000 repurchased shares were cancelled during the years ended 31 December 2022 and 2023 and the premium paid on the repurchase of these shares has been charged to the share premium account.

During the year ended 31 December 2021, the Company repurchased 28,124,000 ordinary shares on the Stock Exchange of Hong Kong Limited at total consideration of approximately RMB364,614,000, of which 18,101,000 and 10,023,000 repurchased shares were cancelled during the years ended 31 December 2021 and 2022, respectively, and the premium paid on the repurchase of these shares has been charged to the share premium account.

**34. SHARE CAPITAL (Continued)****Share options**

Details of the share option schemes and the share options issued are included in note 35 to the financial statements.

**Share awards**

Details of the share award plan are included in note 35 to the financial statements.

**35. SHARE BASED PAYMENTS****(a) Share option scheme of the Company**

On 14 October 2019, Diamond Infant Formula Holding Limited (“DIF”), the Company’s then immediate holding company prior to listing, cancelled its previous share option scheme while the Company adopted a new share option scheme (the “Third Share Option Scheme”) as a replacement. The replacement plan was approved by board resolutions of the Company on the same date.

The purpose of the Third Share Option Scheme is to (i) attract and retain the best available personnel for position of substantial responsibility; (ii) provide additional incentives to the directors and employees of the Group; and (iii) promote the success of the business of the Group.

Except for the number of options which were subdivided from 561,323 options of DIF’s shares to 190,190,704 options of the Company’s shares and the respective dilution of the exercise price from US\$48 to US\$0.14, the cancelled and replacement awards involving exactly the same conditions were treated as a modification with the increment fair value being recognised over the vesting year of the replacement share-based payment award.

Share options do not confer rights on the holders to dividends or voting rights at shareholders’ meetings.

The movements of options granted pursuant to the Third Share Option Scheme are as follows:

	Weighted average exercise price per share US\$	Number of options
At 1 January 2022	0.14	190,190,704
Exercised during the year	0.14	(190,190,704)
At 31 December 2022, 1 January 2023 and 31 December 2023		–

The estimated fair value of the share options under the Third Share Option Scheme granted was US\$34,475,000.



# Notes to the Financial Statements

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## 35. SHARE BASED PAYMENTS (Continued)

### (a) Share option scheme of the Company (Continued)

The fair value of the share options granted during year ended 31 December 2019 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:

Dividend yield (%)	0%
Historical volatility (%)	40%
Risk-free interest rate (%)	1.6%

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.

On 22 June 2020, the Group adopted a new share option scheme (the “Fourth Share Option Scheme”). The purpose of the Fourth Share Option Scheme is to (i) to attract and retain skilled and experienced personnel for positions of substantial responsibility; (ii) to provide additional incentive to directors of the Group, key employees and other stakeholders of the Group; and (iii) to promote the success of the Group’s business.

On 2 February 2021, a total of 37,250,000 share options were granted to eligible persons to subscribe for a total of 37,250,000 new shares of the Company of US\$0.000000025 each, with the first vesting date on 2 February 2022 (“First Vesting Date”) 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. These share options are exercisable at HK\$23.80 per share and must be exercisable within ten years from the grant date, and if not so exercised, the share options shall lapse.

On 15 July 2021, a total of 8,193,800 share options were granted to eligible persons to subscribe for a total of 8,193,800 new shares of the Company of US\$0.000000025 each, with the first vesting date on 15 July 2022 (“First Vesting Date”) 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. These share options are exercisable at HK\$16.84 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 7,860,000 share options were granted to eligible persons to subscribe for a total of 7,860,000 new shares of the Company of US\$0.000000025 each, with the first vesting date on 24 January 2023 (“First Vesting Date”) 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. These share options are exercisable at HK\$11.76 per share and must be exercisable within ten years from the grant date, and if not so exercised, the share options shall lapse.

## Notes to the Financial Statements

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### 35. SHARE BASED PAYMENTS (Continued)

#### (a) Share option scheme of the Company (Continued)

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the Fourth Share Option Scheme as an equity-settled plan.

Share options do not confer rights on the holders to dividends or voting rights at shareholders' meetings.

The movements of options granted pursuant to the Fourth Share Option Scheme are as follows:

	Weighted average exercise price per share HK\$	Number of options
At 1 January 2022	22.55	45,443,800
Granted during the year	11.76	7,860,000
Forfeited during the year	22.97	(10,104,900)
At 31 December 2022 and January 2023	20.48	43,198,900
Forfeited during the year	22.78	(3,717,700)
Cancelled during the year	20.07	(29,338,400)
At 31 December 2023	20.98	10,142,800

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

31 December 2023 Number of options	Exercise price per share HK\$	Exercise period
7,421,000	23.80	02-02-22 to 01-02-31
829,800	16.84	15-07-22 to 14-07-31
1,892,000	11.76	24-01-23 to 23-01-32
<b>10,142,800</b>		

  

31 December 2022 Number of options	Exercise price per share HK\$	Exercise period
28,044,000	23.80	02-02-22 to 01-02-31
7,712,900	16.84	15-07-22 to 14-07-31
7,442,000	11.76	24-01-23 to 23-01-32
<b>43,198,900</b>		

The estimated fair value of the share options under the Fourth Share Option Scheme granted was HK\$420,614,000.

# Notes to the Financial Statements

31 December 2023

## 35. SHARE BASED PAYMENTS (Continued)

### (a) Share option scheme of the Company (Continued)

The fair value of the share options granted during years ended 31 December 2022 and 2021 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 (%)	6.5%	2% to 6%
Historical volatility (%)	42.17%	41.8% to 42.9%
Risk-free interest rate (%)	1.57%	0.71% to 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.

The Group recognised total share option expenses of RMB95,776,000 (2022: RMB61,295,000) for the year.

At the end of the reporting period, the Company had 10,142,800 share options outstanding under the Fourth Share Option Scheme which represented approximately 0.1% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,142,800 additional ordinary shares of the Company and additional share premium of RMB193,581,000 (before issue expenses).

### (b) Share award plan of the Company

On 25 May 2023, the Company adopted a new share award plan (the "2023 Share Award Plan"). The purpose of the 2023 Share Award Plan is to (i) recognise and reward the contribution of certain eligible participants to the growth and development of the Group and give incentives thereto in order to retain them for the continual operation and development of the Group, and (ii) attract suitable personnel for further development of the Group.

The 2023 Share Award Plan shall be subject to the administration by the board of directors of the Company (the "Board") or the person(s) from time to time delegated by the Board with the power and authority to administer the 2023 Share Award Plan in accordance with the terms of the 2023 Share Award Plan and the trust deed.

Subsequent to the end of the reporting period, on 24 January 2024, a total of 20,381,084 awarded shares were granted to eligible participants.

### 36. 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.

#### Capital contribution reserve

Capital contribution reserve represents the deemed contribution from the Company's then immediate holding company in relation to the share options granted therefrom to the Group's employees.

#### Reserve funds

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

#### Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

#### Other reserves

The other reserves represents the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the reorganisation.

## Notes to the Financial Statements

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### 37. 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:

	<i>Notes</i>	<b>Fair value recognised on acquisition RMB'000</b>
Property, plant and equipment	14	91,096
Right-of-use assets	16(a)	455
Biological assets	23(b)	44,787
Lease liabilities		(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.

**37. BUSINESS COMBINATION (Continued)**

An analysis of the cash flows in respect of the acquisition is as follows:

	<b>RMB'000</b>
Cash consideration	135,883
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.

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### 38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (i) Major non-cash transactions

During the year, the Group acquired certain items of property, plant and equipment of which the considerations were partially settled by deposits previously paid with an aggregate carrying amount of RMB24,801,000 (2022: RMB46,390,000), and had non-cash additions to investment properties, right-of-use assets and lease liabilities of RMB157,059,000 (2022: RMB52,043,000), RMB3,636,000 (2022: RMB11,685,000) and RMB160,695,000 (2022: RMB63,728,000), respectively, in respect of lease arrangements for the leased land and retail stores.

#### (ii) Changes in assets and liabilities arising from financing activities

	Lease liabilities RMB'000	Interest- bearing bank and other borrowings RMB'000
At 1 January 2022	177,373	934,209
Changes from financing cash flows	(56,004)	361,394
New leases	61,684	–
Covid-19-related rent concessions from lessors	(157)	–
Increase arising from acquisition	455	–
Foreign exchange movement	9,264	13,027
At 31 December 2022 and 1 January 2023	<b>192,615</b>	<b>1,308,630</b>
Changes from financing cash flows	<b>(80,661)</b>	<b>55,745</b>
New leases	<b>160,695</b>	–
Reassessment and revision of lease terms	<b>(10,112)</b>	–
Termination of leases	<b>(8,299)</b>	–
Others	<b>2,182</b>	–
Foreign exchange movement	<b>2,242</b>	<b>13,375</b>
At 31 December 2023	<b>258,662</b>	<b>1,377,750</b>

**38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)****(iii) Total cash outflow for leases**

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

	2023 RMB'000	2022 RMB'000
Within operating activities	10,613	11,554
Within financing activities	80,661	56,004
	<b>91,274</b>	67,558

**39. PLEDGE OF ASSETS**

Details of the Group's assets pledged for the Group's interest-bearing bank and other borrowings are included in note 32 to the financial statements.

**40. COMMITMENTS**

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

	2023 RMB'000	2022 RMB'000
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	294,011	415,423
Dairy cows	–	46,724
	<b>294,011</b>	462,147



## Notes to the Financial Statements

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### 41. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

#### (a) Outstanding balances with related parties

The amount due from a related company included in the Group's current assets was unsecured, interest-free and repayable on demand. Further details of the balance are included in note 27 to the financial statements.

#### (b) Compensation of key management personnel of the Group

	2023 RMB'000	2022 RMB'000
Short-term employee benefits	31,401	34,126
Post-employment benefits	259	242
Total compensation paid/payable to key management personnel	31,660	34,368

Further details of directors' and chief executive's emoluments are included in note 9 to the financial statements.

**42. 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:

**31 December 2023**

**Financial assets**

	Financial assets at fair value through profit or loss – designated as such upon initial recognition RMB'000	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income – equity investments RMB'000	Total RMB'000
Long-term bank deposits	-	540,000	-	540,000
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Trade and bills receivables	-	431,184	-	431,184
Financial assets included in prepayments, deposits and other receivables	-	379,431	-	379,431
Structured deposits	8,670,910	-	-	8,670,910
Restricted cash	-	58,218	-	58,218
Cash and cash equivalents	-	10,440,941	-	10,440,941
	8,670,910	11,849,774	1,800	20,522,484

**Financial liabilities**

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	1,838,223
Financial liabilities included in other payables and accruals	2,956,504
Interest-bearing bank and other borrowings	1,377,750
Lease liabilities	258,662
	6,431,139

# Notes to the Financial Statements

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## 42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

### 31 December 2022

#### Financial assets

	Financial assets at fair value through profit or loss – designated as such upon initial recognition RMB'000	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income – equity investments RMB'000	Total RMB'000
Long-term bank deposits	–	240,000	–	240,000
Financial asset at fair value through other comprehensive income	–	–	1,800	1,800
Trade and bills receivables	–	430,651	–	430,651
Financial assets included in prepayments, deposits and other receivables	–	237,577	–	237,577
Due from a related company	–	185,824	–	185,824
Structured deposits	9,746,305	–	–	9,746,305
Restricted cash	–	30,108	–	30,108
Cash and cash equivalents	–	9,335,936	–	9,335,936
	9,746,305	10,460,096	1,800	20,208,201

#### Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	1,773,848
Financial liabilities included in other payables and accruals	3,508,306
Interest-bearing bank and other borrowings	1,308,630
Lease liabilities	192,615
	6,783,399

**43. 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	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
<b>Financial liabilities</b>				
Interest-bearing bank and other borrowings	1,377,750	1,308,630	1,377,054	1,303,990

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amount due from a related company, approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The fair values of the non-current portion of 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 2023 and 2022 were assessed to be insignificant.

The fair values of the structured deposits are determined in accordance with discounted cash flow analysis. The fair values of financial assets and financial liabilities carried at amortised cost approximate to their carrying amounts.

## Notes to the Financial Statements

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### 43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

#### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 31 December 2023				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	8,670,910	-	8,670,910
At 31 December 2022				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	9,746,305	-	9,746,305

The Group did not have any financial liabilities measured at fair value as at 31 December 2023 (2022: 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 (2022: Nil).

The fair value of the financial asset at fair value through other comprehensive income was estimated using the market approach, with an unobservable input as the price-to-book ratio of comparable companies. A 20% (2022: 20%) increase/decrease in the price-to-book ratio of comparable companies would result in an increase/decrease in fair value by approximately RMB360,000 (2022: RMB360,000).

#### 43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

##### Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: (Continued)

##### Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 31 December 2023				
Interest-bearing bank and other borrowings	-	1,377,054	-	1,377,054
At 31 December 2022				
Interest-bearing bank and other borrowings	-	1,303,990	-	1,303,990

#### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, financial assets included in prepayments, deposits and other receivables, structured deposits, financial asset at fair value through other comprehensive income, trade and bills payables, financial liabilities included in other payables and accruals, and balance with a related company, which arise directly from its operations.

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

##### Interest rate risk

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short-term in nature whereas interest-bearing financial liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to interest rate risk. The Group's policy is to obtain the most favourable interest rates available.

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### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity, except on retained profits.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
<b>31 December 2023</b>		
US\$	50	7,410
CAD	50	181
RMB	50	90,582
US\$	(50)	(7,410)
CAD	(50)	(181)
RMB	(50)	(90,582)
<b>31 December 2022</b>		
US\$	50	10,987
CAD	50	(1,871)
RMB	50	85,054
US\$	(50)	(10,987)
CAD	(50)	1,871
RMB	(50)	(85,054)

#### 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 and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

**44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)****Maximum exposure and year-end staging**

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

**As at 31 December 2023**

	12-month	Lifetime ECLs			Total
	ECLs	Simplified			
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	423,743	423,743
Bills receivable					
– Not yet past due	16,244	–	–	–	16,244
Financial assets included in prepayments, deposits and other receivables					
– Normal**	379,431	–	–	–	379,431
Long-term bank deposits					
– Not yet past due	540,000	–	–	–	540,000
Restricted cash – Not yet past due	58,218	–	–	–	58,218
Cash and cash equivalents					
– Not yet past due	10,440,941	–	–	–	10,440,941
	11,434,834	–	–	423,743	11,858,577



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### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Maximum exposure and year-end staging (Continued)

As at 31 December 2022

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	
Trade receivables*	–	–	–	427,792	427,792
Bills receivable					
– Not yet past due	10,701	–	–	–	10,701
Financial assets included in prepayments, deposits and other receivables					
– Normal**	237,577	–	–	–	237,577
Due from a related company					
– Normal**	185,824	–	–	–	185,824
Long-term bank deposits					
– Not yet past due	240,000	–	–	–	240,000
Restricted cash – Not yet past due	30,108	–	–	–	30,108
Cash and cash equivalents					
– Not yet past due	9,335,936	–	–	–	9,335,936
	10,040,146	–	–	427,792	10,467,938

\* For trade receivables which the Group applies the simplified approach for impairment, information is disclosed in note 25 to the financial statements.

\*\* The credit quality of amount due from a related company and the financial assets included in prepayments, deposits and other receivables 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 and bills receivables are disclosed in note 25 to the financial statements.

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

**44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)****Foreign currency risk**

The Group has transactional currency exposures. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$, CAD and HK\$ exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
<b>31 December 2023</b>		
US\$	5	74,426
CAD	5	(4,873)
HK\$	5	2,269
US\$	(5)	(74,426)
CAD	(5)	4,873
HK\$	(5)	(2,269)
<b>31 December 2022</b>		
US\$	5	109,273
CAD	5	(25,551)
HK\$	5	2,316
US\$	(5)	(109,273)
CAD	(5)	25,551
HK\$	(5)	(2,316)

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's policy is to regularly monitor the current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in the short and longer term.

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### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand or less than one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
<b>31 December 2023</b>				
Trade and bills payables	1,838,223	–	–	1,838,223
Financial liabilities included in other payables and accruals	2,956,504	–	–	2,956,504
Lease liabilities	93,864	180,454	3,304	277,622
Interest-bearing bank and other borrowings	548,089	955,080	–	1,503,169
	<b>5,436,680</b>	<b>1,135,534</b>	<b>3,304</b>	<b>6,575,518</b>
<b>31 December 2022</b>				
Trade and bills payables	1,773,848	–	–	1,773,848
Financial liabilities included in other payables and accruals	3,508,306	–	–	3,508,306
Lease liabilities	73,343	129,735	6,585	209,663
Interest-bearing bank and other borrowings	478,079	966,675	–	1,444,754
	<b>5,833,576</b>	<b>1,096,410</b>	<b>6,585</b>	<b>6,936,571</b>

**44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)****Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2023 and 31 December 2022.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statement of financial position less cash and bank balances. Total capital is calculated as equity holders' funds (i.e., total equity attributable to owners of the Company), as shown in the consolidated statement of financial position. The gearing ratios as at the end of the reporting period were as follows:

	2023 RMB'000	2022 RMB'000
Interest-bearing bank and other borrowings	1,377,750	1,308,630
Less:		
Cash and bank balances	(10,440,941)	(9,335,936)
Net debt	(9,063,191)	(8,027,306)
Total equity attributable to owners of the Company	24,944,859	23,985,999
Gearing ratio	(0.36)	(0.33)

## Notes to the Financial Statements

31 December 2023

### 45. 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:

	2023 RMB'000	2022 RMB'000
<b>NON-CURRENT ASSETS</b>		
Investments in subsidiaries	3,068,894	2,981,649
<b>CURRENT ASSETS</b>		
Inventories	34,623	86,983
Due from a related company	–	185,824
Due from subsidiaries	9,299,441	9,996,954
Cash and cash equivalents	226,069	106,212
Total current assets	9,560,133	10,375,973
<b>CURRENT LIABILITIES</b>		
Other payables and accruals	87,310	13,979
Due to subsidiaries	658,222	677,350
Interest-bearing bank and other borrowings	–	5,672
Total current liabilities	745,532	697,001
<b>NET CURRENT ASSETS</b>	8,814,601	9,678,972
Net assets	11,883,495	12,660,621
<b>EQUITY</b>		
Share capital	1	1
Reserves	11,883,494	12,660,620
Total equity	11,883,495	12,660,621

**45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)**

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

	Treasury shares RMB'000	Share premium account RMB'000	Capital contribution reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2022	(94,036)	6,279,659	80,346	361,360	(445,461)	6,081,509	12,263,377
Profit for the year	-	-	-	-	-	1,874,480	1,874,480
Final 2021 dividend	-	-	-	-	-	(1,255,606)	(1,255,606)
Interim 2022 dividend	-	-	-	-	-	(876,896)	(876,896)
Equity-settled share option arrangements	-	-	-	61,295	-	-	61,295
Exchange differences on translation of financial statements of group companies	-	-	-	-	561,223	-	561,223
Shares repurchased	(148,173)	-	-	-	-	-	(148,173)
Cancellation of shares repurchased	167,434	(167,434)	-	-	-	-	-
Issuance of shares upon exercise of share options	-	414,412	-	(233,492)	-	-	180,920
At 31 December 2022 and 1 January 2023	<b>(74,775)</b>	<b>6,526,637</b>	<b>80,346</b>	<b>189,163</b>	<b>115,762</b>	<b>5,823,487</b>	<b>12,660,620</b>
Profit for the year	-	-	-	-	-	1,540,646	1,540,646
Final 2022 dividend	-	-	-	-	-	(1,416,761)	(1,416,761)
Interim 2023 dividend	-	-	-	-	-	(1,136,522)	(1,136,522)
Equity-settled share option arrangements	-	-	-	95,776	-	-	95,776
Exchange differences on translation of financial statements of group companies	-	-	-	-	266,837	-	266,837
Shares repurchased	(4,092)	-	-	-	-	-	(4,092)
Cancellation of shares repurchased	78,867	(78,867)	-	-	-	-	-
Shares withheld for a share award plan	(123,010)	-	-	-	-	-	(123,010)
At 31 December 2023	<b>(123,010)</b>	<b>6,447,770</b>	<b>80,346</b>	<b>284,939</b>	<b>382,599</b>	<b>4,810,850</b>	<b>11,883,494</b>

**46. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 28 March 2024.



# Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meaning:

“AGM”	the annual general meeting of the Company to be held for the purpose, among others, approving the audited financial statements for the year ended 31 December 2023, which will be held on 22 May 2024
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Audit Committee”	the audit committee of the Board
“Award Notice”	the notice to be sent to the Trustee upon the making of a Share Award containing the particulars referred to in the 2023 Share Award Plan
“Awarded Share(s)”	the Share(s) provisionally awarded to a Selected Participant pursuant to a Share Award
“Board”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix C1 (formerly known as Appendix 14) of the Listing Rules in force during the Reporting Period
“China” or “PRC”	the People’s Republic of China, and for the purposes of this annual report for geographical reference only (unless otherwise indicated), excluding Taiwan, Macau and Hong Kong
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands
“Company”, “us”, “China Feihe” or “we”	China Feihe Limited (中國飛鶴有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 26 October 2012, whose Shares are listed on the main board of the Stock Exchange
“DIF Holding”	Diamond Infant Formula Holding Limited, an exempted company incorporated in the Cayman Islands with limited liability on October 24, 2012
“DIF Share Option(s)”	option(s) granted under the DIF Share Option Schemes to subscribe for DIF Ordinary Shares
“DIF Share Option Schemes”	collectively, the first pre-IPO share option scheme adopted by DIF Holding on 18 December 2013 and the second pre-IPO share option scheme adopted by DIF Holding on 1 January 2017
“Director(s)”	director(s) of the Company

“Eligible Employee”	any employee (whether full time or part time) of the Group
“Eligible Participant(s)”	any person belonging to the following classes of participants: <ul style="list-style-type: none"> <li>(a) Employee Participant;</li> <li>(b) Related Entity Participant; and</li> <li>(c) Service Provider</li> </ul>
“Employee Participant”	any director and employee of the Group
“Excluded Participant”	any person who is resident in a place where the award of the Awarded Shares and/or the award of the Returned Shares and/or the vesting and transfer of Shares pursuant to the terms of the 2023 Share Award Plan is not permitted under the laws and regulations of such place or where in the view of the Board or the Committee or the Trustee (as the case may be) compliance with applicable laws and regulations in such place make it necessary or expedient to exclude such person
“Feihe HLJ”	Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司), a wholly-owned subsidiary of the Company
“Global Offering”	the offer of the Shares for subscription as described in the section headed “Structure of the Global Offering” in the Prospectus
“Grantee”	any Participant who accepts the offer of the grant of any 2020 Share Option in accordance with the terms of the 2020 Share Option Scheme or (where the context so permits) any person entitled to any such 2020 Share Option in consequence of the death or incapacitation of the original Grantee, or the legal personal representative of such person
“Group” or “we” or “our” or “us”	the Company and its subsidiaries
“Group Contribution”	such contribution in the form of money or otherwise made by the Company or any of its subsidiaries
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency for Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS(s)”	the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC)



## Definitions

“Kingston Plant”	the production facility constructed in the city of Kingston, Ontario, Canada
“Latest Practicable Date”	15 April 2024, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
“Listing”	the listing of the Shares on the main board of the Stock Exchange
“Listing Date”	13 November 2019, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 (formerly known as Appendix 10) of the Listing Rules
“Nomination Committee”	the nomination committee of the Board
“Offer Date”	the date on which such 2020 Share Option is offered to a Participant under the 2020 Share Option Scheme
“Offer Letter”	the letter by which an offer to grant a 2020 Share Option is made to a Participant
“Option Period”	the period to be determined and notified by the Board to each Grantee at the time of making an offer of any 2020 Share Option, which shall not be longer than ten (10) years from the date of grant of the 2020 Share Option
“Pre-IPO Share Option”	the pre-IPO share option(s) granted under the Pre-IPO Share Option Scheme
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 14 October 2019
“Prospectus”	the prospectus of the Company dated 30 October 2019 in connection with the Hong Kong public offering of the Company
“Related Entity”	the holding companies, fellow Subsidiaries or associated companies of the Company
“Related Entity Participant”	directors and employees of the Related Entity
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	the lawful currency of the PRC

“Reporting Period”	the year commencing from 1 January 2023 and ending on 31 December 2023
“Returned Shares”	such Awarded Shares which are not vested and/or forfeited in accordance with the terms of the 2023 Share Award Plan (whether as a result of a Total Lapse or a Partial Lapse or otherwise), or such Shares being deemed to be Returned Share
“Selected Participant”	any Eligible Participant for whom Shares have been provisionally set aside pursuant to a Share Award or his personal representative
“Service Provider”	any supplier, distributor, contractor, adviser (professional or otherwise) or consultant in any area of business or business development of any member of the Group, who provided its services to any member of the Group on a continuing and recurring basis
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of US\$0.000000025 each
“Share Award(s)”	a provisional award of the Awarded Shares made in accordance with the terms of the 2023 Share Award Plan
“Shares Pool”	the appropriate number of Awarded Shares set aside by the Trustee, at any time during the continuation of the 2023 Share Award Plan and the Trust Deed, out of a pool of issued Shares, fully paid or credited as fully paid, for the time being and from time to time held by the Trustee pursuant to the Trust Deed
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares upon the exercise of a 2020 Share Option granted under the 2020 Share Option Scheme
“subsidiaries”	a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) of the Company, whether incorporated in Hong Kong or elsewhere, and “subsidiaries” shall be construed accordingly



## Definitions

“Trust Deed”	the trust deed dated 25 May 2023 entered into by the Company as settlor and the Trustee as trustee in respect of Shares and other trust fund (if any) held or to be held by the Trustee subject to the terms thereof, as amended from time to time
“Trustee”	the original trustee or other trustee or trustees as shall be appointed pursuant to and in accordance with the terms of the Trust Deed
“United States” or “U.S.”	the United States of America and its territories
“US\$” or “USD”	the lawful currency of the United States
“Vesting Date”	in relation to any Selected Participant, the date on which the legal and beneficial ownership of the Awarded Shares are vested in such Selected Participant pursuant to a Share Award
“Vitamin World International”	Vitamin World International Co., Ltd. (維他命世界國際有限公司)
“Vitamin World USA”	Vitamin World USA Corporation, a corporation incorporated in the State of Delaware, the United States on 13 December 2017 and a wholly-owned subsidiary of the Company
“YST”	YuanShengTai Dairy Farm Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 1431)
“%”	per cent.
“2020 Share Option”	an option to subscribe for Shares granted pursuant to the 2020 Share Option Scheme
“2020 Share Option Scheme”	the share option scheme adopted by the Company on 22 June 2020
“2023 Share Award Plan”	the share award plan adopted by the Company on 25 May 2023