



Lanzhou Zhuangyuan Pasture Co., Ltd.*

蘭州莊園牧場股份有限公司

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

Stock Code: 1533

2020 ANNUAL REPORT



*For identification purposes only

About Us

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



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ma Hongfu
Mr. Wang Guofu
Ms. Zhang Qianyu

Non-Executive Director

Mr. Yap Kean Chong

Independent Non-Executive Directors

Ms. Liu Zhijun
Mr. Zhao Xinmin
Mr. Wong Cho Hang Stanley

Supervisors

Ms. Du Wei
Mr. Sun Chuang
Mr. Wei Lin

AUDIT COMMITTEE

Ms. Liu Zhijun (*Chairman*)
Mr. Zhao Xinmin
Mr. Wong Cho Hang Stanley

REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Zhijun (*Chairman*)
Mr. Wang Guofu
Mr. Zhao Xinmin

NOMINATION COMMITTEE

Mr. Zhao Xinmin (*Chairman*)
Mr. Ma Hongfu
Mr. Wong Cho Hang Stanley

STRATEGY COMMITTEE

Mr. Ma Hongfu (*Chairman*)
Mr. Zhao Xinmin

AUTHORISED REPRESENTATIVES

Mr. Ma Hongfu
Ms. Ho Wing Yan (*ACG, ACS (PE)*)

JOINT COMPANY SECRETARIES

Ms. Zhang Qianyu (*Executive Director*)
Ms. Ho Wing Yan (*ACG, ACS (PE)*)

STOCK CODE

1533

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2703, 27/F
Shui On Centre
Nos. 6-8 Harbour Road
Wanchai, Hong Kong

REGISTERED OFFICE

Sanjiaocheng Village
Sanjiaocheng Town
Yuzhong County
Lanzhou, Gansu
PRC

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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



Corporate Information

H SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

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

LEGAL ADVISOR (AS TO HONG KONG LAW)

Wan & Tang

23/F., Somptueux Central
52 Wellington Street
Central
Hong Kong

PRINCIPAL BANK

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

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

AUDITORS

WUYIGE Certified Public Accountants LLP

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

COMPANY WEBSITE

<http://www.lzzhuangyuan.com>

Annual Results Highlights

FINANCIAL HIGHLIGHTS Results

	Years ended 31 December	
	2020 RMB'000	2019 RMB'000
Operating income	739,821	813,554
Gross profit	206,877	253,899
Profit for the year attributable to equity shareholders of the Company	10,453	51,321
Earnings per share (RMB) ⁽¹⁾	0.05	0.27
Proposed dividend per share (RMB)	2.00 cents	5.50 cents

- Operating income decreased by approximately 9.06% as compared to the year ended 31 December 2019.
- Gross profit decreased by approximately 18.52% as compared to the year ended 31 December 2019.
- Profit for the year attributable to equity shareholders of the Company decreased by approximately 79.63% as compared to the year ended 31 December 2019.

Note:

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



Chairman's Statement

REPORT TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the audited annual report of 蘭州莊園牧場股份有限公司 Lanzhou Zhuangyuan Pasture Co., Ltd.* (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020 (the "Reporting Year").

In 2020, we recorded operating revenue of RMB740 million, representing a decrease of 9.06% compared with the corresponding period last year, the total profit was RMB12,360,600, representing a decrease of 80.98% compared with the corresponding period last year, and net profit attributable to shareholders of the parent of RMB10,453,500, representing a decrease of 79.63% compared with the corresponding period last year. We currently have three production bases in Gansu, Qinghai and Shaanxi, and seven operating ranches with 16,094 cows in stock, up 20% from 13,412 at the end of 2019. The raw milk yield was 54,639 tons, up 9.99% from 49,675 tons in 2019. Our own milk supply rate during the reporting period exceeded 60%. The company has three dairy brands, namely "Zhuangyuan Ranch" (莊園牧場), "Shenghu" (聖湖) and "Dongfang Duoxian Zhuangyuan" (東方多鮮莊園), and the main sales areas are Gansu Province, Qinghai Province and Shaanxi Province.

The Company has fully played to its diversified characteristics of the company brand in recent years, and implemented the strategy of differentiation of products. The Company's core and characteristic products, namely pasteurized milk, sterilized milk, modified milk and fermented milk have been widely accepted by the local consumers, which was nurtured with high brand loyalty consumer groups. Our products have a certain geographical advantage in Gansu, Qinghai, Shaanxi region, occupying a higher market position and with a certain brand effect. During the reporting period, the Company's business scope and main business did not change significantly. The company will further strengthen the fresh milk production capacity and its quality, to meet the rapid growth of consumer demand, and timely through the integration of valuable complementary enterprises to achieve scale expansion and rapid development.



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During the year of 2020, dairy enterprises are accelerating the integration of upstream milk source resources. In 2020, we had steadily promoted the "Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District", which is located in the advantaged breeding environment and forage resources of Hexi Corridor in Gansu province. We completed the non-public offering of 43 million A-shares to four investors in 2020 to further guarantee the financial support of "Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District"; meanwhile, introduced Gansu Nongken Asset Operation Company Limited (甘肅省農墾資產經營有限公司) as the substantial shareholder of the Company, and its parent company, Gansu Nongken Group Limited Liability Company (甘肅省農墾集團有限責任公司), will gain control of the Company through further transfer of shares in the company. Relying on the unique natural endowment of Gansu Province, Gansu Nongken Group Limited Liability Company has reserved rich resources and management experience in both planting and breeding. Gansu Nongken Group Limited Liability Company will concentrate the advantageous resources such as forage planting base and milk source base to actively support the comprehensive business development of Zhuangyuan Pasture. Thanks to the strong support from Gansu Nongken Group Limited Liability Company on raw milk in the future, which will enable the Company's raw milk to get sustainable development and consolidation, and will further improve the capacity and quality of fresh milk, the Company can meet its own brand product demand growth brought by the raw milk, also can cooperate with other downstream dairy products production enterprise to supply the high quality of raw milk. The Company's business will enter into the stage of diversified development.

After the Company's "reconstruction and expansion project with daily processing 600 tons of liquid milk" was put into operation, the Company's intelligent manufacturing level will provide support for the Company's product innovation and research and development. The Company will upgrade the cold chain distribution facilities, consolidate the system of milk delivery to households, raise the channel barriers of low-temperature products in the market of Gansu, Shaanxi and Qinghai, enrich the product mix, especially high-end pasteurized milk and other upgraded products, to meet the ever-increasing consumer demand; meanwhile, continue to carry out product development, provide new taste experiences and functional products to meet the changing consumer preferences, further strengthen the Company's market leadership and brand recognition in Gansu, Shaanxi and Qinghai regions, and lay the foundation for the long-term development of the Company.

Ma Hongfu
Chairman

Management Discussion and Analysis

INDUSTRY REVIEW

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

China has strong consuming power in dairy products, and Chinese consumers have increasingly realised the benefits of dairy products. The market has therefore been enjoying healthy growth in recent years. With the rising disposable income, ongoing urbanisation progress as well as consumers' rising health awareness, the consumption and the market share of pasteurised milk among liquid milk in China are expected to increase in the future. Similar with pasteurised milk, the market share of yogurt has also been increasing among liquid milk and has become the second largest segment in China's liquid milk product market.

Compared with the overall liquid milk market in China, the liquid milk markets in Gansu, Qinghai and Shaanxi provinces in China ("Gansu", "Qinghai" and "Shaanxi") were still at their growth stage. Pursuant to the rising per capita disposable income and increasing regional nominal GDP of Gansu, Qinghai and Shaanxi, the liquid milk markets in these regions are expected to grow faster in the future.

BUSINESS REVIEW

We are one of the leading dairy companies in Gansu, Qinghai and Shaanxi where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. We owned and operated 7 dairy farms as at 31 December 2020. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so as to maintain approximately 60% of our raw milk requirement that could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.



Management Discussion and Analysis



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

We are a major player in the sales of “Cold Chain Liquid Milk Products” (i.e. liquid milk product(s) that has a short shelf life between 3 days to 21 days and need to be stored at low temperature of 2°C – 6°C, which include pasteurised milk and yogurt products) in the Gansu, Qinghai and Shaanxi regional market. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market in Gansu, Qinghai and Shaanxi due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu, Qinghai and Shaanxi regional market and then further expand into other provinces in the northwestern China market.

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

Key Financial Ratios

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

	2020	2019
Current ratio ⁽¹⁾	0.95	0.64
Quick ratio ⁽²⁾	0.85	0.54
Return on equity ⁽³⁾	0.74%	4.26%
Return on assets ⁽⁴⁾	0.38%	2.24%
Gearing ratio ⁽⁵⁾	48.33%	50.84%

Notes:

(1) Current assets/current liabilities.

Management Discussion and Analysis

- (2) $(\text{Current assets} - \text{inventory}) / \text{current liabilities}$.
- (3) $\text{Net profit for the year} / (\text{total equity attributable to equity shareholders of the Company as at the beginning of the year} + \text{total equity attributable to equity shareholders of the Company as at the end of the year}) / 2 \times 100\%$.
- (4) $\text{Net profit for the year} / (\text{total assets as at the beginning of the year} + \text{total assets as at the end of the year}) / 2 \times 100\%$.
- (5) $\text{Total liabilities} / \text{total assets} \times 100\%$.

Biological Assets

During the Reporting Year, our biological assets comprised dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our biological assets as at 31 December of 2020 and 2019:

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Dairy cows		
Milkable cows	338,928	189,266
Heifers	111,986	155,117
Calves	43,778	15,712
Total	494,691	360,095

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

	2020	2019
	(Heads)	(Heads)
Dairy cows		
Milkable cows	8,236	5,560
Heifers	4,308	6,472
Calves	3,550	1,380
Total	16,094	13,412



Management Discussion and Analysis

Dairy Farming

- **Milk Production**

Our raw milk production was approximately 54,639 tons (2019: approximately 49,675 tons), representing a year-on-year increase of approximately 9.99%, mainly due to the increase in the number of milkable cows.

During the Reporting Year, the average annual milk production per milkable cow increased from 5.04 to 10.21 tons in 2019 to 5.96 to 11.39 tons in 2020, representing an increase as compared to that of the previous year.

Dairy Products Production

In 2020, the market of domestic dairy products, especially liquid milk products, was highly competitive. In response to these market conditions, we continuously optimized our product structure by making use of our own advantages of milk sources produced by our own dairy farms and high quality fresh dairy milk products, thus strengthening our differentiated competitiveness, and focused on developing the northwestern China market.

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

As the outbreak of COVID-19 in early 2020 had a significant impact on the product sales of the Company in the first half of the year, the products were sold at lower prices than in the previous years in response to the epidemic, resulting in lower annual average selling prices than that of the previous year, which in turn led to an overall decline in gross profit margin.

- **Expansion of our Distribution Network**

We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu, Qinghai and Shaanxi. As at 31 December 2020, we had entered into distribution agreements with 743 distributors and sales agents, as compared to 765 distributors and sales agents as at 31 December 2019. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network, solidify our established position in our primary markets and we have conducted an integrated management of our distributors and sales agents in 2020. Furthermore, we have also expanded our distribution network into the China national market, especially in the northwestern China region.

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

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition situation. We reduced the average selling price due to the impact of COVID-19. The average selling price of our liquid milk products decreased from approximately RMB8,916 per tonne in 2019 to approximately RMB8,607 per tonne in 2020.

Management Discussion and Analysis

Quality Control

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

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

GMPs are the foundation for our milk safety and milk quality programme. GMPs are implemented in four main areas of our dairy processing, specifying control measures in respect of (i) personnel hygiene; (ii) building and facilities; (iii) equipment and utensils; and (iv) production and process control.

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

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

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

Brand Building

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



Management Discussion and Analysis

We believe the demand for premium Cold Chain Liquid Milk Products will continue to rise along with the increased awareness of the importance of nutritional products to the health and well-being of consumers. To capture the increasing demand for Cold Chain Liquid Milk Products, we plan to continue to expand our cold chain distribution network in Gansu, Qinghai and Shaanxi and further in northwestern China. We believe that one of the key factors to a successful cold chain distribution network is the strategic location of cold warehouses outside of our production plants as it allows our products to reach local markets within 300 kilometers radius of our cold warehouses and also allows us to have better control over the quality of the Cold Chain Liquid Milk Products during the distribution process.

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

FINANCIAL OVERVIEW

Operating Income

Principal Activities

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the years ended 31 December 2020 and 2019:

	2020			2019		
	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne
Liquid Milk Products						
Pasteurised milk	60,218	7,673	7,848	49,609	6,136	8,085
UHT milk	209,178	29,714	7,040	193,179	28,368	6,810
Modified milk	267,311	29,716	8,995	279,751	30,399	9,203
Yogurt	177,581	15,392	11,537	255,975	22,416	11,419
Subtotal	714,287	82,495	8,659	778,514	87,319	8,916
Milk Beverage	7,450	1,396	5,338	10,114	2,051	4,932
Other Dairy Products	415	10	42,229	3,687	158	23,309
Total	722,152	83,901	8,607	792,315	89,528	8,850

Our income from principal activities decreased by approximately 8.86% from approximately RMB792.3 million for the year ended 31 December 2019 to approximately RMB722.2 million for the year ended 31 December 2020, mainly due to the impact of COVID-19 on the Group in the first and second quarters of 2020.

Management Discussion and Analysis

Gross profit and gross profit margin

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

Products	2020			2019		
	Cost of Sales RMB'000	Gross Profit RMB'000	Gross Profit Margin %	Cost of Sales RMB'000	Gross Profit RMB'000	Gross Profit Margin %
Liquid milk products						
Pasteurized milk	39,527	20,690	34.36%	29,486	20,123	40.56%
UHT milk	170,097	39,081	18.68%	157,475	35,704	18.48%
Modified milk	187,524	79,787	29.85%	179,377	100,373	35.88%
Yogurt	122,582	54,998	30.97%	170,073	85,902	33.56%
Sub-total	519,730	194,557	27.24%	536,411	242,103	31.10%
Milk beverage	5,920	1,530	20.54%	7,521	2,593	25.64%
Other dairy products	288	126	30.48%	3,158	529	14.34%
Total	525,938	196,214	27.17%	547,090	245,225	30.95%

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was approximately 30.95% for the year ended 31 December 2019 and approximately 27.17% for year ended 31 December 2020. The overall gross margin during the Reporting Year slightly decreased as compared to the previous year.

Asset Impairment

(1) Goodwill Incurred from the Company's Acquisition of 82% Equity of Xi'an Dongfang Dairy Co., Ltd.

The acquisition of a total of 82% equity of Xi'an Dongfang Dairy Co., Ltd. by the Company incurred goodwill of RMB58,690,500. The Company made a provision for impairment amounting to RMB48,719,300 in the annual report of 2019. At the end of 2020, the Company made an impairment provision of RMB9,971,200 as it considered that Dongfang Dairy had failed to achieve the expected performance, and the goodwill impairment exists.



Management Discussion and Analysis

(2) Impairment Loss on Fixed Assets

Ningxia Zhuangyuan Pasture Co., Ltd. and Qinghai Shengyuan Pasture Co., Ltd., the wholly-owned subsidiaries of the Company, have been delimited into forbidden areas for animal and poultry and included in the area of closure and relocation. The Company has proactively responded to the work arrangement of the Government for relocation and closure, and has been proactively negotiating with local people's government in respect of the compensation matters. The Company has made an impairment provision of RMB11,621,000 in relation to the fixed assets of the above mentioned two wholly-owned subsidiaries that may be disposed of in advance due to such relocation and closure.

As disclosed in "Announcement Regarding the Signing of the Share Transfer Agreement by the Controlling Shareholder and the De Facto Controller and Proposed Change in Control of the Company" dated 25 January 2021 by the Company, Gansu Nongken Group Limited Liability Company is proposed to be the controlling shareholder of the Company, and Gansu People's Government Asset Supervisory Management Committee will become the ultimate de facto controller of Zhuangyuan Pasture.

According to the overall arrangement made by Gansu Nongken Group Limited Liability Company for optimizing dairy farming in the future, as the wholly-owned subsidiaries operating under the Company are likely to be at risk of consolidation in the next three years, the preparation for the provision of RMB54,390,000 for asset impairment for these subsidiaries is required.

A provision for impairment of fixed assets of a total of RMB66,011,000 has been prepared for the above two matters.

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest decreased from approximately RMB16.12 million for the year ended 31 December 2019 to approximately RMB15.12 million for the year ended 31 December 2020. The decrease during the Reporting Year was primarily due to the average cost of producing milk on owned farms has increased slightly.

Management Discussion and Analysis

Gain from changes in fair value less costs to sell of biological assets

We recorded gain from changes in fair value less costs to sell of biological assets amounted to approximately RMB59.15 million for the year ended 31 December 2020, which increased by approximately 451.70% from the gain of approximately RMB10.72 million for the year ended 31 December 2019, primarily due to increasing of cattle prices in 2020.

Qualification and independence of the valuers

Beijing Yatai Lianhua Assets Appraisal Co. Ltd. (“Beijing Yatai Lianhua”) was established in 1993 certified with the Licensed Certification for Appraisals in relation to Securities and Futures (《證券期貨相關業務評估資格》) jointly issued by the MOF and the CSRC. It possesses qualifications in the valuation of properties and land. Given the need of the Company for the preparation of financial statements for the year ended 31 December 2020, the Company engaged Beijing Yatai Lianhua to perform a valuation on the biological assets intended to be carried at fair value that are reported by six wholly-owned subsidiaries and a wholly-owned sub-subsidiary under the Company, being Lanzhou Ruixing Farming Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Qinghai Shengya Plateau Pasture Co., Ltd., Gansu Ruijia Animal Husbandry Co., Ltd., Linxia Ruiyuan Pasture Co., Ltd. and Shaanxi Duoxian Animal Husbandry Co., Ltd.

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

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



Management Discussion and Analysis

Operating expenses

	Years ended 31 December	
	2020	2019
	RMB'000	RMB'000
Selling and administrative expenses	73,121	81,584
General and administration expenses	68,815	77,390
Total operating expenses	141,936	158,974

Operating expenses decreased from approximately RMB159.0 million for the year ended 31 December 2019 to approximately RMB141.9 million for the year ended 31 December 2020, which was mainly due to a decrease in selling expenses along with a decrease in revenue affected by COVID-19 during the Reporting Year.

The decrease in administration expenses was mainly due to the improvement of management and efficiency of the Company.

Financial expenses

Our net finance costs increased by approximately 7.61% from approximately RMB22.2 million for the year ended 31 December 2019 to approximately RMB23.9 million for the year ended 31 December 2020, mainly due to the increase in the scale of debt financing.

Current ratio

As at 31 December 2020, our current ratio (current assets/current liabilities) was approximately 0.95 compared to approximately 0.64 as at 31 December 2019.

Management Discussion and Analysis

Liquidity and capital resources

During the Reporting Year, we financed our operations primarily through net cash inflows from our daily operations. As at 31 December 2020 and 2019, we had approximately RMB631.56 million and approximately RMB248.23 million in cash and cash equivalents, respectively, which were mainly denominated in RMB and primarily consisted of cash on hand and bank deposits.

Indebtedness

During the Reporting Year, our borrowings were denominated in RMB. As at 31 December 2020, our outstanding short-term bank loans, including long-term loans due within one year, amounted to approximately RMB364.7 million at interest rates ranging from 4.35% to 6.5% per annum. As at 31 December 2020, our outstanding long-term bank loans, net of amount due within one year, amounted to approximately RMB311.3 million at interest rates ranging from 4.15% to 5.7% per annum.

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

Asset-liability ratio

As at 31 December 2020, our asset-liability ratio was approximately 48.33% (the ratio of total liabilities to assets) compared to approximately 50.84% as at 31 December 2019.

Foreign exchange risk and pledge of assets

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 31 December 2020 were denominated in the respective Group companies' functional currencies.

For the year ended 31 December 2020, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed. The management will continue to monitor foreign currency risk and adopt prudent measures as and when appropriate.

As at 31 December 2020, the book value of our restricted assets was approximately RMB787.4 million (31 December 2019: approximately RMB601.7 million). The types and book value the restricted assets were as follows: (1) monetary capital of approximately RMB215.2 million (31 December 2019: approximately RMB165.5 million); (2) fixed assets of approximately RMB454.8 million (31 December 2019: approximately RMB346.1 million); (3) intangible assets of approximately RMB82.2 million (31 December 2019: approximately RMB54.8 million); (4) long-term equity investments of approximately RMB35.3 million (31 December 2019: approximately RMB35.3 million).



Management Discussion and Analysis

Contingent liabilities

As at 31 December 2019 and 31 December 2020, we did not have significant contingent liabilities.

Capital structure

Save as disclosed in the paragraph headed “Non-public Issuance of A Shares under Specific Mandate” in the Directors’ report, there was no change in the capital structure of the Group during the Reporting Year. The capital of the Group only comprises ordinary shares.

Significant investments

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

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

The Company invested approximately RMB14.5 million in 2018, and approximately RMB316.7 million in 2019. As of 31 December 2020, the cumulative investment was approximately RMB331.2 million, accounting for 10.75% of its total assets of RMB3,080.6 million as at 31 December 2020.

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

Management Discussion and Analysis

Material acquisitions and disposals of subsidiaries, associates and joint ventures

Save as disclosed herein, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2020.

Use of proceeds from the A Share Listing

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

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

The funds utilized in 2020 were RMB57,248,130.25, the temporary supplemental liquidities were RMB50,000,000.00 and the interest income of the special account for funds raised after deducting handling charges for the current year was RMB119,843.64. As of 31 December 2020, the Company had utilized RMB260,648,130 out of the funds raised from the A Share Listing. The net interest income from the Raised Funds after deduction of handling charges was RMB1,474,040.64. The balance of the Raised Funds deposited in the special account was RMB329,610.39, and the balance of the Raised Funds unutilized was RMB50,329,610.39.



Management Discussion and Analysis

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

Unit: RMB'000

Total raised funds	309,504	Total raised funds invested during this year	57,248
Total raised funds which changed purpose during the reporting period		Total raised funds invested accumulatively	260,648
Total accumulatively raised funds which changed purpose	256,104		
The proportion of total accumulatively raised funds which changed purpose	83.00%		

Committed investment projects and use of excessive raised funds	Whether the project has been changed (including Some changes)	Total committed investment of raised funds	Total investment After adjustment ⁽¹⁾	The amount invested during this year	Accumulated amount invested as of the end of the period ⁽²⁾	Investment progress as of the end of the period(%)(3)=(2)/(1)	The date when the project reaches a predetermined usable state	The benefit realized during this year	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project
Committed investment projects										
1. The project of cultivation and construction of 10,000 imported good dairy cows	Yes	260,193	53,400	0	53,400	100.00%	N/A	N/A	N/A	No
2. The construction project of self-service milk selling machines and ancillary facility	Yes	49,310	0	0	0		N/A	N/A	N/A	Yes
3. The acquisition of 82% equity interest of Xi'an Dongfang Dairy		0	150,000	0	150,000	100.00%	2018	13,791	No	No
4. Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District		0	106,104	57,248	57,248	53.95%	N/A (Note)	N/A	N/A	No
Sub-total of committed investment projects		309,504	309,504	57,248	260,648	84.21%		13,791		
Use of excessive raised funds										
No										
Repayment of bank loan (if any)										
Supplemental liquidities (if any)										
Sub-total of use of excessive raised funds										
Total		309,504	309,504	57,248	260,648	84.21%				

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

Management Discussion and Analysis

NON-PUBLIC ISSUANCE OF A SHARES UNDER SPECIFIC MANDATE

On 5 December 2019, the Board approved the proposed non-public issuance of A Shares. The proposed non-public issuance of A Shares has been approved by the Shareholders at the extraordinary general meeting and the class meetings of the Company held on 17 January 2020.

On 3 April 2020, the Board approved the adjustments to non-public issuance of A Shares. The Shareholders approved the adjustments to non-public issuance of A Shares at the extraordinary general meeting and the class meetings of the Company held on 25 May 2020.

On 10 August 2020, the application for the non-public issuance was approved at the Issuance Examination Committee's 119th meeting in 2020 by voting and the Issuance Examination Committee had no audit opinion. On 25 August 2020, the Company received the Reply on Approval of Non-public Issuance of Shares by Lanzhou Zhuangyuan Pasture Co., Ltd.* (Zheng Jian Xu Ke [2020] No. 1864) issued by China Securities Regulatory Commission.

On 25 December 2020, an aggregate of 43,000,000 A Shares was allotted and issued (the "Non-public Issuance") to 4 subscribers at the subscription price of RMB8.78 per A Share.

Subscriber	Number of A Shares subscribed	Subscription price
Gansu Nongken Asset	37,931,665	RMB8.78 per A Share
Xie Kai (謝愷)	2,050,113	RMB8.78 per A Share
Gao Aiping (高愛萍)	1,651,480	RMB8.78 per A Share
Su Guimin (蘇貴敏)	1,366,742	RMB8.78 per A Share
Total	43,000,000	

Each of Xie Kai, Gao Aiping and Su Guimin is a merchant. Gansu Nongken Asset is a company established in the PRC with limited liability and is principally engaged in equity investment and enterprise equity custody; project investment and investment management; enterprise asset reorganization, economic information, investment, financial advisory service. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of Xie Kai, Gao Aiping, Su Guimin and Gansu Nongken Asset and its ultimate beneficial owner was a third party independent of the Company and its connected persons prior to the Non-public Issuance.



Management Discussion and Analysis

The subscription price of RMB8.78 per subscription A share represents (i) no less than 80% of the average trading price of the A Share for the 20 trading days preceding the price determination date, i.e. not be less than RMB8.78 per A Share (the average trading price of the A Shares of the Company for the 20 trading days prior to the price determination date = total trading amount of shares for the 20 trading days prior to the price determination date/ total trading volume of A Shares for the 20 trading days prior to the price determination date); (ii) a discount of approximately 21.5% to the closing price of RMB11.18 per A share as quoted on The Shenzhen Stock Exchange on the price determination date of the Non-public Issuance, i.e. 20 November 2020, the first day of the issue period of the Non-public Issuance of the Company; and (iii) a discount of approximately 15.8% to the closing price of RMB10.43 per A share as quoted on The Shenzhen Stock Exchange on the day before the listing of A share.

The aggregate gross proceeds of the Non-public Issuance were approximately RMB377,540,000. The aggregate net proceeds of the Non-public Issuance, after the deduction of related expenses, were approximately RMB368,878,786.79. The net price of each A Share allotted and issued under the Non-public Issuance were approximately RMB8.78.

The Company intends to apply the net proceeds of the Non-public Issuance for the purpose to the repayment of bank loan and finance the investment project, which can further enhance the supply ratio of the Company's own raw milk, strengthen the product quality control, address the Company's increasing demand for raw milk in the future, optimize the product mix, improve its profitability, enhance the Company's core competitiveness and promote the Company's sustainable development, which is in the interests of the Company and all Shareholders.

Please refer to the circulars of the Company dated 31 December 2019 and 6 April 2020, and the announcements of the Company dated 5 November 2020 and 22 December 2020 for details of the Non-public Issuance.

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

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

The funds utilized in 2020 were RMB140,708,317.44, the temporary supplemental liquidities were RMB100,000,000.00 and the interest income of the special account for funds raised after deducting handling charges for the current year was RMB74,434.70. As of 31 December 2020, the Company had utilized RMB140,708,317.44 out of the funds raised from the A Share Listing. The net interest income from the Raised Funds after deduction of handling charges was RMB74,434.70. The balance of the Raised Funds deposited in the special account was RMB128,244,904.05, and the balance of the Raised Funds unutilized was RMB228,244,904.05.

Management Discussion and Analysis

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

Unit: RMB'000

Total raised funds	368,879	Total raised funds invested during this year	140,708
Total raised funds which changed purpose during the reporting period		Total raised funds invested accumulatively	140,708
Total accumulatively raised funds which changed purpose			
The proportion of total accumulatively raised funds which changed purpose			

Committed investment projects and use of excessive raised funds	Whether the project has been changed (including Some changes	Total committed investment of raised funds	Total investment After adjustment ⁽¹⁾	The amount invested During this year	Accumulated amount invested as of the end of the period ⁽²⁾	Investment progress as of the end of the period(%)(3)=(2)/(1)	The date when the project reaches a predetermined usable state	The benefit realized during this year	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project
Committed investment projects										
Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District	No	328,879	328,879	100,708	100,708	30.62%	N/A <i>(Note)</i>	N/A	N/A	No
Repayment of bank loan	No	40,000	40,000	40,000	40,000	100.00%				
Sub-total of committed investment projects		368,879	368,879	140,708	140,708	38.14%				
Use of excessive raised funds										
No										
Repayment of bank loan (if any)										
Supplemental liquidities (if any)										
Sub-total of use of excessive raised funds										
Total		368,879	368,879	140,708	140,708	38.14%				

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



Management Discussion and Analysis

Human Resources

We had 1,268 employees in PRC and Hong Kong as at 31 December 2020 (31 December 2019: 922 employees).

During the Reporting Year, total staff costs were approximately RMB71.1 million (the corresponding period in 2019: RMB69.5 million).

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

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

The Restricted Shares Incentive Scheme for 2019 (draft) was considered and approved at the meeting of the board held by the Company on 11 March 2019; the general meeting was held on 23 May 2019 to consider and approve the Restricted Shares Incentive Scheme for 2019 (draft); the meeting of the board was held on 21 June 2019 to consider and approve “first granting 3,340,600 restricted shares to the 84 incentive targets after adjustments”; the Company completed the registration procedures of restricted shares grant of Lanzhou Zhuangyuan Pasture Co., Ltd. 2019 Restricted Share Incentive Scheme (Draft) with China Securities Depository and Clearing Corporation Limited Shenzhen Branch on 9 July 2019. The listing date of restricted shares granted firstly was 12 July 2019.

Corporate Social Responsibility

We believe that social responsibility is the foundation for the development of an enterprise. We will take part in social welfare activities is an important method for an enterprise to give back to the society, as well as a key way for an enterprise to achieve mutual development and advancement with the society.

Management Discussion and Analysis

OUTLOOK

1. The Company will continue to take the production of quality dairy products as the goal on the basis of a complete set of production facilities and processes such as large-scale concentrated farming, concentrated unified milking, specialized storage, transportation and processing of fresh milk and further improve the level of dairy farming through production demonstration and technology radiation. We will strengthen the cooperation with external professional dairy farming institutions with large farming scale, rich farming experience and high product quality to form balanced, complementary and diversified supply sources of fresh and raw milk while strengthening the construction of our own milk source base. We will continue to ensure the effective connection of safe and reliable milk source with dairy product processing link to achieve the security and controllability of product quality during the whole process.
2. We will continue to strengthen the study on the consumption behaviors of dairy products consumers within the region, perfect the formula of products and optimization configuration of processes and equipments on a consumer-oriented basis, make the products to own targeted and characteristic advantages, and establish a system of consumption analysis to trigger research and development in order to satisfy consumption demands under different scenarios and maintain the loyalty of consumers to the brand with upgrading products.
3. We will further deepen and penetrate sales channels, increase the sinking efforts of sales channels, actively expand the markets of third-tier cities and rural areas and vigorously promote the in-depth development of channels, so as to consolidate and increase market share and enhance market occupancy rate.
4. The Company will continue to conduct various forms of on-the-job trainings, improve work skills, enhance work efficiency and tamp the construction of the middle-level team. The Company will strengthen the recruitment of professional talents with market qualifications or excellent skills and give full development space and positive incentive policies to ensure the stability of the talent team and the echelon construction of the talent reserve and enhance the core competitiveness of the Company.



Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ma Hongfu (馬紅富), aged 55, the founder of our Group, is the executive Director, chairman of the Board, the general manager of the Company and a member of each of the strategy committee and the nomination committee of the Company. Mr. Ma Hongfu also served as the general manager of our Company from April 2011 to 21 December 2017 and was appointed as the general manager of the Company again on 10 March 2020. He was appointed to the Board on 6 April 2011. He is responsible for the overall management of our Company. Mr. Ma worked as the chairman of the board and the general manager of Gansu Minqinxian Hongchang Agriculture and Trading Company* (甘肅省民勤縣宏昌農貿公司) from 1988 to 1999. Mr. Ma obtained a degree of Executive Master of Business Administration (EMBA) from Tsinghua University (清華大學) in July 2005. He is the legal representative of Qinghaihu Dairy Co., Ltd.* (青海青海湖乳業有限責任公司) (“Qinghaihu Dairy”), Lanzhou Ruixing Farming Co., Ltd.* (蘭州瑞興牧業有限公司) (“Lanzhou Ruixing”), Wuwei Ruida Pasture Co., Ltd.* (武威瑞達牧場有限公司) (“Wuwei Ruida”), Qinghai Shengya Plateau Pasture Co., Ltd.* (青海聖亞高原牧場有限公司) (“Qinghai Shengya”) and Qinghai Shengyuan Pasture Co., Ltd.* (青海聖源牧場有限公司) (“Qinghai Shengyuan”).

Mr. Ma currently is the president of the Dairy Association of Gansu Province (甘肅省奶業協會) and deputy president of the Food Industry Association of Gansu Province (甘肅省食品工業協會). In addition, he was honoured as “2004 Excellent Operator in Industrial Economic Field (2004 年度工業經濟工作優秀經營者)” by Lanzhou People’s Government (蘭州市人民政府) in January 2005, and “Rural Entrepreneur of Lanzhou (蘭州市鄉鎮企業家)” by Lanzhou People’s Government in February 2005. He was also awarded the “Labour Model of Lanzhou (蘭州市勞動模範)” by Lanzhou Communist Party Committee (中共蘭州市委) and Lanzhou People’s Government in January 2005.

Mr. Ma was the committee member of 6th Yuzhong County of the National Committee of the Chinese People’s Political Consultative Conference (中國人民政治協商會議榆中縣第六屆委員會委員) from November 2002 to December 2007. Mr. Ma currently serves as a deputy to the 13th Gansu’s People’s Congress, a member of the Agriculture and Rural Affairs Committee, a deputy to the 16th Lanzhou’s People’s Congress, the president (會長) of the Dairy Association of Gansu Province (甘肅省奶業協會) and deputy president (副會長) of the Food Industry Association of Gansu Province (甘肅省食品工業協會). Mr. Ma was honoured as “2004 Excellent Operator in Industrial Economic Field (2004年度工業經濟工作優秀經營者)” by Lanzhou People’s Government (蘭州市人民政府) in January 2005, and “Rural Entrepreneur of Lanzhou (蘭州市鄉鎮企業家)” by Lanzhou People’s Government in February 2005. In June 2017, he was accredited as “Long Shang New Talent” (隴商新銳人物) by eight departments, such as the propaganda department of the Gansu provincial party committee.

Directors, Supervisors and Senior Management

Executive Directors (Continued)

Mr. Wang Guofu (王國福), aged 52, is the executive Director, deputy chairman and financial controller of the Company. He was appointed to the Board on 6 April 2011 and was appointed as the financial controller of the Company on the same day. Mr. Wang has more than 20 years of experience in the food industry. Mr. Wang completed his master courses majoring in Business Management in Lanzhou University (蘭州大學) in August 2005 and has accountant qualification (會計師). He was an accountant in Gansu Import and Export of Agricultural By-products Company (甘肅省農副產品進出口公司) from 1990 to 1992, and he was the financial manager and subsequently the financial controller of Lanzhou Yongtai Food Co., Ltd. (蘭州永泰食品有限責任公司) from 1992 to 2001. He is primarily responsible for the overall financial management of our Company. He is the legal representative of Yuzhong Ruifeng Pasture Co., Ltd.* (榆中瑞豐牧場有限公司) (“Yuzhong Ruifeng”) and Linxia County Ruian Pasture Co., Ltd.* (臨夏縣瑞安牧場有限公司) (“Linxia Ruian”) and the supervisor of Qinghaihu Dairy Co., Ltd.* (青海青海湖乳業有限責任公司) (“Qinghaihu Dairy”), Qinghai Shengya Plateau Pasture Co., Ltd.* (青海聖亞高原牧場有限公司) (Qinghai Shengya), Linxia County Ruiyuan Pasture Co., Ltd.* (臨夏縣瑞園牧場有限公司) (“Linxia Ruiyuan”) and Lanzhou Ruixing Farming Co., Ltd.* (蘭州瑞興牧業有限公司) (“Lanzhou Ruixing”).

Ms. Zhang Qianyu (張騫予), aged 40, is the executive Director, secretary to the Board, manager of the securities department and joint company secretary of the Company. Ms. Zhang is responsible for system establishment, plans administration and equity management. Ms. Zhang joined the Company in January 2018. Ms. Zhang obtained her bachelor degree in Accounting from Taiyuan University of Technology (太原理工大學) in July 2003. She was a member of The Chinese Institute of Certified Public Accountants. Prior joining the Company, Ms. Zhang worked as a business manager of the investment banking department of Xi’an Branch of GF Securities Co., Ltd. from July 2012 to December 2016. Ms. Zhang was the general manager of the investment banking department of Lanzhou Branch of China CITIC Bank Corporation Limited from January 2017 to December 2017.

Non-executive Director

Mr. Yap Kean Chong (葉健聰), aged 55, is the non-executive Director of the Company. He was appointed to the Board on 6 April 2011. Mr. Yap obtained his bachelor degree in Business in Curtin University of Technology in February 1988, and his post graduate diploma in Business from Curtin University of Technology in August 1990. He was qualified as the admitted Associate of the Institute of Chartered Secretaries and Administrators in May 1991 and received the Certificate of Membership of the Institute of Chartered Accountant in Australia in February 2002. Mr. Yap has been the director and chief executive officer of Rico Harvest Capital (上海財晟股權投資管理有限公司) since 2009.



Directors, Supervisors and Senior Management

Independent Non-executive Directors

Ms. Liu Zhijun (劉志軍), aged 48, is the independent non-executive Director and the chairman of each of the audit committee and the remuneration and appraisal committee of the Company. She was appointed to the Board on 14 June 2014. She graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in securities and futures (證券與期貨) in July 1996. Ms. Liu then obtained a master degree in finance (金融學) in January 2001 from Wuhan University (武漢大學) and a doctoral degree in finance (金融學) in June 2009 from Suzhou University (蘇州大學). She is also a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). Since July 1996, Ms. Liu has been teaching in School of Finance of Lanzhou University of Finance and Economics (蘭州財經大學) and is currently a professor of the said university. Ms. Liu also serves as an independent non-executive director of Gansu Dunhuang Seed Co., Ltd. (甘肅省敦煌種業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600354), Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange, Stock code: 600108) and Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002644).

Mr. Zhao Xinmin (趙新民), aged 51, is the independent non-executive Director, chairman of the nomination committee and a member of each of the audit committee, the remuneration and appraisal committee and the strategy committee of the Company. He was appointed to the Board on 26 March 2018. Mr. Zhao has more than 20 years of experience in the securities law sector. Mr. Zhao obtained his bachelor degree in Law from Gansu Institute of Political Science and Law (甘肅政法學院) in June 1993. He acquired the Lawyer's Practice License of the PRC in March 1994. He was a lawyer of Gansu Zheng Tian He Law Firm (甘肅正天合律師事務所) from 1994 to 2001. Mr. Zhao was a lawyer of Allbright Law Office (上海錦天城律師事務所) from 2001 to 2005. Mr. Zhao has been the partner of Shanghai Ke Hui Law Firm* (上海科匯律師事務所) since 2005. Mr. Zhao also serves as an independent non-executive director of Gansu Qilianshan Cement Group Company Limited (甘肅祁連山水泥集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600720), Duzhe Publishing and Media Corp. (讀者出版傳媒股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603999), and Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002644).

Mr. Wong Cho Hang Stanley (黃楚恒), aged 46, is the independent non-executive Director and a member of each of the audit committee and nomination committee of the Company. He was appointed to the Board on 2 March 2015. Mr. Wong has been the director and vice general manager of Chuan Chiong Co., Ltd. (泉昌有限公司) since 2007. He was awarded the "2014 Excellence in Achievement of World Chinese Youth Entrepreneurs" (世界傑出青年華裔) jointly by Yazhou Zhoukan (亞洲週刊) and World Federation of Chinese Entrepreneurs Organisation (世界華裔組織聯盟). He was the committee member of 11th Fujian Provincial Committee of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆福建省委員會委員). Mr. Wong obtained his bachelor degree in Economics, from Carleton University in 1998.

Directors, Supervisors and Senior Management

Supervisors

Mr. Wei Lin (魏琳), aged 52, was appointed to the Supervisory Committee on 2 March 2015. Mr. Wei has been the managing partner (執行事務合夥人) of Gansu Hengrui Asset Valuation Firm (甘肅恒瑞資產評估事務所) since 2012. Mr. Wei worked in ICBC Lanzhou Branch Qilihe Sub-branch (中國工商銀行蘭州分行七里河支行) from 1985 to 2001. He has obtained the Finance and Economics Personnel Certificate (金融經濟師證書) accredited by Ministry of Personnel People's Republic of China (中華人民共和國人事部) in October 1996. He was qualified as a PRC Asset Valuer accredited by the China Appraisal Society (中國資產評估協會) in August 2005. Mr. Wei has completed a three-year Finance programme in Night College of Lanzhou University of Finance and Economics (蘭州商學院) in July 1991.

Mr. Sun Chuang (孫闡), aged 34, obtained his bachelor degree in Law from Zhengzhou University (鄭州大學) in July 2010. He was appointed to the Supervisory Committee on 27 March 2018. He is also the arbitrator of the Shenzhen Court of Arbitration. Mr. Sun obtained the Legal Professional Qualification Certificate of the PRC in 2010. He also obtained Securities Investment Fund Industry Qualification Certificate of the PRC in 2017. Mr. Sun has served as the vice general manager for the risk management department of Shenzhen CDF- Capital Co., Ltd. (深圳市創東方投資有限公司) since July 2016. Mr. Sun has extensive experience in investment risk management and legal matters. From July 2010 to July 2013, Mr. Sun served as the legal specialist of China General Nuclear Power Service Group Company Limited* (中廣核服務集團有限公司) (formerly known as Guangdong Daya Bay Nuclear Power Service (Group) Company Limited (廣東大亞灣核電服務(集團)有限公司)). Mr. Sun served as the legal manager of Shenzhen Taifeng Investment Group Company Limited (深圳市泰豐投資集團有限公司) from August 2013 to August 2014. From September 2014 to June 2016, Mr. Sun served as the legal manager of Shenzhen Baode Investment Holding Company Limited (深圳市寶德投資控股有限公司).

Ms. Du Wei (杜魏), aged 42, was appointed to the Supervisory Committee on 6 April 2011. Ms. Du has obtained the college diploma majoring in Electronic Technology and Micro-computer Application by Lanzhou University (蘭州大學) in July 2001, and was engaged in a self-learning programme of Lanzhou University majoring in Computer Science Application and graduated in June 2004. Ms. Du is also qualified as Second Level Corporate Human Resource Manager (二級企業人力資源管理師) by the Occupational Skill Testing Centre of Human Resource and Social Security Department (人力資源和社會保障部職業技能鑒定中心) in December 2013. Ms. Du joined our Company in March 2008 and used to serve as the person-in-charge in our human resource department. Ms. Du is currently the manager of our human resource department responsible for management of human resource of our Company.

Senior Management

Mr. Feng Jun (馮軍), aged 42, was appointed as the deputy general manager of the Company on 17 December 2019. From May 2011 to July 2012, Mr. Feng completed his advanced education in Senior Training Course for Marketing Directors and successfully graduated from Xi'an Jiaotong University. Mr. Feng started his career by working at Zhuangyuan Dairy in August 2000 as a manager of the marketing department, marketing director, etc. At present, he acts as the general manager of Qinghaihu Dairy, responsible for the operation and management work of Qinghaihu Dairy.

(Discharged on 16 March 2021)



Supervisory Committee's Report

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

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

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

The Supervisory Committee has reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming AGM. We are of the opinion that the Board, chief executive of the Company and other Senior Management have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the articles of association of the Company. Up till now, none of the Directors, chief executive of the Company nor Senior Management has been found to have been in breach of any laws or regulations or the articles of association of the Company in material respects and damaged the interests of the Company or the Shareholders. The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2020 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Supervisory Committee

Wei Lin

Lanzhou, the PRC, 29 March 2021

Corporate Governance Report

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

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions. Having made specific enquiry of all Directors and the supervisors of the Company (the "Supervisors"), all the Directors and Supervisors confirm that they have complied with the required standards of the Model Code during the year ended 31 December 2020.

BOARD OF DIRECTORS AND MANAGEMENT

The Board is responsible and has general power for the management and conduct of the Group's business. As of the date of this report, the Board consists of seven Directors, comprising three executive Directors, namely Mr. Ma Hongfu, Mr. Wang Guofu and Ms. Zhang Qianyu, one non-executive Director, namely Mr. Yap Kean Chong, and three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. Biographical details of the Directors are set out in the "Directors, Supervisors and Senior Management" section on pages 25 to 28 of this annual report. Save as disclosed above, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship), with any other Director.

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

- developing the Company's development plans;
- developing the Company's management and business strategies;
- approving financial statements;
- developing and approving the internal control and risk management systems;
- developing and reviewing the Company's corporate governance policies and practices;
- developing, reviewing and monitoring the code of conduct and compliance manual for employees and Directors;



Corporate Governance Report

- reviewing and monitoring training and continuous professional development of Directors and senior management of the Company (the “Senior Management”);
- reviewing the Company’s compliance with the CG Code under the Listing Rules and disclosure as set out in the Corporate Governance Reports included in annual reports of the Company; and
- reviewing and monitoring the Company’s policies and practices regarding compliance with laws and regulations.

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

Corporate Governance Report

TRAINING AND DEVELOPMENT OF DIRECTORS

For the year ended 31 December 2020, the Directors took part in various continuous training with respect to Directors' duties through regularly receiving latest information and updates in relation to the Listing Rules and related regulations, participating in relevant training programmes or through regularly taking note of industrial updates, attending relevant seminars or perusing reading materials, magazines and updated information in relation to business and industrial development. The following table sets out a summary of the types of training our Directors received:

Directors	Reading materials updating on new rules and regulations
Executive Directors	
Mr. Ma Hongfu	✓
Mr. Wang Guofu	✓
Mr. Chen Yuhai (<i>resigned on 6 March 2020</i>)	✓
Ms. Zhang Qianyu	✓
Non-executive Directors	
Mr. Yap Kean Chong	✓
Mr. Song Xiaopeng (<i>resigned on 22 December 2020</i>)	✓
Independent non-executive Directors	
Ms. Liu Zhijun	✓
Mr. Zhao Xinmin	✓
Mr. Wong Cho Hang Stanley	✓

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Following the appointment of Mr. Ma Hongfu ("Mr. Ma") as the general manager of the Company, a position equivalent to a chief executive officer in the PRC, on 10 March 2020 after the resignation of Mr. Chen Yuhai, Mr. Ma concurrently holds the position of the chairman of the Board and the general manager of the Company. This deviates from code provision A.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual.



Corporate Governance Report

Mr. Ma is the founder of the Group and has over 20 years of experience in the dairy industry. His positions in the industry associates can also keep the Group updated with the latest development of the industry. The Board has set up four committees under the Board (including the strategy committee, the nomination committee, the remuneration committee and the audit committee) and includes three independent non-executive Directors. The members of the Board committees and the independent non-executive Directors have important role and functions in the decision making process of the Board and the daily operations of the Company, which has the effect of checks and balances of the power of the chairman of the Board and the general manager. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Ma, the Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Ma to hold both positions as the chairman and the general manager of the Company as it helps to maintain the continuity of the policies and the stability of the operations of the Company. The Board will continue to review and consider splitting the roles of the chairman of the Board and the general manager of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

APPOINTMENT OF DIRECTORS

The principal particulars of these service contracts for each of the executive Directors, non-executive Director and independent non-executive Directors are (a) for a term of three years commencing from 26 March 2018, and (b) are subject to termination in accordance with their respective terms.

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

Corporate Governance Report

BOARD MEETINGS

The Board meets regularly. During the Reporting Year, 14 Board meetings were held at approximately monthly intervals.

Name of Directors	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Executive Directors	
Mr. Ma Hongfu	14/14
Mr. Wang Guofu	14/14
Mr. Chen Yuhai (<i>resigned on 6 March 2020</i>)	1/14
Ms. Zhang Qianyu	14/14
Non-executive Directors	
Mr. Yap Kean Chong	14/14
Mr. Song Xiaopeng (<i>resigned on 22 December 2020</i>)	12/14
Independent Non-executive Directors	
Ms. Liu Zhijun	14/14
Mr. Zhao Xinmin	14/14
Mr. Wong Cho Hang Stanley	14/14

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

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



Corporate Governance Report

BOARD MEETINGS *(Continued)*

During the Reporting Year, the Company convened one annual general meeting on 29 June 2020 and two extraordinary general meetings on 17 January 2020 and 25 May 2020, respectively.

Name of Directors	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Executive Directors	
Mr. Ma Hongfu	3/3
Mr. Wang Guofu	3/3
Mr. Chen Yuhai <i>(resigned on 6 March 2020)</i>	1/3
Ms. Zhang Qianyu	3/3
Non-executive Directors	
Mr. Yap Kean Chong	3/3
Mr. Song Xiaopeng <i>(resigned on 22 December 2020)</i>	3/3
Independent Non-executive Directors	
Ms. Liu Zhijun	3/3
Mr. Zhao Xinmin	3/3
Mr. Wong Cho Hang Stanley	3/3

BOARD COMMITTEES

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

Corporate Governance Report

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. The chairman of the Audit Committee is Ms. Liu Zhijun. Details of the terms of reference of the Audit Committee are set out on the Company’s website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

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

During the Reporting Year, the Audit Committee has, inter alia, reviewed the consolidated financial statements of the Group for the year ended 31 December 2019, for the three months ended 31 March 2020, for the six months ended 30 June 2020 and for the nine months ended 30 September 2020 respectively, including the accounting principles and practices adopted by the Group, the report prepared by the external auditor covering major findings in the course of the audit, the selection and appointment of the external auditor and the risk management and internal control systems of the Group.

Subsequent to the end of the Reporting Year, the Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2020.

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

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Ms. Liu Zhijun	7/7
Mr. Zhao Xinmin	7/7
Mr. Wong Cho Hang Stanley	7/7



Corporate Governance Report

NOMINATION COMMITTEE

The nomination committee of the Company (the “Nomination Committee”) consists of one executive Director, namely Mr. Ma Hongfu, and two independent non-executive Directors, namely Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. The chairman of the Nomination Committee is Mr. Zhao Xinmin. Details of the terms of reference of the Nomination Committee are set out on the Company’s website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

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

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

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Mr. Zhao Xinmin	1/1
Mr. Ma Hongfu	1/1
Mr. Wong Cho Hang Stanley	1/1

Corporate Governance Report

Nomination Policy

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

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

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

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

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

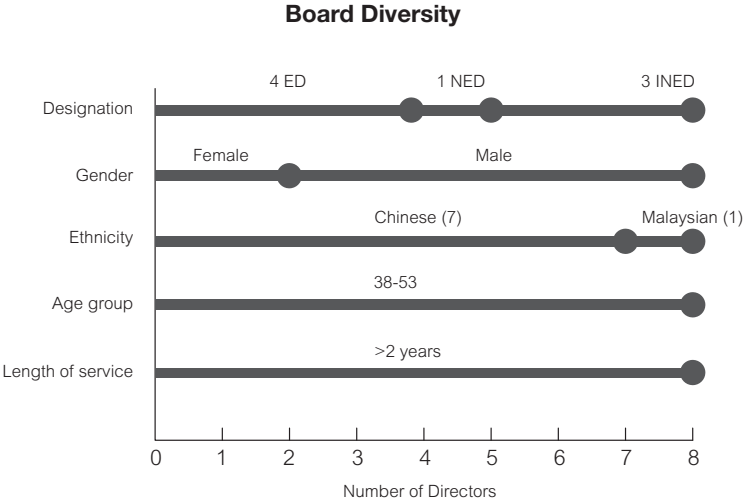
The nomination committee will also give consideration to the board diversity policy adopted by the Board (“Board Diversity Policy”) when identifying suitably qualified candidates to become the members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable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



Corporate Governance Report

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

As at 31 December 2020, the Board's composition under major diversity perspectives was summarised as follows:



ED: Executive Director
 NED: Non-Executive Director
 INED: Independent Non-Executive Director

Corporate Governance Report

REMUNERATION AND APPRAISAL COMMITTEE

The remuneration and appraisal committee of the Company (the “Remuneration and Appraisal Committee”) consists of one executive Director, namely Mr. Wang Guofu, and two independent non-executive Directors, namely Ms. Liu Zhijun and Mr. Zhao Xinmin. The chairman of the Remuneration and Appraisal Committee is Ms. Liu Zhijun. Details of the terms of reference of the Remuneration and Appraisal Committee are set out on the Company’s website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

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

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

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Ms. Liu Zhijun	1/1
Mr. Wang Guofu	1/1
Mr. Zhao Xinmin	1/1

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



Corporate Governance Report

SENIOR MANAGEMENT EMOLUMENTS

For the year ended 31 December 2020, the emoluments of the Senior Management are within the following band:

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

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



Corporate Governance Report

STRATEGY COMMITTEE

The strategy committee of the Company (the “Strategy Committee”) consists of one executive Director, namely Mr. Ma Hongfu, and one independent non-executive Director, namely Mr. Zhao Xinmin. The chairman of the Strategy Committee is Mr. Ma Hongfu. The primary duties of the Strategy Committee include, but are not limited to, the followings:

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

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

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Mr. Ma Hongfu	1/1
Mr. Song Xiaopeng (<i>resigned on 22 December 2020</i>)	1/1
Mr. Zhao Xinmin	1/1



Corporate Governance Report

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

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

FINANCIAL REPORTING

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

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

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

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

AUDITORS AND THEIR REMUNERATIONS

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

Nature of Services	Fee paid/payable (RMB'000)
Audit Service	1,600
Non-audit Services*	1,350

Significant non-audit service assignments include capital verification fee for non-public offering of A shares (RMB1,000,000 was paid).

Corporate Governance Report

JOINT COMPANY SECRETARIES

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

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

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

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

SHAREHOLDERS' COMMUNICATION POLICY AND RIGHTS

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

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



Corporate Governance Report

Convening extraordinary general meetings

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

Procedures for putting forward proposals at a general meeting

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

Procedures of Making Enquiry to the Board

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

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

Corporate Governance Report

Dividend Distribution Plan

The Company has adopted the dividend distribution plan for shareholders within the next three years (2018-2020) (the “Dividend Distribution Plan”) on 29 September 2017 and be implemented on 1 January 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. Details of the Dividend Distribution Plan are set out in the circular of the Company dated 12 September 2017. The Company takes priority to distributing dividends in cash, shares or a combination of cash and shares and shares its profits with the Shareholders. The dividend distribution decision of the Company will depend on, among others, the current earning scale, cash flows, development status and requirement for funds and other factors as the Board may deem relevant. The Dividend Distribution Plan will be reviewed at least once every three years.

Constitutional Documents of the Company

Save as the amendments to the Articles of Association as detailed in the Company’s circular dated 15 May 2020 and the Company’s announcements dated 15 May 2020 and 29 June 2020 and as approved by our Shareholders at the annual general meeting held on 29 June 2020, there has been no amendment to the constitutional documents of the Company.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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



Corporate Governance Report

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

Risk identification

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

Risk assessment

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

Response to findings of risk assessment

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

Risk monitoring and reporting

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

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

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

Directors' Report

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

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

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

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

(A) FAIR REVIEW OF THE COMPANY'S BUSINESS

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

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



Directors' Report

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

Overview

We are one of the leading dairy companies in Gansu, Shaanxi and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We own and operate 7 dairy farms, with raw milk self-sufficiency rate of exceeds 60% as at 31 December 2020. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

Due to the COVID-19 epidemic in 2020, the revenue of the Company's liquid milk product decreased when compared with the previous year. In addition, due to the relatively short shelf life of liquid milk products, the Company implemented a strong marketing policy to promote sales, however, the fixed costs and other expenses did not significantly decrease when compared with the previous year. Due to the influence of the above factors, the consolidated gross margin of liquid milk products of the Company in 2020 was 27.24%, decreased by 3.86 percentage points compared with 31.10% in 2019.

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

Directors' Report

Our business model

Our business consists of dairy farming, manufacturing and sales of dairy products. We currently own 3 milk production plants, 1 in Gansu, 1 in Qinghai and 1 in Shaanxi. Our dairy farms are strategically located in Gansu, Qinghai and Shaanxi, a region that has favourable climate and geographical conditions for dairy cattle raising. We own and operate 7 dairy farms.

Our products and brands

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

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

Further discussion and analysis of the performance for 2020 and the financial position as at the end of 2020 using financial KPIs which complement or supplement the financial statements can be found in the Financial Overview of the Management Discussion and Analysis section set out on this annual report. This discussion forms part of this Directors' Report.



Directors' Report

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

Environmental matters

We are subject to extensive PRC national and local environmental laws and regulations concerning, among others, emissions to the air, discharges to land, sewage disposal, solid waste, the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and the remediation of environmental pollution relating to our properties and operations. Such environmental laws and regulations levy fees for the discharge of waste substances above prescribed levels and impose fines for serious violations. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. We have implemented various measures in respect of our production plants and dairy farms to eliminate damage to the environment caused by waste water, waste gas, biowaste, solid wastes and noise from our production. Our PRC legal adviser has confirmed that we have obtained all necessary environmental permits and that our operations are currently conducted in accordance with the PRC environmental protection laws and regulations in all material respects. During the Reporting Year, the wholly-owned subsidiary of the Company, Qinghai Shengya Plateau Pasture Co., Ltd., received the Administrative Punishment Decision (Ning Sheng Punishment [2020] No.7)(《行政處罰決定書》(寧生罰[2020]7號)) issued by Xining Municipal Bureau of Ecology and Environment on December 14, 2020. Xining Municipal Bureau of Ecology and Environment stated that the cow urine of organic fertilizer from Qinghai Shengya through the back gate were leaked to be in violation of Articles 39 of Law of the People's Republic of China on the Prevention and Control of Water Pollution: "It is forbidden to use the pits, crevices or karat caves to set up concealed pipe without permission, or tampered with, forge the monitoring data, or abnormal operation of water pollution prevention and control facilities and other ways to evade supervision of the discharge of water pollutants". Qinghai Shengya was fined RMB100,000 in accordance with Article 23 of the Administrative Punishment Law of the People's Republic of China and Article 83 of the Law of the People's Republic of China on the Prevention and Control of Water Pollution. Qinghai Shengya has implemented comprehensive rectification according to the requirement of correcting illegal behavior from Xining Municipal Bureau of Ecology and Environment, the Company attaches great importance to the administrative penalty, set up special inspection team, fully comprehensive environmental risks, organize ranch full of drainage system of the pasture, dung scraping board, dry wet separator, oxidation pond, etc., so as to do detailed screening, strictly put an end to such events happening again. At the same time, the Company organized special conclusion meeting and training to strengthen the supervision and management of organic fertilizer and water discharge in dairy farming.

Health and safety matters

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

Directors' Report

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

Relationship with third party raw milk suppliers

Raw milk purchased from third party suppliers mainly comes from dairy farms in Gansu, which are two of the six traditional pastoral areas in China with plenty supply of raw milk. The years of business relationship with the Group ranged from 2020 to 2021.

In order to alleviate risks for conduct of suppliers, we select our suppliers based on their production environment, number of milkable cows, quality as well as price. We generally source raw milk from dairy farms that have more than 250 dairy cows to ensure quality and safety. Before we make our selection, we also engage in verification of the suppliers' information including area of the dairy farms, milk tank capacity, inspection certificate of the fresh raw milk and business licence. We conduct regular inspection on our suppliers' dairy farms and facilities and we regularly monitor the conditions of our suppliers' facilities, hygiene conditions, quality of raw milk and storage and transportation equipment.

Our Company has established long-standing relationships with many dairy farms in Gansu and Qinghai, which allows us to secure steady supply of fresh raw milk at reasonable prices. We had entered into raw milk supply agreements with 22 external raw milk suppliers during the Reporting Year. Under our arrangements with the dairy farms, we do not substantially reduce the purchase prices when raw milk is low in demand and in return, the dairy farms do not substantially raise the purchase prices when raw milk is high in demand, nor do they reduce the amount of their supply. To address potential fluctuations of raw milk price, the purchase price of raw milk is usually set under the terms of the purchase agreements with our suppliers, which can be adjusted as agreed between both parties with regard to the prevailing market conditions. There is no requirement on minimum purchase amount of raw milk in our purchase agreements. We typically settle payments for raw milk with our suppliers monthly, although in some cases we may be required to make prepayments. Our purchase agreements usually have a term of one year.

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



Directors' Report

Relationship with distributors

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

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

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

Relationship with employees

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

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

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

Directors' Report

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

The major risks we face in our business are:

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

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



Directors' Report

(C) IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF 2020 (PARAGRAPH 53-54 OF AB5)

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

As Tianmu Dairy is a fellow subsidiary of Gansu Nongken Asset, a substantial shareholder of the Company, Tianmu Dairy is regarded as an associate of a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Master Purchase Agreement is subject to the reporting, announcement and the Company’s independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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

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

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

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

Save as disclosed herein, subsequent to 31 December 2020, there had been no significant change in our business environment, principal business, pricing policy and costs structure.

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

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

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

Directors' Report

Strong market-oriented product development

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

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

Short and longer term funding needs

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

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

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

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

Risk warning in respect of forward-looking statements

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



Directors' Report

PRINCIPAL ACTIVITIES

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

RESULTS OF THE GROUP

The Group's and the Company's results for the Reporting Year and the state of affairs of the Group and the Company as at 31 December 2020 are set out in the Financial Statements on pages 76 to 229 of this annual report.

DIVIDEND

The Board has resolved to recommend the payment of final dividend of RMB2.00 cents per share (including tax) for the year ended 31 December 2020 (for the year ended 31 December 2019: RMB5.50 cents per share). The total dividend amounted to approximately RMB4.7 million.

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

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

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

Directors' Report

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

FINANCIAL SUMMARY

A summary of the published financial performance and of the assets and liabilities of the Group for the last five reporting years, is set out on page 230 of this annual report.

SHARE CAPITAL

As at 31 December 2020, there was a total issued share capital of 233,680,600 Shares which include:

	Number of Shares	Approximate percentages of share capital %
H Shares	35,130,000	15.03
A Shares	198,550,600	84.94
Total	233,680,000	100.00



Directors' Report

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

CAPITAL RESERVE, SURPLUS RESERVE AND RETAINED EARNINGS

Details of the movements in the reserves of the Company during the Reporting Year are set out in Notes XXXIV, XXXVI and XXXVII to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the aggregate amount of reserves available for distribution to equity Shareholders amounted to approximately RMB4.67 million (31 December 2019: approximately RMB10.49 million).

FIXED ASSETS AND CONSTRUCTION IN PROGRESS

Details of the changes in the fixed assets and construction in progress of the Group during the Reporting Year are set out in Notes IX and X to the Financial Statements.

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

The Group has no material litigation or arbitration proceedings during the year ended 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the largest customer and supplier of the Group accounted for approximately 3.07% and approximately 7.06% of the Group's total revenue and raw materials purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for approximately 9.27% and approximately 15.51% of the Group's total revenue and raw materials purchases, respectively.

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

Directors' Report

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Ma Hongfu
Mr. Wang Guofu
Mr. Chen Yuhai ^{Note 1} (resigned on 6 March 2020)
Ms. Zhang Qianyu

Non-Executive Directors

Mr. Yap Kean Chong
Mr. Song Xiaopeng ^{Note 2} (resigned on 22 December 2020)

Independent Non-Executive Directors

Ms. Liu Zhijun
Mr. Zhao Xinmin
Mr. Wong Cho Hang Stanley

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

Supervisors

Ms. Du Wei
Mr. Wei Lin
Mr. Sun Chuang

Note 1: Mr. Chen Yuhai has resigned as an executive Director and the general manager of the Company with effect from 6 March 2020, so as to devote more time to his other business commitments.

Note 2: Mr. Song Xiaopeng, who was nominated by Chongqing FuKun Venture Investment Centre LLP* (重慶富坤創業投資中心(有限合伙))("Chongqing FuKun") to serve as a non-executive Director, has resigned as a non-executive Director with effect from 22 December 2020, as Chongqing FuKun has disposed all of its shares in the Company following the expiry of its lock-up period and ceased to be a Shareholder.

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

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



Directors' Report

UPDATES ON DIRECTORS' INFORMATION

There has been on change to the information of the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Year and up to the date of this annual report.

PERMITTED INDEMNITY PROVISION

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

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

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Ma Hongfu, Lanzhou Zhuangyuan Investment Co., Ltd.* (蘭州莊園投資有限公司) ("Zhuangyuan Investment") and Gansu Lucky Cow Investment Co., Ltd.* (甘肅福牛投資有限公司) ("Lucky Cow") (the Controlling Shareholders) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 23 September 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the period for the year ended 31 December 2020.

Directors' Report

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

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

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

EMOLUMENT POLICY

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

EQUITY-LINKED AGREEMENTS

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

SHARE OPTION SCHEME

There was no share option scheme adopted for the Company during the Reporting Year.



Directors' Report

RESTRICTED SHARE INCENTIVE SCHEME

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

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

The purpose of the 2019 Incentive Scheme is:

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

Directors' Report

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

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

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

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



Directors' Report

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of significant related party transactions of the Group (including those which constitute connected transactions and continuing connected transactions under the Listing Rules) are set out in Note X to the Financial Statements. No matter is required to be disclosed and no connected transaction is noted pursuant to the requirements under Chapter 14A of the Listing Rules.

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

For the year ended 31 December 2020, if any, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or fellow subsidiaries or its parent company was a party, and in which a Director or Supervisor or an entity connected with any of them had a material interest, whether directly or indirectly subsisted at the end of the Reporting Year or at any time during the Reporting Year.

Save as disclosed in the paragraph headed "Restricted Share Incentive Scheme", as at 31 December 2020, no contract of significance had been entered into between the Company, or any of its subsidiaries, and the controlling shareholders of the Company or any of its subsidiaries.

Directors' Report

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

As at 31 December 2020, the interests and short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares	Approximate percentage in the issued share capital of the Company
A Shares				
Ma Hongfu (<i>Note 2</i>)	Beneficial owner	32,197,400	16.22%	13.78%
	Interested in controlled corporation	45,894,700	23.11%	19.64%
Wang Guofu	Beneficial owner	483,000	0.24%	0.21%
Zhang Qianyu	Beneficial owner	108,000	0.05%	0.05%
Ding Jianping	Beneficial owner	458,000	0.23%	0.20%
Zhao Qinghua	Beneficial owner	106,400	0.05%	0.05%

Notes:

- (1) All interests in Shares were long positions.
- (2) Mr. Ma Hongfu holds 97.38% equity interests in Zhuangyuan Investment and 39.44% equity interests in Lucky Cow. Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.

Save as disclosed above, as at 31 December 2020, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.



Directors' Report

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

As at 31 December 2020, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares/H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
A Shares				
Gansu Nongken Asset (Note 2)	Beneficial owner	37,931,665	19.10%	16.23%
Gansu Nongken Group Limited Liability Company* (甘肅省農墾集團有限責任公司) ("Gansu Nongken Group") (Note 2)	Interest of controlled corporation	37,931,665	19.10%	16.23%
Lanzhou Zhuangyuan Investment Co., Ltd.* (蘭州莊園投資有限公司) (Note 3)	Beneficial owner	30,894,700 (L)	15.56%	13.22%
Gansu Lucky Cow Investment Co., Ltd.* (甘肅福牛投資有限公司) (Note 3)	Beneficial owner	15,000,000 (L)	7.55%	6.42%

Directors' Report

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares/H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
H Shares				
Hu Keliang	Beneficial owner	5,844,000 (L)	76.64%	2.50%
Li Yanling (Note 4)	Interests of spouse	5,844,000 (L)	76.64%	2.50%
Wang Wei (Note 5)	Beneficial owner	800,000 (L)	2.28%	0.34%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.20%
Li Qi (Note 5)	Interests of spouse	3,600,000 (L)	10.25%	1.54%
Venko Limited (Note 5)	Beneficial owner	2,800,000 (L)	7.97%	1.20%
Ren Qifeng (Note 6)	Interest of controlled corporation	3,523,000 (L)	10.03%	1.51%
Ren Songliu (Note 6)	Interests of spouse	3,523,000 (L)	10.03%	1.51%
Technoart Investments Limited (Note 6)	Beneficial owner	3,523,000 (L)	10.03%	1.51%
Zhang Fenmei	Beneficial owner	3,379,000 (L)	9.62%	1.45%

Notes:

- All interests in shares were long positions.
- The share capital of Gansu Nongken Asset was wholly owned by Gansu Nongken Group. Accordingly, Gansu Nongken Group was deemed to be interested in the 37,931,665 A Shares held by Gansu Nongken Asset.
- Mr. Ma Hongfu holds 97.38% equity interests in Zhuangyuan Investment and 39.44% equity interests in Lucky Cow. Under the SFO, he is deemed to be interested in the shares held by Zhuangyuan Investment and Lucky Cow.
- Ms. Li Yanling is the spouse of Mr. Hu Keliang. Therefore, Ms. Li Yanling is deemed to be interested in the shares in which Mr. Hu Keliang is interested by virtue of the SFO.
- The entire issued share capital of Venko Limited is beneficially owned by Mr. Wang Wei who is deemed to be interested in the shares held by Venko Limited by virtue of the SFO. Mr. Wang Wei is also beneficially interested in 800,000 H Shares. Ms. Li Qi is the spouse of Mr. Wang Wei. Therefore, Ms. Li Qi is deemed to be interested in the shares in which Mr. Wang Wei is interested by virtue of the SFO.
- The entire issued share capital of Technoart Investments Limited is beneficially owned by Mr. Ren Qifeng who is deemed to be interested in the shares held by Technoart Investments Limited by virtue of the SFO. Ms. Ren Songliu is the spouse of Mr. Ren Qifeng. Therefore, Ms. Ren Songliu is deemed to be interested in the shares in which Mr. Ren Qifeng is interested by virtue of the SFO.



Directors' Report

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any other persons (other than Directors, Supervisors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

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

ON BEHALF OF THE BOARD

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

Lanzhou, the PRC, 29 March 2021

Auditor's Report

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

I. OPINIONS

We have audited the financial statements of Lanzhou Zhuangyuan Pasture Co., Ltd. (hereinafter referred to as “Zhuangyuan Pasture Company” or “Company”), which comprise the consolidated and parent company balance sheets as at 31 December 2020, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in shareholders' equity for the year of 2020 and relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared in accordance with the provisions of Accounting Standards for Business Enterprises in all material respects and present fairly the consolidated and parent company financial position of Zhuangyuan Pasture Company as at 31 December 2020 and the consolidated and parent company operating results and cash flows for the year of 2020.

II. BASIS OF OUR OPINIONS

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Opinion.

III. KEY AUDIT MATTERS

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



(I) Revenue Recognition

1. Description of matters

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

The operating revenue of Zhuangyuan Pasture Company was RMB739,820,700 in 2020. We identified revenue recognition as a key audit matter as revenue is the main source of profit and is one of the key performance indicators, which gives rise to an inherent risk that the recognition points of revenue may be manipulated by the management for the purpose of achieving certain objectives.

2. How the matter was addressed in our audit

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

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

Auditor's Report

(II) Valuation of Bearer Biological Assets

1. Description of matters

Please refer to note “III. Significant accounting policies and accounting estimate of the Company” XVI and note “V. Notes to the consolidated financial statements” XI and “IX. Fair value” to the financial statements. As at 31 December 2020, the balance of the the bearer biological assets of Zhuangyuan Pasture Company was RMB494,690,800, accounting for 16.06% of the total assets as at 31 December 2020.

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

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

2. How the matter was addressed in our audit

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

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



IV. OTHER INFORMATION

Zhuangyuan Pasture Company's management (the "Management") is responsible for the other information. The other information comprises all the information included in 2020 annual report of Zhuangyuan Pasture Company, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information and we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, the Management is responsible for assessing Zhuangyuan Pasture Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management intends either to liquidate Zhuangyuan Pasture Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Report

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Understand the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not to express our opinions on the effectiveness of the internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Zhuangyuan Pasture's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosure in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Zhuangyuan Pasture Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Auditor's Report

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

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

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

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

WUYIGE Certified Public Accountants LLP

Beijing, PRC

PRC Certified Public Accountant:

Li Zongyi (Engagement Partner)

Certified Public Accountant:

Zhang Yingli

29 March 2021

Consolidated Income Statement

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
I. Total operating income	739,821	813,554
Including: Operating income	739,821	813,554
Interest income		
Earned premium		
Handling charges and commission income		
II. Total operating cost	715,619	756,560
Including: Operating cost	532,944	559,656
Interest expenses		
Handling charges and commission expense		
Surrenders		
Net compensation payout		
Provisions for reinsurance contracts, net		
Policy dividend expenses		
Reinsurance cost		
Taxes and surcharges	7,745	6,267
Selling expenses	73,121	81,584
Administrative expenses	68,815	77,390
Research and development expenses	9,103	9,462
Financial expenses	23,891	22,201
Including: Interest expenses	27,550	20,996
Interest income	5,470	2,553
Add: Other income	6,503	7,372
Investment income (loss is indicated by "-")	(12,925)	(8,823)
Including: Investment income from associated enterprises and joint ventures	0	0
Income from derecognition of financial assets at amortised cost	(12,925)	(8,823)
Exchange gains (loss is indicated by "-")		
Net exposure to hedging gains (loss is indicated by "-")		
Gains from changes in fair value (loss is indicated by "-")	74,263	47,252
Impairment losses on Credit (loss is indicated by "-")	(1,513)	(992)
Impairment loss on Assets (loss is indicated by "-")	(75,838)	(57,958)
Gains from asset disposal (loss is indicated by "-")	313	(2)



Consolidated Income Statement (Continued)

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
III. Operating profit (loss is indicated by “-”)	15,005	43,843
Add: Non-operating income	9,006	24,828
Less: Non-operating expenses	11,650	3,693
IV. Total profit (total loss is indicated by “-”)	12,361	64,979
Less: Income tax expenses	1,907	13,657
V. Net profit (net loss is indicated by “-”)	10,453	51,321
(I) Classification by operating continuity		
1. Net profit from continuing operations (net loss is indicated by “-”)	10,453	51,321
2. Net profit from discontinued operations (net loss is indicated by “-”)		
(II) Classification by ownership		
1. Net profit attributable to shareholders of the Parent Company	10,453	51,321
2. Non-controlling interests		
VI. Other net comprehensive income after tax		
Other net comprehensive income after tax attributable to owners of the Parent Company		
(I) Other comprehensive income that cannot be reclassified into profit or loss		
1. Changes arising from re-measurement of the defined benefit plan		
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method		
3. Changes in fair value of other equity instruments investment		
4. Change in fair value of the Enterprise’s own credit risk		
5. Others		
(II) Other comprehensive income that will be reclassified into profit or loss		
1. Other comprehensive income that can be reclassified into profit or loss under the equity method		
2. Change in fair value of other debt investments		
3. Financial assets reclassified into other comprehensive income		
4. Credit impairment provision for other debt investments		
5. Reserve for cash flow hedging		
6. Exchange rate differences of financial statements denominated in foreign currency		
7. Others		
Other net comprehensive income after tax attributable to non-controlling interests		

Consolidated Income Statement (Continued)

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
VII. Total comprehensive income	10,453	51,321
Total comprehensive income attributable to the owners of the Parent Company	10,453	51,321
Total comprehensive income attributable to non-controlling interests		
VIII. Earnings per share:		
(I) Basic earnings per share (RMB/share)	0.05	0.27
(II) Diluted earnings per share (RMB/share)	0.05	0.27



Consolidated Balance Sheet

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	31 December 2020	31 December 2019
	RMB'000	RMB'000
Current assets:		
Cash at bank and on hand	846,729	413,742
Balances with clearing companies		
Loans to banks and other financial institutions		
Financial assets held for trading		20,412
Derivative financial assets		
Bills receivable		
Accounts receivable	41,586	29,649
Receivables financing		
Prepayments	7,998	16,185
Premium receivable		
Amounts receivable from reinsurers		
Provision for reinsurance contracts receivable		
Other receivables	20,792	17,694
Including: Interests receivable		
Dividends receivable		
Purchase of repo financial assets		
Inventories	113,625	94,832
Contract assets		
Assets held for sale		
Non-current assets due within 1 year		
Other current assets	10,738	17,595
Total current assets	1,041,467	610,110
Non-current assets:		
Grant of loans and advances		
Debt investments		
Other debt investments		
Long-term receivables		
Long-term equity investment		
Other equity instruments investment	44	44
Other non-current financial assets		
Investment properties		
Fixed assets	1,179,537	1,247,639

Consolidated Balance Sheet (Continued)

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	31 December 2020	31 December 2019
	RMB'000	RMB'000
Construction in progress	152,093	59,188
Productive biological assets	494,691	360,095
Oil & gas assets		
Right-of-use assets	53,784	43,437
Intangible assets	97,156	90,609
Research & development expenses		
Goodwill		9,971
Long-term deferred expenses	4,246	7,138
Deferred income tax assets	2,502	6,644
Other non-current assets	55,037	57,852
Total non-current assets	2,039,091	1,882,617
Total assets	3,080,558	2,492,727
Current liabilities:		
Short-term borrowings	322,337	315,184
Borrowings from central bank		
Placements from banks and other financial institutions		
Financial liabilities held for trading		
Derivative financial liabilities		
Bills payable	431,160	283,014
Accounts payable	214,105	228,221
Advances from customers		
Contract liabilities	10,669	16,470
Amounts from disposal and repurchase of financial assets		
Customer deposits and deposits due to banks and other financial institutions		
Amounts of securities trading as agent		
Amounts of securities underwriting as agent		
Employee remuneration payable	6,226	2,621
Taxes payable	6,419	7,504
Other payables	52,990	50,725
Including: Interests payable		
Dividends payable		
Handling charge and commission payable		



Consolidated Balance Sheet (Continued)

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	31 December 2020	31 December 2019
	RMB'000	RMB'000
Amounts due to reinsurers		
Liabilities held for sale		
Non-current liabilities due within 1 year	48,422	56,249
Other current liabilities	1,448	
Total current liabilities	1,093,777	959,987
Non-current liabilities:		
Provision for insurance contracts		
Long-term borrowings	311,281	227,327
Bonds payable		
Including: Preferred shares		
Perpetual bonds		
Lease liabilities	40,483	30,946
Long-term payables		
Long-term employee remuneration payable		
Estimated liabilities	490	515
Deferred income	37,059	39,518
Deferred income tax liabilities	5,633	9,027
Other non-current liabilities		
Total non-current liabilities	394,947	307,332
Total liabilities	1,488,724	1,267,320
Owners' equity:		
Share capital	233,681	190,681
Other equity instruments		
Including: Preferred shares		
Perpetual bonds		
Capital reserves	854,580	531,119
Less: Treasury stocks	23,251	23,251
Other comprehensive income		
Special reserves		
Surplus reserves	43,387	43,387
Provisions for general risk		
Retained earnings	483,437	483,471
Total equity attributable to the owners of the Parent Company	1,591,834	1,225,407
Non-controlling interests		
Total shareholders' equity	1,591,834	1,225,407
Total liabilities and shareholders' equity	3,080,558	2,492,727

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
I. Cash flow from operating activities:		
Proceeds from sale of goods and rendering of services	816,686	896,830
Net increase in customer deposits and deposits from banks and other financial institutions		
Net increase in borrowings from central bank		
Net increase in placements from other financial institutions		
Cash received as premiums of original insurance contracts		
Net cash received from reinsurance business		
Net increase in policyholder deposits and investment funds		
Cash received as interests, handling charges and commissions		
Net increase in placements		
Net increase in funds of repurchase business		
Net cash received from securities trading agency services		
Tax rebates received	914	
Cash received in connection with other operating activities	43,869	41,347
Sub-total of cash inflow from operating activities	861,470	938,176
Payment for goods and services	527,721	576,476
Net increase in loans and advances to customers		
Net increase in deposits with central bank and other financial institutions		
Cash paid for original insurance contract claims		
Net increase in loans to banks and other financial institutions		
Cash paid for interest, handling charges and commissions		
Cash paid for policyholder dividend		
Payment to and for employees	67,528	70,063
Payment of various taxes	30,574	61,896
Cash paid for other operating activities	94,000	89,465
Sub-total of cash outflows from operating activities	719,823	797,900
Net cash flows from operating activities	141,647	140,277
II. Cash flows from investing activities:		
Cash received upon recovery of investments		
Cash received from return on investments		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	21,619	28,640
Net cash received upon disposal of subsidiaries and other business units		
Cash received from other investing activities	41,233	2,553



Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
Sub-total of cash inflows from investing activities	62,853	31,194
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	409,796	459,895
Cash paid for investments		12,365
Net increase in pledged loans		
Net cash paid for acquisition of subsidiaries and other business units		
Cash paid for other investing activities		
Sub-total of cash outflows from investing activities	409,796	472,260
Net cash flows from investing activities	(346,943)	(441,067)
III. Cash flows from financing activities:		
Cash received from investments	368,879	23,251
Including: Cash received by subsidiaries as minority shareholders' investments		
Cash from borrowings	551,000	655,000
Cash received in connection with other financing activities	540,792	266,583
Sub-total of cash inflows from financing activities	1,460,671	944,834
Cash paid for repayment of debts	469,497	562,863
Cash paid for dividends, profit distributions or interest payment	38,037	44,850
Including: Dividend and profit paid to minority shareholders by subsidiaries		
Cash paid for other financing activities	364,534	176,902
Sub-total of cash outflows from financing activities	872,068	784,615
Net cash flows from financing activities	588,603	160,219
IV. Effect of foreign exchange rate changes on cash and cash equivalents	24	14
V. Net increase in cash and cash equivalents	383,330	(140,556)
Add: Balance of cash and cash equivalents at the beginning of the period	248,235	388,791
VI. Balance of cash and cash equivalents at the end of the period	631,565	248,235

Consolidated Statement of Changes in Equity

As at 31 December 2020
(Expressed in Renminbi Yuan)

Item	Attributable to shareholders of the parent company											Total shareholders' equity RMB'000						
	Share capital			Other equity instruments			Capital Less: treasury shares			Other comprehensive income	Special reserves		Surplus reserves	Provisions for general risk	Retained earnings	Others	Sub-total	Minority shareholders' equity
	Preferred shares	Perpetual bonds	Others	Preferred shares	Perpetual bonds	Others	Capital reserves	Less: treasury shares	Others									
I. Balance at the end of the previous year	190,661			531,119	23,251		43,387		483,471						1,225,407		1,225,407	
Add: Change in accounting policies																		
Prior period error correction																		
Business combination under the common control																		
Others																		
II. Balance at the beginning of the year	190,661			531,119	23,251		43,387		483,471						1,225,407		1,225,407	
III. Increase/decrease amount during the period (decrease amount is indicated by "-")	43,000			323,460			(64)	10,453							366,426		366,426	
(I) Total comprehensive income																		
(II) Invested and reduced capitals of owners	43,000			323,460											366,460		366,460	
1. Common share contributed by owners	43,000			323,460											366,460		366,460	
2. Capital contributed by other equity instrument holders																		
3. Amount of share-based payment included in owners' equities																		
4. Others																		
(III) Appropriation of profits																		
1. Withdrawal of surplus reserve																		
2. Withdrawal of Provisions for general risk																		
3. Distributions to owners (or shareholders)																		
4. Others																		
(IV) Internal carry-over of owners' equity																		
1. Paid-in capitals (or share capital) transferred with capital reserves																		
2. Paid-in capitals (or share capital) transferred with surplus reserves																		
3. Surplus reserve to cover the losses																		
4. Balance of defined benefits plan transferred to retained earnings																		
5. Other comprehensive income transferred to retained earnings																		
6. Others																		
(V) Special reserve																		
1. Withdrawal amount in the period																		
2. Utilized amount in the period																		
(VI) Others																		
IV. Balance at the end of the period	233,661			854,560	23,251		43,387		483,437						1,591,834		1,591,834	

Consolidated Statement of Changes in Equity (Continued)

As at 31 December 2020
(Expressed in Renminbi Yuan)

Item	Attributable to shareholders of the parent company										Total shareholders' equity RMB'000				
	Share capital RMB'000	Preferred shares RMB'000	Perpetual bonds RMB'000	Others RMB'000	Capital reserves RMB'000	Less: treasury shares RMB'000	Other comprehensive income RMB'000	Special reserves RMB'000	Surplus reserves RMB'000	Provisions for general risk RMB'000		Retained earnings RMB'000	Others RMB'000	Sub-total RMB'000	Minority shareholders' equity RMB'000
I. Balance at the end of the previous year	187,340				588,791				37,194		451,082		1,184,407		1,184,407
Add: Change in accounting policies															
Prior period error correction															
Business combination under the common control															
Others															
II. Balance at the beginning of the year	187,340				588,791				37,194		451,082		1,184,407		1,184,407
III. Increase/decrease amount during the period (decrease amount is indicated by "-")	3,341				22,328	23,251			6,193		32,389		41,000		41,000
(I) Total comprehensive income															
(II) Invested and reduced capitals of owners	3,341				22,328	23,251									
1. Common share contributed by owners	3,341				22,328	23,251									
2. Capital contributed by other equity instrument holders					19,910										
3. Amount of share-based payment included in owners' equities					2,418										
4. Others															
(III) Appropriation of profits															
1. Withdrawal of surplus reserve															
2. Withdrawal of Provisions for general risk															
3. Distributions to owners (or shareholders)															
4. Others															
(IV) Internal carry-over of owners' equity															
1. Paid-in capitals (or share capital)															
transferred with capital reserves															
2. Paid-in capitals (or share capital)															
transferred with surplus reserves															
3. Surplus reserve to cover the losses															
4. Transferred the balance of defined benefits plan to retained earnings															
5. Transferred other comprehensive income to retained earnings															
6. Others															
(V) Special reserve															
1. Withdraw amount in the period															
2. Utilized amount in the period															
(VI) Others															
IV. Balance at the end of the period	190,681				531,119	23,251			43,387		483,471		1,225,407		1,225,407

Income Statement of the Parent Company

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
I. Operating revenue	498,214	501,789
Less: Operating cost	403,534	355,401
Taxes and surcharges	2,881	2,094
Selling expenses	42,777	52,897
Administrative expenses	26,065	36,688
Research and development expenses	7,930	5,084
Financial expenses	21,393	19,509
Including: Interest expenses	24,910	18,184
Interest income	5,152	2,243
Add: Other income	3,024	1,806
Investment income (loss is indicated by “-”)		(2,592)
Including: Investment income from associated enterprises and joint ventures		
Income from derecognition of financial assets at amortised cost (loss is indicated by “-”)		(2,592)
Net exposure to hedging gains (loss is indicated by “-”)		
Gains from changes in fair value (loss is indicated by “-”)		20,412
Impairment losses on Credit (loss is indicated by “-”)	(80)	(8)
Impairment loss on Assets (loss is indicated by “-”)	(30,000)	
Gains from asset disposal (loss is indicated by “-”)	278	(2)
II. Operating profit (loss is indicated by “-”)	(33,144)	49,731
Add: Non-operating income	7,865	22,984
Less: Non-operating expenses	11,100	270
III. Total profit (total loss is indicated by “-”)	(36,380)	72,446
Less: Income tax expenses	(1,921)	10,516
IV. Net profit (net loss is indicated by “-”)	(34,459)	61,930
(I) Net profit from continuing operations (net loss is indicated by “-”)	(34,459)	61,930
(II) Net profit from discontinued operations (net loss is indicated by “-”)		
V. Other net comprehensive income after tax		
(I) Other comprehensive income that cannot be reclassified into profit or loss		
1. Changes arising from re-measurement of the defined benefit plan		
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method		
3. Changes in fair value of other equity instruments investment		
4. Change in fair value of the enterprise's own credit risk		
5. Others		



Income Statement of the Parent Company (continued)

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
(II) Other comprehensive income that will be reclassified into profit or loss		
1. Other comprehensive income that can be reclassified into profit or loss under the equity method		
2. Change in fair value of other debt investments		
3. Financial assets reclassified into other comprehensive income		
4. Credit impairment provision for other debt investments		
5. Reserve for cash flow hedging		
6. Exchange rate differences of financial statements denominated in foreign currency		
7. Others		
VI. Total comprehensive income	(34,459)	61,930
VII. Earnings per share:		
(I) Basic earnings per share		
(II) Diluted earnings per share		

Balance sheet of the Parent Company

As at 31 December 2020
(Expressed in Renminbi Yuan)

Item	31 December 2020	31 December 2019
	RMB'000	RMB'000
Current assets:		
Cash at bank and on hand	468,006	359,427
Financial assets held for trading		20,412
Derivative financial assets		
Bills receivable		
Accounts receivable	15,097	13,002
Receivables financing		
Prepayments	5,312	14,464
Other receivables	495,026	593,144
Including: Interests receivable		
Dividends receivable		
Inventories	27,705	21,362
Contract assets		
Assets held for sale		
Non-current assets due within 1 year		
Other current assets	10,731	17,117
Total current assets	1,021,877	1,038,928
Non-current assets:		
Debt investments		
Other debt investments		
Long-term receivables		
Long-term equity Investment	1,002,734	533,789
Other equity instruments investment	44	44
Other non-current financial assets		
Investment properties		
Fixed assets	486,667	529,887
Construction in progress	18,260	
Bearer biological assets		
Oil & gas assets		
Right-of-use assets	2,669	4,033
Intangible assets	56,460	56,927
Research & development expenses		
Goodwill		



Balance sheet of the Parent Company (Continued)

As at 31 December 2020
(Expressed in Renminbi Yuan)

Item	31 December 2020	31 December 2019
	RMB'000	RMB'000
Long-term deferred expenses	4,246	6,946
Deferred income tax assets	2,348	2,933
Other non-current assets	20,544	29,735
Total non-current assets	1,593,973	1,164,294
Total assets	2,615,849	2,203,222
Current liabilities:		
Short-term borrowings	282,268	315,184
Financial liabilities held for trading		
Derivative financial liabilities		
Bills payable	431,160	283,014
Accounts payable	78,542	123,726
Advances from customers		
Contract liabilities	8,375	12,377
Employee remuneration payable	3,358	2,013
Taxes payable	3,937	2,872
Other payables	120,867	61,442
Including: Interests payable		
Dividends payable		
Liabilities held for sale		
Non-current liabilities due within 1 year	43,795	33,566
Other current liabilities	1,108	
Total current liabilities	973,409	834,193
Non-current liabilities:		
Long-term borrowings	185,129	227,327
Bonds payable		
Including: Preferred shares		
Perpetual bonds		
Lease liabilities	1,879	3,122
Long-term payables		
Long-term employee remuneration payable		
Estimated liabilities	6	44
Deferred income	15,036	16,598
Deferred income tax liabilities	1,215	4,277

Balance sheet of the Parent Company (Continued)

As at 31 December 2020
(Expressed in Renminbi Yuan)

Item	31 December 2020	31 December 2019
	RMB'000	RMB'000
Other non-current liabilities		
Total non-current liabilities	203,265	251,368
Total liabilities	1,176,674	1,085,561
Owners' equity:		
Share capital	233,681	190,681
Other equity instruments		
Including: Preferred shares		
Perpetual bonds		
Capital reserves	877,091	553,631
Less: Treasury stocks	23,251	23,251
Other comprehensive income		
Special reserves		
Surplus reserves	43,387	43,387
Retained earnings	308,266	353,213
Total owners' equity	1,439,175	1,117,662
Total liabilities and owners' equity	2,615,849	2,203,222



Cash Flow Statement of the Parent Company

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
I. Cash flows from operating activities:		
Cash from sale of goods and rendering of services	557,214	567,125
Tax rebates received	914	
Cash received in connection with other operating activities	252,167	270,004
Sub-total of cash inflow from operating activities	810,295	837,129
Payment for goods and services	249,586	324,606
Cash paid to and for employees	29,181	29,051
Payment of various taxes	16,472	48,386
Cash paid for other operating activities	127,846	136,217
Sub-total of cash outflows from operating activities	423,085	538,260
Net cash flows from operating activities	387,211	298,868
II. Cash flows from investing activities:		
Cash received upon recovery of investments		
Cash received from return on investments		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	576	10
Net cash received upon disposal of subsidiaries and other business units		
Cash received from other investing activities	22,333	
Sub-total of cash inflows from investing activities	22,910	10
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	67,782	327,395
Cash paid for investments	498,945	21,365
Cash paid for acquisition of subsidiaries and other business units, net		
Cash paid for other investing activities		
Sub-total of cash outflows from investing activities	566,727	348,759
Net cash flows from investing activities	(543,817)	(348,749)
III. Cash flows from financing activities:		
Cash received from investments	368,879	23,251
Cash from borrowings	385,000	655,000
Cash received in connection with other financing activities	160,792	15,446
Sub-total of cash inflows from financing activities	914,671	693,697
Cash paid for repayment of debts	450,777	522,243
Cash paid for dividends, profit distributions or interest payment	35,398	43,535
Cash paid for other financing activities	212,991	171,985
Sub-total of cash outflows from financing activities	699,166	737,763

Cash Flow Statement of the Parent Company (Continued)

For the year ended 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020 RMB'000	2019 RMB'000
Net cash flows from financing activities	215,505	(44,066)
IV. Effect of foreign exchange rate changes on cash and cash equivalents	24	14
V. Net increase in cash and cash equivalents	58,923	(93,933)
Add: Balance of cash and cash equivalents at the beginning of the period	193,920	287,852
VI. Balance of cash and cash equivalents at the end of the period	252,842	193,920



Statement of Changes in Equity of the Parent Company

As at 31 December 2020
(Expressed in Renminbi Yuan)

Item	2020											
	Other equity instruments					Less:	Total					
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserves		treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Others
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
I. Balance at the end of the previous year	190,681				553,631	23,251	43,387			363,213		1,117,662
Add: Change in accounting policies												
Prior period error correction												
Others												
II. Balance at the beginning of the year	190,681				553,631	23,251	43,387			363,213		1,117,662
III. Increase/decrease amount during the period (decrease amount is indicated by "-")	43,000				323,460					(44,947)		321,513
(I) Total comprehensive income												
(II) Invested and reduced capitals of owners	43,000				323,460					(34,459)		(34,459)
1. Common share contributed by owners	43,000				323,679							366,460
2. Capital contributed by other equity instrument holders												366,879
3. Amount of share-based payment included in owners' equities					(2,418)							0
4. Others												(2,418)
(III) Appropriation of profits												0
1. Withdrawal of surplus reserve										(10,487)		(10,487)
2. Distributions to owners (or shareholders)												
3. Others												
(IV) Internal carry-over of owners' equity												
1. Paid-in capitals (or share capital) transferred with capital reserves												
2. Paid-in capitals (or share capital) transferred with surplus reserves												
3. Surplus reserve to cover the losses												
4. Balance of defined benefits plan transferred to retained earnings												
5. Other comprehensive income transferred to retained earnings												
6. Others												
(V) Special reserve												
1. Withdrawal amount in the period												
2. Utilized amount in the period												
(VI) Others												
IV. Balance at the end of the period	233,681				877,091	23,251	43,387			308,266		1,438,175

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

As at 31 December 2020

(Expressed in Renminbi Yuan)

Item	2019				Less: treasury shares	Other comprehensive income	Surplus reserves	Retained earnings	Total shareholders' equity
	Share capital	Other equity instruments							
	RMB'000	Preferred shares	Perpetual bonds	Others	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
I. Balance at the end of the previous year	187,340				531,302	37,194	310,215	1,066,052	
Add: Change in accounting policies									
Prior period error correction									
Others									
II. Balance at the beginning of the year	187,340				531,302	37,194	310,215	1,066,052	
III. Increase/decrease amount during the period (decrease amount is indicated by "-")									
(I) Total comprehensive income	3,341				22,328	6,193	42,998	51,609	
(II) Invested and reduced capitals of owners	3,341				22,328		61,930	61,930	
1. Common share contributed by owners	3,341				19,910			2,418	
2. Capital contributed by other equity instrument holders									
3. Amount of share-based payment included in owners' equities					2,418				
4. Others									
(III) Appropriation of profits						6,193	(18,932)	(12,739)	
1. Withdrawal of surplus reserve						6,193	(6,193)		
2. Distributions to owners (or shareholders)							(12,739)		
3. Others									
(IV) Internal carry-over of owners' equity									
1. Paid-in capitals (or share capital) transferred with capital reserves									
2. Paid-in capitals (or share capital) transferred with surplus reserves									
3. Surplus reserve to cover the losses									
4. Balance of defined benefits plan transferred to retained earnings									
5. Other comprehensive income transferred to retained earnings									
6. Others									
(V) Special reserve									
1. Withdraw amount in the period									
2. Utilized amount in the period									
(VI) Others									
IV. Balance at the end of the period	190,681				553,631	43,387	363,213	1,117,662	

Notes to the Financial Statements

1 January 2020 - 31 December 2020

I. COMPANY STATUS

Lanzhou Zhuangyuan Pasture Co., Ltd. (hereinafter referred to as “the Company”) was incorporated in Gansu, Lanzhou, PRC on 25 April 2000. On 19 April 2011, the Company was converted into a joint stock company. The registered address is at Sanjiaocheng Village, Sanjiaocheng Town, Yuzhong Country. The legal representative is Ma Hongfu and the operating cycle is from 25 April 2000 to 24 April 2050.

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

The ultimate controller of the Company is Mr. Ma Hongfu, a natural person.

The Company has 11 subsidiaries incorporated into the consolidation scope as of 31 December 2020. For details, please refer to Note VII. “Interests in other entities”.

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

These financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises or referred to as China Accounting Standards (“CAS”) issued by the Ministry of Finance (“MOF”) present truly and completely the financial position of the Company as at 31 December 2020, and financial performance and cash flows of the Company for the year of 2020. These financial statements, in all material aspects, comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports” as revised by the China Securities Regulatory Commission (“CSRC”) in 2014. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance and Hong Kong Listing Rules.

(II) Accounting period

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

(III) Operating cycle

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

(IV) Functional currency

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(V) Business combination

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

1. Business combination under the common control

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Business combination (Continued)

2. Business combination not under the common control

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(V) Business combination *(Continued)*

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(VI) Preparation method of the consolidated financial statements

1. Determination principles of consolidated financial statement scope

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

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

2. Preparation method of the consolidated financial statements

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(VII) Recognition standard for cash and cash equivalents

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

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

1. Translation of foreign currency transactions

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

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

(IX) Financial instruments

1. Classification and reclassification of financial instruments

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Classification, recognition and measurement of financial assets

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

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

① *Financial assets at amortized cost*

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

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

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

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

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

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

3. Classification, recognition and measurement of financial liabilities

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

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

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

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

② *Other financial liabilities*

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

4. Recognition basis and measurement method of financial assets transfer

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(IX) Financial instruments *(Continued)*

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

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(IX) Financial instruments *(Continued)*

5. Derecognition of financial liabilities

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

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

6. Offset of financial assets and liabilities

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

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

8. Equity instrument

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) Impairment of financial assets

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

1. Recognition method of provision for impairment in value

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

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) Impairment of financial assets (Continued)

3. Selection of simplified treatment method

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

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

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

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XI) Inventories

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

1. Consumable biological assets

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

2. Other inventories

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories (Continued)

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

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

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

The Company maintains a perpetual inventory system.

(XII) Long-term equity investment

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

1. Determination of investment cost

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

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

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

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

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

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

③ *Acquisition of the minority equity*

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

④ *Disposal of the long-term equity investments*

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

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

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

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

(XIII) Fixed assets

1. Recognition of fixed assets

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets (Continued)

2. Classification and depreciation of fixed assets

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

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

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

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

4. Other explanations

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XIV) Construction in process

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

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

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

(XV) Borrowing costs

Recognition principle of borrowing costs capitalisation

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

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XV) Borrowing costs (Continued)

Recognition principle of borrowing costs capitalisation (Continued)

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

(XVI) Biological assets

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XVII) Intangible assets

1. Measurement method of intangible assets

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

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

Asset type	Useful lives (year)	Amortization method
Land Use Right	47 – 50 years	Straight-line method
Computer Software	10 years	Straight-line method

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XVII) Intangible assets *(Continued)*

2. Determination basis of infinite useful life

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

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

3. Basis for research and development phases for internal research and development project and basis for capitalization of expenditure incurred in development stage

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVIII) Impairment of long-term assets

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIX) Long-term deferred expenses

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

(XX) Employee benefits

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

1. Short-term benefits

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

2. Post-employment benefits

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XX) Employee benefits (Continued)

3. Termination benefits

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

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

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

(XXI) Estimated liabilities

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

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments

1. Accounting treatment for share-based payments

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

① *Equity-settled share-based payments*

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments (Continued)

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

② Cash-settled share-based payments

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

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments (Continued)

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

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

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

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXIII) Revenue

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue (Continued)

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXIII) Revenue *(Continued)*

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIV) Government grants

1. Types of government grants and accounting treatment

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

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

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

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

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

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

The interest subsidies obtained is offset against related interest expense.

2. Timing for recognition of governmental grants

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXV) Income tax

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

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

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

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

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

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

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

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

Those relate to income taxes levied by the same tax authority on either: the same taxable entity; or different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Leases

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

1. As lessee

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

① *Initial measurement*

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Leases (Continued)

1. As lessee (Continued)

② Subsequent measurement

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXVI) Leases *(Continued)*

2. As lessor

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

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXVIII) Dividend distributions

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

(XXIX) Related parties

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

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

(XXX) Segment reporting

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

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXXI) Key accounting estimates and judgments

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

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

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

Nil

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

IV TAXATION

(I) Main types of taxes and corresponding tax rates

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

(II) Important tax preferences and approvals

(1) VAT

- ① During the period, the wholly-owned subsidiaries of the Company, Qinghai Shengya Plateau Pasture Co., Ltd., Qinghai Shengyuan Pasture Co., Ltd., Linxia County Ruiyuan Pasture Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Lanzhou Ruixing Farming Co., Ltd., Gansu Ruijia Animal Husbandry Co., Ltd., Yuzhong Ruifeng Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd. and Shaanxi Duoxian Animal Husbandry Co., Ltd. were exempted from VAT for dairy cows breeding in accordance with Article 15 of the Provisional Regulations of the People's Republic of China on Value-added Tax.
- ② During the period, Ningxia Zhuangyuan Pasture Co., Ltd., a wholly-owned subsidiaries of the Company, was exempted from VAT for sales of feed in accordance with Article 15 of the Provisional Regulations of the People's Republic of China on Value-added Tax.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

IV TAXATION (Continued)

(II) Important tax preferences and approvals (Continued)

(2) Enterprise income tax

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

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Cash on hand	4	16
Bank deposits	631,560	248,218
Other cash at bank and on hand	215,164	165,507
Including: earnest money	215,164	165,507
Total	846,729	413,742
Including: total amount deposited overseas	371	649

Note:

- ① Other cash at banks and on hand include bank acceptance bill and bank deposit, whose usage was restricted;
- ② The cash at bank and on hand of the Company increased significantly compared with previous year, mainly attributable to RMB 377,540,000.00 raised by the Company through issuing 43 million RMB ordinary shares to specific investors on 23 December 2020.

(II) Trading financial assets

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
1. Classified as financial assets measured at changes in fair value through profits or losses	20,412	
Including: financial assets arising from contingent consideration recognized during the business combination not under common control	20,412	
2. Designated as financial assets measured at changes in fair value through profits or losses		
Total	20,412	

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(III) Accounts receivable

1. Category of accounts receivable

Item	Balance at the end of the period			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount	Percentage (%)	Amount	Percentage (%)
	RMB'000		RMB'000	
Accounts receivable with single provision for bad and doubtful debts				
Accounts receivable with provision for bad and doubtful debts on a group basis	42,912	100.00	1,326	3.09
Including: aging group	42,912	100.00	1,326	3.09
Total	42,912	100.00	1,326	3.09

(Continued)

Item	Balance at the beginning of the period			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount	Percentage (%)	Amount	Percentage (%)
	RMB'000		RMB'000	
Accounts receivable with single provision for bad and doubtful debts				
Accounts receivable with provision for bad and doubtful debts on a group basis	30,527	100.00	878	2.87
Including: aging group	30,527	100.00	878	2.87
Total	30,527	100.00	878	2.87

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(III) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

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

Aging	Balance at the end of the period			Balance at the beginning of the period		
	Balance of carrying value	expected credit loss (%)	Provision for bad and doubtful debts	Balance of carrying value	expected credit loss (%)	Provision for bad and doubtful debts
	RMB'000		RMB'000	RMB'000		RMB'000
Within one year	41,052		152	29,261.13		
Including: 0-6 months	38,021			29,261.13		
7-12 months	3,031	5.00	152			
1 to 2 years	727	20.00	145	236.68	20.00	47.34
2 to 3 years	208	50.00	104	397.50	50.00	198.75
Over 3 years	925	100.00	925	631.53	100.00	631.53
Total	42,912	—	1,326	30,526.84	—	877.61

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

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

The provision for bad and doubtful debts made during the period was RMB449,000.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(III) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

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

Name of entity	Balance at the end of the period RMB'000	Percentage of total closing balance of the accounts receivable (%)	Closing balance of the provision for bad and doubtful debts RMB'000
Entity 1	9,299	21.67	469
Entity 2	7,878	18.36	
Entity 3	3,231	7.53	63
Entity 4	1,970	4.59	
Entity 5	1,405	3.27	
Total	23,784	55.42	533

(IV) Prepayments

1. Prepayments by ageing

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	7,976	99.73	16,185	100.00
1-2 years	22	0.27		
Total	7,998	100.00	16,185	100.00

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(IV) Prepayments (Continued)

2. Five largest accounts receivable by prepayments

Name of entity	Balance at the end of the period RMB'000	Percentage of the total prepayments (%) RMB'000
Entity 1	1,908	23.85
Entity 2	1,011	12.65
Entity 3	745	9.32
Entity 4	499	6.24
Entity 5	363	4.54
Total	4,527	56.60



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(V) Other receivables

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Other receivables	21,547	19,386
Less: provisions for bad and doubtful debts	755	1,691
Total	20,792	17,694

1. Other receivables

(1) *Category of other receivables by nature*

Nature of accounts	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Amounts due from disposal of cows		648
Deposit and earnest money	813	2,647
Loans to employees	2,836	2,433
Performance compensation	14,106	8,702
Current accounts and others	3,791	4,956
Subtotal	21,547	19,386
Less: provisions for bad and doubtful debts	755	1,691
Total	20,792	17,694

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(V) Other receivables (Continued)

1. Other receivables (Continued)

(2) Aging analysis on other receivables

Aging	Balance at the end of the period		Balance at the beginning of the period	
	Balance of carrying value RMB'000	Percentage (%)	Balance of carrying value RMB'000	Percentage (%)
Within one year	20,685	96.00	16,499	85.11
1 to 2 years			2,263	11.68
2 to 3 years	238	1.11	20	0.10
Over 3 years	624	2.89	604	3.11
Total	21,547	100.00	19,386	100.00

(3) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts	Stage 1 ECL over the next 12 months RMB'000	Stage 2 Lifetime ECL – not credit-impaired RMB'000	Stage 3 Lifetime ECL – credit-impaired RMB'000	Total RMB'000
Balance at the beginning of the period		1,088	603	1,691
Balance at the beginning of the period after reassessment in the period		1,088	603	1,691
Provision during the period		64	1,000	1,064
Reversal during the period				
Written off during the period			2,000	2,000
Other changes		(1,000)	1,000	
Balance at the end of the period		152	603	755

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(V) Other receivables (Continued)

1. Other receivables (Continued)

(4) The provision for bad and doubtful debts during the period was RMB 1,063,990.60, and RMB 0.00 of The provision for bad and doubtful debts ws reversed.

(5) Important information on other receivables actually written off during the reporting period

Name of entity	Nature	Amount RMB'000	Reason	Model	Whether rising from related transactions
Sichuan Qiaogeli Machinery Equipment Company Limited (四川喬戈裡機械 設備有限公司)	Amount of equipments	2,000	Can't be recovered a pproval process		No
Total		2,000			

(6) Five largest other receivables by debtor of balance at the end of the period

Name of debtor	Nature of amount	balance at the end of the period RMB'000	ageing	Percentage of total other receivables at the end of the period (%)	Provision for bad and doubtful debts RMB'000
Entity 1	Performance compensation	11,215	0-6 months	52.05	
Entity 2	Performance compensation	2,891	0-6 months	13.42	
Entity 3	Loans to employees	506	0-6 months	2.35	
Entity 4	Loans to employees	500	0-6 months	2.32	
Entity 5	Cattle insurance	410	0-6 months	1.90	
Total	—	15,522	—	72.04	

Note: Details of performance compensation receivable is set out in Note 2 to V. (L) Non-operating income.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(VI) Inventories

1. Category of inventories

Item	balance at the end of the period			balance at the beginning of the period		
	Balance of carrying value RMB'000	Provision for depreciation RMB'000	Carrying value RMB'000	Balance of carrying value RMB'000	Provision for depreciation RMB'000	Carrying value RMB'000
Raw materials	101,410		101,410	83,424		83,424
Commodities in stock (finished goods)	11,787		11,787	10,822		10,822
Commodities shipped	390		390	552		552
Consumable biological assets	38		38	34		34
Total	113,625		113,625	94,832		94,832

(VII) Other current assets

Item	balance at the end of the period RMB'000	balance at the beginning of the period RMB'000
Input tax to be deducted and without invoice	10,730	17,544
Cost of return receivable	8	51
Total	10,738	17,595



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(VIII) Other equity instrument investment

Item	Investment cost RMB'000	balance at	balance at	Dividend	Accumulative	Reason for transferring
		beginning of the period RMB'000	the end of the period RMB'000	recognised during the period RMB'000	profit or loss during the year transferred from other comprehensive income to retained earnings RMB'000	
Gansu Yuzhong Rural Cooperative Bank		44	44			
Total		44	44			

(IX) Fixed assets

Item	balance at the end of the period RMB'000	balance at the beginning of the period RMB'000
Fixed assets	1,254,643	1,256,878
Less: impairment provision	75,106	9,239
Total	1,179,537	1,247,639

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(IX) Fixed assets (Continued)

1. Fixed assets

(1) Fixed assets

Item	Houses and buildings RMB'000	Mechanical equipments RMB'000	Transportation equipments RMB'000	Others RMB'000	Total RMB'000
I. Original carrying value					
1. Balance at the beginning of the period	1,098,306	591,085	9,728	33,662	1,732,782
2. Increase for the year	73,708	14,850	1,763	9,881	100,201
(1) acquisition	7,149	10,838	1,763	9,881	29,630
(2) transferred from construction in progress	66,559	2,730			69,289
(3) others		1,282			1,282
3. Decrease for the year	14,696	38,411	1,258	897	55,263
(1) Disposal or scrapping	14,696	38,411	1,258	897	55,263
(2) others					
4. Balance at the end of the period	1,157,318	567,524	10,233	42,646	1,777,721
II. Accumulated depreciation					
1. Balance at the beginning of the period	180,339	262,569	7,159	25,837	475,904
2. Increase for the year	32,491	49,444	2,675	6,064	90,675
(1) provisions	32,491	48,958	2,675	6,064	90,188
(2) others	0	486			486
3. Decrease for the year	5,570	35,883	1,195	852	43,501
(1) disposal or scrapping	5,570	35,883	1,195	852	43,501
(2) others					
4. Balance at the end of the period	207,260	276,130	8,639	31,050	523,078
III. Impairment provision					
1. Balance at the beginning of the period	9,239				9,239
2. Increase for the year	63,093	2,774			65,867
(1) provisions	63,093	2,774			65,867
3. Decrease for the year					
(1) disposal or scrapping					
4. Balance at the end of the period	72,332	2,774			75,106
4. Carrying value					
1. Closing balance of carrying value	877,727	288,620	1,594	11,596	1,179,537
2. Opening balance of carrying value	908,729	328,516	2,570	7,825	1,247,639

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(IX) Fixed assets (Continued)

1. Fixed assets (Continued)

(2) Details of fixed assets without the certificate of title

Item	Carrying value RMB'000	Reasons for failure of obtaining the certificate of title
Lanzhou Zhuangyuan Office Building	50,986	In progress
Total	50,986	—

(3) Provisions for impairment on fixed assets

As disclosed in Note XIV. (III), in response to the recent development of compensations for each of subsidiaries, provisions for assets impairment for Ningxia Zhuangyuan amounted to RMB3,086,000; and provisions for assets impairment for Qinghai Shengyuan amounted to RMB8,534,000.

The Company plans to gradually discontinue the operation of its subsidiary Qinghai Shengya Pasture. There is material impairment indication for the fixed assets of Qinghai Shengya, for which the external experts engaged by the Management conducted impairment tests and made impairment provisions for fixed assets amounting to RMB54,057,000.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(X) Construction in progress

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Construction in progress	152,093	59,188
Total	152,093	59,188

1. Construction in progress

(1) Details of construction in progress

Item	Balance at the end of the period			Balance at the beginning of the period		
	Balance of		Carrying value RMB'000	Balance of		Carrying value RMB'000
	carrying value RMB'000	Impairment provision RMB'000		carrying value RMB'000	Impairment provision RMB'000	
Ruijia Jinchang construction project	136,333		136,333	49,017		49,017
Others	15,760		15,760	10,171		10,171
Total	152,093		152,093	59,188		59,188

(2) Changes to construction in progress of the year

Name of Project	Amount of Budget (RMB'000)	Balance at			Amount of fixed assets transferred during the year RMB'000	Other decrease during the year RMB'000	Balance at the beginning of the period RMB'000
		the end of the period RMB'000	Increase of the period RMB'000	the end of the period RMB'000			
		RMB'000	RMB'000	RMB'000			
Ruijia Jinchang construction project	29,000.00	49,017	151,402	56,397	7,688	136,333	
Others		10,171	18,481	12,892		15,760	
Total	29,000.00	59,188	169,882	69,289	7,688	152,093	

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(X) Construction in progress (Continued)

1. Construction in progress (Continued)

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

Name of Project	Percentage of accumulative project investment accounting for the budget (%)	Project progress (%)	Accumulative amount of interests capitalization RMB'000	Including: amount of interests capitalization of the year RMB'000	Interests capitalization rate of the year (%)	Source of funds
Ruijia Jinchang construction project	75.18	75.18	2,070	2,070	4.15	Own capital and bank loan
Others						
Total	75.18	75.18	2,070	2,070	4.15	

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XI) Bearer biological assets

1. Biological assets carried at fair value

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

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

Unit: Heads

Category	Balance at the end of the period	Balance at the beginning of the period
Calves	3,550	1,380
Heifers	4,308	6,472
Milkable cows	8,236	5,560
Total	16,094	13,412

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XI) Bearer biological assets (Continued)

1. Biological assets carried at fair value (Continued)

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

① Regulatory and environmental risks

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

② Climate, disease and other natural risks

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

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

Item		Calves	Heifers	Milkable	Total
		RMB'000	RMB'000	Cows	
Balance at the beginning of the period		15,712	155,117	189,266	360,095
Plus: cows purchasing costs			11,845		11,845
Breeding costs	Note 1	19,888	66,922	180,276	267,086
Transfer among group of cows					
Transfer-in			12,528	108,005	120,533
Transfer-out		(12,528)	(108,005)		(120,533)
Transferred to inventories at the time of milking				(180,276)	(180,276)
Decrease due to elimination and sales		(2,068)	(10,952)	(25,302)	(38,322)
Profit and loss from fair value change	Note 2	22,774	(15,470)	66,959	74,263
Balance at the end of the period		43,778	111,986	338,928	494,691

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XI) Bearer biological assets (Continued)

1. Biological assets carried at fair value (Continued)

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

Note 1: The cows breeding costs mainly include the feed costs, labour costs, depreciation and amortization expenses and the amortization of public fees.

Note 2: The profit and loss from fair value change consists of two parts: loss from changes in fair value less costs to sell of bearer biological assets, and gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest.

The Company has already hired certain independent and professional evaluators to conduct evaluation on the fair value of biological assets as at the balance sheet date. Methods for valuation as adopted for the purpose of determination of the fair value and main parameters of the valuation model are disclosed in Note IX. Disclosure of fair value.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XII) Right-of-use assets

Item	Machinery and equipment RMB'000	Land use right RMB'000	Total RMB'000
I. Original carrying value			
1. Balance at the beginning of the period	9,858	38,358	48,216
2. Increase for the period		15,374	15,374
(1) new lease		15,374	15,374
3. Decrease for the period	1,282		1,282
(1) disposal			
(2) others	1,282		1,282
4. Balance at the end of the period	8,576	53,732	62,308
II. Accumulated depreciation			
1. Balance at the beginning of the period	1,446	3,333	4,779
2. Increase for the period	805	3,426	4,231
(1) provisions	805	3,426	4,231
(2) others			
3. Decrease for the period	486		486
(1) disposal			
(2) others	486		486
4. Balance at the end of the period	1,765	6,759	8,524
III. Impairment provision			
1. Balance at the beginning of the period			
2. Increase for the period			
(1) provisions			
3. Decrease for the period			
(1) disposal			
4. Balance at the end of the period			
IV. Carrying value			
1. Closing balance of carrying value	6,811	46,973	53,784
2. Opening balance of carrying value	8,411	35,026	43,437

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XIII) Intangible assets

1. Conditions of intangible assets

Item	Land use right RMB'000	Computer software RMB'000	Total RMB'000
I. Original carrying value			
1. Balance at the beginning of the period	91,786	4,629	96,414
2. Increase for the period	8,199	1,145	9,344
(1) acquisition	8,199	1,145	9,344
2. Decrease for the period			
(1) disposal			
4. Balance at the end of the period	99,985	5,774	105,759
II. Accumulated amortization			
1. Balance at the beginning of the period	3,944	1,861	5,805
2. Increase for the period	1,891	906	2,798
(1) provisions	1,891	906	2,798
3. Decrease for the period			
(1) disposal			
4. Balance at the end of the period	5,835	2,767	8,602
III. Impairment provision			
1. Balance at the beginning of the period			
2. Increase for the period			
(1) provisions			
3. Decrease for the period			
(1) disposal			
4. Balance at the end of the period			
IV. Carrying value			
1. Closing balance of carrying value	94,149	3,007	97,156
2. Opening balance of carrying value	87,842	2,768	90,609



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XIV) Goodwill

1. Original carrying value of goodwill

Item	Balance at the beginning of the period	Increase for the period Resulting from business combination		Decrease for the period		Balance at the end of the period
	RMB'000	RMB'000	Others RMB'000	Disposal RMB'000	Others RMB'000	RMB'000
Xi'an Dongfang Dairy Company Limited	58,691					58,691
Total	58,691					58,691

2. Impairment provisions for goodwill

Item	Balance at the beginning of the period	Increase for the period provisions		Decrease for the period		Balance at the end of the period
	RMB'000	RMB'000	Others RMB'000	Disposal RMB'000	Others RMB'000	RMB'000
Xi'an Dongfang Dairy Company Limited	48,719	9,971				58,691
Total	48,719	9,971				58,691

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XIV) Goodwill (Continued)

3. Conditions of goodwill impairment

Unit: RMB0'000

Item	Asset group
Balance of carrying value for goodwill ①	5,869.05
Balance of impairment provisions for goodwill ②	5,869.05
Carrying value of goodwill ③ = ① - ②	
Goodwill value not recognized as attributable to minority equity ④	
Carrying value of overall goodwill after adjustment ⑤ = ④ + ③	
Carrying value of the asset group ⑥	24,328.45
Carrying value of the asset group that contains overall goodwill ⑦ = ⑤ + ⑥	30,197.50
Present value of expected future cash flow of the asset group (recoverable amount) ⑧	24,309.53
Impairment loss of goodwill (when it is greater than 0)	5,869.05
Impairment loss of fixed assets ⑩ = ⑦ - ⑧ - ⑨	18.92
Total	

(1) Information on the asset group or the portfolio of asset groups to which the goodwill is attributable

On 31 October 2018, the Company acquired 82% equity of Xi'an Dongfang Dairy Company Limited (hereafter referred to as "Dongfang Dairy Co.,") and made it become a wholly-owned subsidiary of the Company. This acquisition generated goodwill of RMB58,690,500.

The identification of asset groups by the Company is consistent with that of the previous years.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XIV) Goodwill (Continued)

3. Conditions of goodwill impairment (Continued)

(2) Process and method of goodwill impairment test

The Company engaged Beijing Yatai Lianhua Assets Appraisal Co., Ltd. to conduct impairment test on goodwill and took the conclusion of income approach as the recoverable amount of the asset group.

The measurement process and key parameters of goodwill impairment are as follows:

The present value of the future cash flow of the asset group to which the goodwill is attributable is determined based on the financial budget for 2021 to 2025 approved by the management, and the cash flow for over 5 years of the asset group is calculated on a perpetual basis at the budget amount of 2025. Due to the impact of the epidemic, the Company expects that the revenue in 2020 will decline significantly, there will be a restorative growth in 2021 and the revenue will remained basically stable compared with that in 2019, the average growth rate from 2022 to 2025 will be approximately 3.82%, the discount rate in from 2021 to 2030 will be 10.93%, and the discount rate in 2031 to the perpetual period will be 12.84%. The proportion of the net cash flow before tax accounting for the operating revenue is 13.31%.

(3) Results of goodwill impairment test

A provision to be made for goodwill impairment was RMB58,690,500. The Company made a provision for impairment of RMB4,8719,000 for the year 2019, and RMB9,971,200 for the current year.

(XV) Long-term deferred expenses

Type	Balance at the beginning of the period RMB'000	Increase for the period RMB'000	Amount of amortization of the period RMB'000	Other decrease RMB'000	Balance at the end of the period RMB'000
Office building renovation expenses	4,660		583		4,078
Warehouse under short-term lease	220		142		78
Sewage treatment fee	192		192		
Amortization of guarantee expenses	2,066	18	1,994		90
Total	7,138	18	2,910		4,246

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XVI) Deferred income tax assets, deferred income tax liabilities

1. Deferred income tax assets and deferred income tax liabilities are not shown as net after set-off

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deferred income tax assets/ liabilities RMB'000	Deductible/ taxable temporary differences RMB'000	Deferred income tax assets/ liabilities RMB'000	Deductible/ taxable temporary differences RMB'000
Deferred income tax assets:				
Impairment provisions on assets	247	1,647	360	2,402
Deferred income	2,255	15,036	3,296	21,972
Deductible losses			2,625	17,500
Expenses of restricted shares			363	2,418
Sub-total	2,502	16,683	6,644	44,293
Deferred income tax liabilities:				
Changes in the fair value of trading financial instruments and derivative financial instruments			3,062	20,412
Changes in the fair value of financial assets included in other comprehensive income	1,215	8,099	1,215	8,099
Asset appraisal appreciation arising from the business combination not under common	4,418	29,453	4,750	31,669
Sub-total	5,633	37,552	9,027	60,180



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XVI) Deferred income tax assets, deferred income tax liabilities (Continued)

2. Breakdown of unrecognized deferred tax assets

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Provision for bad and doubtful debts	269	
Deferred income	4,568	
Deductible losses	29,272	
Total	34,109	

3. Deductible tax losses that are not recognized as deferred tax assets will expire in the following years

Year	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000	Remarks RMB'000
2020			
2021			
2022			
2023	20,169		
2024			
2025	9,102		
Total	29,272		

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XVII) Other non-current assets

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Prepayment for long-term asset purchased	5,249	10,234
Prepayment for cows purchased	49,788	27,418
Purchase of land		20,200
Total	55,037	57,852

(XVIII) Short-term borrowings

1. Category of short-term borrowings

Conditions of loans	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Mortgaged loan	156,500	180,000
Guaranteed loan	115,000	115,000
Credit loan	50,000	20,000
Plus: interest payable	837	184
Total	322,337	315,184

Note: For details of the mortgage of short-term borrowings, please refer to this Note V. XXXXXV.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XIX) Bills payable

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Bank acceptance bill	431,160	283,014
Total	431,160	283,014

(XX) Accounts payable

1. Classifying by ageing

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Within 1 year (inclusive of 1 year)	203,441	213,499
1-2 years (inclusive of 2 years)	9,369	12,618
2-3 years (inclusive of 3 years)	786	1,106
Over 3 years	508	997
Total	214,105	228,221

Note: After the Company confirmed the completion of purchase (if the goods were placed into the warehouse for acceptance or met the acceptance conditions), the unpaid purchase amount was included in the accounts payable and we started to calculate the ageing at the same time.

The significant increase in the Company's payable is due to an increase in the payable of its subsidiary, Ruijia Pasture's construction project.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XX) Accounts payable (Continued)

2. Large amount of accounts payable with ageing of over 1 year

Name of entity with creditor's rights	Balance at the end of the period RMB'000	Reasons for outstanding payment
Entity 1	2,414	Final payment of project
Entity 2	2,392	Final payment of project
Entity 3	1,467	Final payment of equipments
Entity 4	610	Payment of packaging material
Entity 5	564	Final payment of project
Total	7,447	—

(XXI) Contractual liabilities

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Within 1 year (inclusive of 1 year)	10,669	16,470
Total	10,669	16,470

Note: RMB14,955,083.19 of balance of contractual liabilities at the beginning of the period was recognised as operating income.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXII) Employee benefits payable

1. List of employee benefits payable

Item	Balance at the beginning of the period RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	Balance at the end of the period RMB'000
Short-term benefits	2,621	69,466	65,861	6,226
Post-employment benefits				
— defined benefits plan		990	990	
Dismissal benefit		665	665	
Total	2,621	71,121	67,516	6,226

2. Conditions of short-term employee benefits

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Wages, bonus, subsidies and allowances	2,581	64,305	60,741	6,144
Employees benefits		1,513	1,490	24
Social insurance fees		2,075	2,075	
Including: medical				
insurance fees		2,029	2,029	
Injuries insurance fees		27	27	
Maternity insurance fees		19	19	
Housing provident fund		1,167	1,167	
Trade union funds and employees education funds	40	406	388	58
Total	2,621	69,466	65,861	6,226

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXII) Employee benefits payable (Continued)

3. Conditions of defined benefit plan

Item	Balance at the beginning of the period RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	Balance at the end of the period RMB'000
Basic pension insurance		955	955	
Unemployment insurance fees		35	35	
Total		990	990	

(XXIII) Taxes payable

Categories of taxes	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
VAT	2,504	2,748
Enterprise income tax	2,711	4,163
Environmental protection tax	546	94
Individual income tax	159	87
Urban maintenance and construction tax	145	134
Education surcharges	79	59
Local education surcharges	51	38
Stamp tax	33	20
Other taxes and fees	191	161
Total	6,419	7,504



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXIV) Other payables

Category	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Dividends payable		
Other payables	52,990	50,725
Total	52,990	50,725

1. Other payables

(1) Classifications by nature of amount

Nature of amount	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Government grants charged but not satisfying the ancillary conditions	3,982	3,982
Deposit due to the third party	15,828	19,132
Professional service fee payable	946	800
Restricted share repurchase business (see Note XI for details)	23,251	23,251
Others	8,984	3,560
Total	52,990	50,725

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXIV) Other payables (Continued)

1. Other payables (Continued)

(2) Explanation on the conditions of large amount of other payables with the ageing of over 1 year

Name of entity	Balance at the end of the period RMB'000	Reasons for outstanding payment
單位1	9,300	Performance compensation
單位2	2,300	Outstanding earnest money
單位3	661	Prematurity repayment
單位4	298	Prematurity repayment
單位5	252	Prematurity repayment
Total	12,810	—

(XXV) Non-current liabilities due within one year

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Long-term borrowings due within 1 year	42,377	50,863
Lease liabilities due within 1 year	6,045	5,386
Total	48,422	56,249



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXVI) Other non-current liabilities

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Amount of tax in items to be resold	1,448	
Total	1,448	

(XXVII) Long-term borrowings

1. Classification of long-term borrowings

Conditions of borrowings	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000	Range of interest rate
Mortgaged loan	352,937	277,937	4.15%-5.70%
Plus: interest payable	721	253	
Less: long-term borrowings due within 1 year (Note V. XXV)	42,377	50,863	
Total	311,281	227,327	—

Note: For details of the mortgage conditions of long-term borrowings, please refer to the Note "V.(XXXXXV)".

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXVII) Long-term borrowings (Continued)

2. Repayment term of the long-term borrowings of over 1 year

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
1 to 2 years	72,377	42,243
2 to 5 years	147,130	176,729
Over 5 years	91,054	8,103
Total	310,561	227,074

(XXVIII) Lease liabilities

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Minimum lease payment	68,323	60,143
Less: unrecognised finance expenses	21,794	23,811
Less: lease liabilities due within 1 year (Note V. XXV)	6,045	5,386
Total	40,483	30,946



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXIX) Leases

1. The Company as the lessee

(1) *Please refer to this Note V. (XII), (XXVIII) for the conditions of right-of-use assets and lease liabilities*

(2) *Conditions of being included in gain or loss and related asset costs for the year*

Item	Being included in gain or loss for the period		Being included in related asset costs	
	Presented item	Amount RMB'000	Presented item	Amount RMB'000
Depreciation of right-of-use assets	Operating cost/General and administrative expenses	3,574		
Interest	Financial expenses	2,139		

(3) *Cash outflow associated with leases*

Item	Category of cash flow	Amount for the period RMB'000
Cash paid for repayment of principal and interest of lease liabilities	Cash outflow from financing activities	4,789
Total	—	4,789

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXIX) Leases (Continued)

1. The Company as the lessee (Continued)

(4) Other information

- ① Nature of lease activities

Category	Leased property	Volume (acre/unit)	Lease term (year)
Zhuangyuan Pasture	Land	9.28	5-6
Dongfang Dairy	Land	93.60	30
Duoxian Dairy	Land	212.91	30
Shengya Pasture	Land	461.75	24-30
Ruiyuan Pasture	Land	309.28	24-30
Ruida Pasture	Land	759.38	19-30
Ruian Pasture	Land	220.13	23-30
Ruifeng Pasture	Land	308.46	30
Shengyuan Pasture	Land	160.00	30
Ruijia Pasture	Land	1531.00	20
Ningxia Zhuangyuan	Land	200.00	30
Zhuangyuan Pasture	Machinery equipment	1	3-5

Note 1 The lease term of the lands of the Company is relatively long, and it is generally agreed in the contracts to renew the lease at fair value. The management reasonably judges that the lease will not be renewed when it expires, so as far as the lease term is concerned, the option of renewal is not considered.

Note 2 There is variable lease consideration in a part of the land lease of the Company, and the rent is determined by “the price of wheat for the current month of payment and the price of spring wheat on 15 August in the current year” and belongs to the index and rate-linked rent under the lease standards. The Company will consider the importance of the amount and adjust the lease liabilities and lease assets when there are relevant price changes during the lease execution period.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXX) Estimated liabilities

Item	Balance at the beginning of the period RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	Balance at the end of the period RMB'000	Reasons for formation
Returns payment payable	51	1	40	13	Accrued returns payment
Reclamation expense	463	14		478	Reclamation expense for lease lands
Total	515	16	40	490	—

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXXI) Government grants

1. General information of government grants

Category	Amounts RMB'000	Presented item	Amount included in profit or loss of the period RMB'000
Special funds for optimizing the business environment and expanding utilization of foreign investment from Lanzhou Municipal Bureau of Commerce	200	Deferred income	8
Grants for resource utilization of livestock and poultry manure from Liangzhou District Agriculture, Husbandry and Rural Bureaus	600	Deferred income	25
Project on Utilization of Fecal Resources from Livestock and Poultry in 2019	500	Deferred income	4
Central Agricultural Production Development in 2019 Dairy Farming Cooperation in 2019	200	Deferred income	2
Interest grants for loans granted to enterprises of civilian trade and goods from 2018 to 2019	4,000	Financial expenses	4,000
Interest grants for loans granted to leading enterprises of agricultural industrialization in 2019	50	Financial expenses	50
Innovation Funds of Enterprises granted by Finance Bureau of Yuzhong County	71	Non-operating income	71
Funds for 2020 Grain-to-feed Project	365	Non-operating income	365
Skill enhancement through work-based training	260	Non-operating income	260
Payment for the second tranche of agricultural transfer in 2020	120	Non-operating income	120
Fund for Central Agricultural Production Development in 2020	370	Non-operating income	370
Fund for promoting ethnic unity and progress	10	Non-operating income	10
Subsidy from Management Committee of Industrial Park as Development Award for the First Quarter of 2020 in Supporting Key Industrial Enterprises	180	Other income	180
Special fund for provincial development of agricultural production in 2019	500	Other income	500
Subsidy from Management Committee of Industrial Park as Development Award for the Second Quarter of 2020 in Supporting Key Industrial Enterprises	190	Other income	190
Subsidy for the Third Quarter of 2020 in Supporting Key Industrial Enterprises	100	Other income	100
2020 Modern Silk Road Dry Agriculture and Modern Animal Husbandry Development Project Fund	1,000	Other income	1,000
Grants for employment stabilization granted by Provincial Department of Human Resources and Social Security in 2020	233	Other income	233
Others	240	Other income	240
Total	9,189	—	7,728

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXXI) Government grants (Continued)

2. Conditions on the refund of government grants

Nil

(XXXII) Deferred income

1. Deferred income listed by category

Item	Balance at the beginning of the period RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	Balance at the end of the period RMB'000	Reasons for formation
Government grants	39,518	1,500	3,959	37,059	Government grants
Total	39,518	1,500	3,959	37,059	—

2. Conditions of projects of government grants

Item	Balance at the beginning of the period RMB'000	Increase of grants for the period RMB'000	Amount included in gain or loss for the period RMB'000	Other changes RMB'000	Balance at the end of the period RMB'000	Related to assets/ revenue
Dairy farming project	21,932	200	2,187		19,945	Related to assets
Dairy product production project	5,205		507		4,698	Related to assets
Biogas engineering project	4,127		377		3,750	Related to assets
Others	8,254	1,300	888		8,666	Related to assets
Total	39,518	1,500	3,959		37,059	—

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

(V) IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (XXXIII) Share capital

Item	Balance at the beginning of the period		Increase and decrease for this time (+, -)					Balance at the end of the period	
	Amount RMB'000	Percentage (%)	Issuing new shares RMB'000	Grant of shares RMB'000	Conversion of reserve funds into		Subtotal RMB'000	Amount RMB'000	Percentage (%)
					Others RMB'000	Others RMB'000			
I. Shares subject to lock-up	81,433	42.71	43,000			(53,944)	(10,944)	70,489	30.16
Including: domestic corporate shares	45,895	24.07	37,932			(45,895)	(7,963)	37,932	16.23
Domestic natural person shares	35,538	18.64	5,068			(8,049)	(2,981)	32,557	13.93
II. Shares not subject to lock-up	109,248	57.29				53,944	53,944	163,192	69.84
1. RMB ordinary shares	74,118	38.87				53,944	53,944	128,062	54.81
2. Overseas listing foreign shares	35,130	18.42						35,130	15.03
III. Total number of shares	190,681	100.00	43,000				43,000	233,681	100.00

According to the approval form Reply on Approval of Non-public Issuance of Shares by Lanzhou Zhuangyuan Pasture Co., Ltd.* (Zheng Jian Xu Ke [2020] No. 1864) issued by China Securities Regulatory Commission, the Company issued 43 million RMB ordinary shares (par value of RMB1 per share) to 4 investors, namely Gansu Agricultural Reclamation Assets Management Co., Ltd., Xie Kai, Gao Aiping and Su Guimin by the end of 2020. The total amount of raised funds was RMB 377,540,000.00, deducting related expenses of RMB8,661,213.21, the actual available raised funds were RMB368,878,786.79, of which RMB43,000,000.00 was included in the share capital of the Company and RMB325,878,786.79 was included in the capital reserve.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXXIV) Capital reserve

Item	Balance at the beginning of the period RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	Balance at the end of the period RMB'000
I. Capital premium	528,701	325,879		854,580
Including: capital reserve of restricted share scheme	19,910			19,910
II. Other capital reserve	2,418		2,418	
Including: equity incentive cost amortization	2,418		2,418	
Total	531,119	325,879	2,418	854,580

For the details of the increase in capital reserve for the period, please refer to Note(XXXIII)“Share capital”;

For the details of the decrease in other capital reserve, please refer to Note XI “Share-based payment”.

(XXXV) Treasury share

Item	Balance at the beginning of the period RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	Balance at the end of the period RMB'000	Reasons for the change
Restricted share scheme	23,251			23,251	
Total	23,251			23,251	

For the Company’s obligation to repurchase the restricted shares, the treasury share and other payable recognized at the agreed repurchase price were RMB23,251,000 respectively.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXXVI) Surplus reserve

Category	Balance at the beginning of the period RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	Balance at the end of the period RMB'000
Statutory surplus reserve	43,387			43,387
Total	43,387			43,387

Note: In accordance with the Company Law and the Articles of Association, the Company withdrew 10% of its net profit as the statutory surplus reserve. Where the accumulative amount of statutory surplus reserve reaches more than 50% of the Company's registered capital, no profit shall be withdrawn.

(XXXVII) Retained earnings

Item	Amount RMB'000	Balance at the end of the period Proportion of withdrawal or allocation
Retained earnings at the end of the previous period prior to the adjustments	483,471	
Total amount of retained earnings at the beginning of the period of adjustment ("+" for increase, "-" for decrease)		
Retained earnings at the beginning of the period after the adjustment	483,471	
Add: net profit attributable to the owners of the parent company during the period	10,453	
Less: withdrawal of statutory surplus reserve		
Withdrawal of discretionary surplus reserve		
Ordinary share dividends payable	10,487	
Ordinary share dividends changed into share capital		
Other decreases		
Retained earnings at the end of the period	483,437	

Note: On 23 April 2020, the Company passed the resolutions at board meeting that on the basis of the total share capital of 190,680,600 shares as of 31 December 2019, cash dividend of RMB0.55 (including tax) for every 10 shares are paid to all shareholders with the distributable profit realized in 2019, being cash distribution of RMB10,487,000 in total.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XXXVIII) Operating income and costs

Item	Incurred during this period		Incurred in previous period	
	Income RMB'000	Costs RMB'000	Income RMB'000	Costs RMB'000
I. Subtotal of principal business	722,152	525,938	792,315	547,090
II. Subtotal of other business	17,669	7,005	21,240	12,566
Total	739,821	532,944	813,554	559,656

(XXXIX) Taxes and surcharges

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Environmental protection tax	2,199	1,320
Urban maintenance and construction tax	1,109	1,088
Land use tax	655	571
Charges for water resources	35	135
Education surcharges	549	518
Stamp tax	727	796
Local education surcharges	366	346
Property tax	2,078	1,371
Water conservancy construction funds	25	123
Total	7,745	6,267

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XL) Selling expenses

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Staff cost	25,314	19,160
Freight and miscellaneous charges	20,446	23,358
Low cost and short-lived consumable items	10,627	11,875
Promotional fees	6,893	12,734
Depreciation and amortization	2,635	2,843
Travel expenses	2,207	2,646
Rents and property management fees	1,458	2,324
Others	3,541	6,645
Total	73,121	81,584



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XLI) Administrative expenses

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Staff cost	20,652	24,575
Depreciation and amortization	9,678	9,267
Maintenance fees	13,923	11,162
Professional service fees	4,410	5,885
Environmental protection and discharge fees	3,297	3,941
Administrative expenses	4,925	4,683
Property insurance expenses	1,353	1,477
Water, electricity and heat expenses	1,927	2,459
Test fees	1,286	1,375
Equity incentive expenses	(2,418)	2,418
Audit fees	1,811	1,792
Business entertainment expenses	864	732
Travel expenses	1,594	2,019
Freight and miscellaneous charges	746	1,258
Others	4,766	4,347
Total	68,815	77,390

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XLII) Research and development expenses

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Research and development of new products	9,103	9,462
Total	9,103	9,462

(XLIII) Financial expenses

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Interest expenses from loans and payables	29,620	30,738
Including: interest expenses	33,670	32,738
Interest subsidies for policy-related preferential loans	(4,050)	(2,000)
Less: borrowing costs capitalized	2,070	9,742
Net exchange losses/(gains)	5,470	2,553
Net exchange losses/(gains)	(8)	57
Others	1,820	3,702
Total	23,891	22,201



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XLIV) Other income

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000	Related to assets/revenue
Amortization of deferred income	3,959	4,210	Related to assets
Government grants received			
during the year	2,443	3,162	Related to revenue
Others	101		Related to revenue
Total	6,503	7,372	—

Note: See Note V.(XXXI) for details of government grants.

(XLV) Investment income

Type	Incurred during this period RMB'000	Incurred in previous period RMB'000
Gains from derecognition of financial assets at amortized cost	(12,925)	(8,823)
Total	(12,925)	(8,823)

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XLVI) Gains from changes in fair value

Source of gains from changes in fair value	Incurred during this period RMB'000	Incurred in previous period RMB'000
1. Bearer biological assets	74,263	26,840
Including: loss from changes in fair value less costs to sell of bearer biological assets	59,148	10,721
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	15,115	16,119
2. Trading financial assets	0	20,412
Including: Profits and losses of changes in fair value arising from contingent consideration	0	20,412
Total	74,263	47,252

The Company's bearer biological assets are the cows. On the balance sheet date, the Company hired certain qualified and professional assets valuer to determine the fair value of these cows. Any change over each period is included in the profit or loss of the current period.

The agricultural products received by the Company from the bearer biological assets are the raw milk. At the time of harvest, the fair value of such agricultural products less the selling expenses (subject to the quotation in the local market) is recognized as the initial costs of the inventory. Any profit or loss (that is, the fair value of agricultural products at the time of harvest less the selling expenses and farming costs) generated from the recognition based on such fair value on the date of harvest shall be recognized in the income statement. Thereafter, during the sales, the inventory amount initially recognized based on such fair value is transferred to selling costs.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XLVII) Credit impairment loss

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Credit impairment loss of accounts receivable ("—" for loss)	(449)	(65)
Credit impairment loss of other receivables ("—" for loss)	(1,064)	(927)
Total	(1,513)	(992)

(XLVIII) Asset impairment loss

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Loss on inventories depreciation ("—" for loss)		
Impairment loss of fixed assets ("—" for loss)	(65,867)	(9,239)
Impairment loss of goodwill ("—" for loss)	(9,971)	(48,719)
Total	(75,838)	(57,958)

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(XLIX) Gains from disposal of assets

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Gains from disposal of fixed assets ("—" for loss)	313	2
Total	313	2

(L) Non-operating income

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000	Amounts included in the non-recurring profit or loss of the current period RMB'000
Government grants irrelevant to the daily activities	1,195	512	1,195
Gains on destruction and scrapping of non-current assets		4	
Performance compensation	7,325	22,333	7,325
Others	485	1,979	485
Total	9,006	24,828	9,006

Note 1: See Note V. (XXXI) for details of government grants.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(L) Non-operating income (Continued)

Note 2: Details of income of performance compensation are as follow:

On 31 October 2018, the Company acquired 82% equity of Dongfang Dairy Company and made it become a wholly-owned subsidiary of the Company. The original shareholders undertook to the Company that the net profit in 2018, 2019 and 2020 (the net profit attributable to the owners of the parent company after deducting non-recurring gain or loss shall prevail) would be no less than RMB18,000,000, RMB22,000,000 and RMB250,000,000. During the undertaking period, the performance promissory shall compensate the Company in the form of cash if the accumulative net profit of Dongfang Dairy Company as of the end of the current period is less than the accumulative undertaken net profit as of the end of the current period.

In 2018, Dongfang Dairy Company realized a net profit after deducting non-recurring profit or loss of RMB18,456,415.57; in 2019, Dongfang Dairy Company failed to fulfill the performance undertaking and realized a net profit after deducting non-recurring profit or loss of RMB12,518,529.08; the Company forecasted that Xi'an Dongfang would be still unable to fulfill the performance undertaking in 2020 and it was expected to realize a net profit of RMB13,790,928.19.

During the current period, the Company confirmed that the performance compensation income for 2019 due from the original shareholders of Dongfang Dairy Company of RMB22,333,249.24 was included in the non-operating income of the current period in accordance with the performance compensation agreement at the time of acquisition. The Company also recognized closing trading financial assets and the gains and losses from changes in fair value totaling RMB20,412,321.24 by forecasting of the results for 2020. The company received performance compensation of RMB22,333,249.24 in May 2020.

According to the net profit achieved by Dongfang Dairy Company in 2020, the Company confirmed the performance compensation income for 2020 due from the original shareholders of Dongfang Dairy Company of RMB27,737,779.41, of which RMB20,412,321.24 were included in the gains and losses from changes in fair value for the 2019, and accordingly confirmed non-operating income-performance compensation of RMB7,325,458.17 in 2020. As of 31 December, 2020, after deducting the earnest money, the Company shall receive RMB 14,106,479.42 from the original shareholders of Dongfang Dairy Company.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(LI) Non-operating expenses

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000	Amounts included in the non-recurring profit or loss of the current period RMB'000
External donations	56	155	56
Loss on destruction and scrapping of non-current assets	11,446	2,861	11,446
Fines expenses	100	149	100
Other expenses	48	528	48
Total	11,650	3,693	11,650

(LII) Income tax expenses

1. Breakdown of income tax expense

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Income tax expenses for the current period calculated in accordance with tax laws and relevant regulations	1,160	10,135
Deferred income tax expenses	747	3,523
Total	1,907	13,658



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(LII) Income tax expenses (Continued)

2. Reconciliation of accounting profit and income tax expenses

Item	Amount RMB'000
Total amount of profit	12,361
Income tax expenses calculated based on statutory/applicable tax rate	1,854
Effect of application of different tax rates on subsidiaries	(1,121)
Effect of adjustment of income tax for the prior period	
Effect of non-taxable income	(283)
Effect of non-deductible costs, expenses and losses	59
Effect of using deductible temporary difference or deductible losses on unrecognized deferred income tax assets for the prior period	
Effect of deductible temporary difference or deductible losses of unrecognized deferred income tax assets at the end of the period	1,398
Income tax expenses	1,907

(LIII) Cash flow statement

1. Cash received or paid from/for other operating activities

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Cash received from other operating activities	43,869	41,347
Including: Earnest money	7,049	4,518
Accounts payable received from		
E-commerce platform	6,371	16,581
Government grants	9,181	9,239
Others	21,269	11,008
Cash paid for other operating activities	94,000	89,465
Including: Office travelling expenses	4,794	7,695
Maintenance fees	13,932	13,524
Freight and miscellaneous charges	20,446	23,305
Professional service fees	6,198	6,791
Promotional fees	5,966	5,419
Others	42,665	32,730

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(LIII) Cash flow statement (Continued)

2. Cash received or paid from/for other investing activities

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Cash received from other investing activities	41,233	2,553
Including: Recovery of performance compensation	22,333	
Recovery of the cost of land acquisition in the previous period	18,900	
Interests income from bank deposits		2,553
Cash paid for other investing activities		
Including: Increase in pledged deposit		

3. Cash received or paid from/for other financing activities

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
Cash received from other financing activities	540,792	266,583
Including: Restricted shares		1,146
Recovery of earnest money	160,792	14,300
Bill discount	380,000	251,137
Cash paid for other financing activities	364,534	176,902
Including: Cash paid relating to leases	4,789	6,620
Guarantee fees paid	1,150	4,775
Bank bill settlement	148,146	
Increase in pledged deposit	210,449	165,507



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(LIV) Supporting information about cash flow statement

1. Supporting information about cash flow statement

Item	Incurred during this period RMB'000	Incurred in previous period RMB'000
1. Adjustment of net profit to cash flow of operating activities		
Net profit	10,453	51,321
Plus: Credit impairment loss	1,513	992
Asset impairment loss	75,838	57,958
Fixed assets and right-of-use assets depreciation	94,419	75,006
Intangible assets amortization	2,798	2,038
Long-term deferred expenses amortization	2,910	3,963
Loss on disposal of fixed assets, intangible assets and other long-term assets ("—" for gains)	(313)	2
Loss on scrapping of fixed assets ("—" for gains)	11,446	2,857
Loss on changes to the fair value ("—" for gains)	(59,148)	(31,133)
Financial expenses ("—" for gains)	27,550	20,996
Loss on investment ("—" for gains)	12,925	8,823
Decrease of deferred income tax assets ("—" for increase)	4,142	793
Increase of deferred income tax liabilities ("—" for decrease)	(3,394)	2,729
Decrease of inventories ("—" for increase)	(18,793)	(5,911)
Decrease of operating items receivable ("—" for increase)	(20,983)	(643)
Increase of operating items payable ("—" for decrease)	285	(49,515)
Others		
Net amount of cash flow generated from operating activities	141,647	140,277
2. Major investing and financing activities irrelevant to cash income and expenses		
Conversion of debts into capital		
Convertible corporate bonds to become due within one year		
Acquisition of fixed assets under finance leases		
3. Net changes to cash and cash equivalents		
Balance of cash at the end of the period	631,565	248,235
Less: balance of cash at the beginning of the period	248,235	388,791
Plus: balance of cash equivalents at the end of the period		
Less: balance of cash equivalents at the beginning of the period		
Net increase of cash and cash equivalents	383,330	(140,556)

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(LIV) Supporting information about cash flow statement (Continued)

2. Cash and cash equivalents

Item	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
I. Cash	631,565	248,235
Including: cash on hand	4	16
Bank deposits immediately available for payment	631,560	248,218
Other cash at bank and on hand as immediately available for payment		
Amount available for payment and deposited in the Central Bank		
Deposit in other financial Institutions		
Loans to other financial Institutions		
II. Cash equivalents		
Including: debenture investment to become due within 3 months		
III. Balance of cash and cash equivalents at the end of the year	631,565	248,235
IV. Use of restricted cash and cash equivalents by the Parent Company or the subsidiaries of the Company		165,507



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

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

(LV) Assets with restricted ownership or use right

Item	Carrying value at the end of the period RMB'000	Reasons for restriction
Cash at bank and on hand	211,164	Bills earnest money
Cash at bank and on hand	4,000	Mortgage loan earnest money
Fixed assets	454,810	Long-term and short-term mortgage loan
Intangible assets	82,152	Long-term mortgage loan
Long-term equity investment – Xi'an Dongfang Dairy Co., Ltd.	35,300	Long-term mortgage loan
Total	787,426	—

VI. CHANGES OF SCOPE OF CONSOLIDATION

(I) Business combination not under the common control occurred during the period

None

(II) Business combination under the common control occurred during the period

None

(III) Disposal of equity in subsidiaries during the period

None

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

VII. INTERESTS IN OTHER ENTITIES

(I) Interests in subsidiaries

1. Composition of group members

Name of Subsidiaries	Place of Incorporation and Type of Legal Entity	Issued and Fully Paid- up Registered Capital (RMB0'000)	Actual Interests Held as at 31 December		Main Business and Place of Business
			2020	2019	
Qinghai Qinghai Lake Dairy Co., Ltd.	Xining City, Qinghai Province, China Limited liability company	3000	100.00%	100.00%	Dairy products production and sales in China
Xi'an Dongfang Dairy Co., Ltd.	Xi'an City, Shaanxi Province, China Limited liability company	3530	100.00%	100.00%	Dairy products production and sales in China
Qinghai Shengyuan Pasture Co., Ltd.	Huangyuan County, Xining City, Qinghai Province, China Limited liability company	3000	100.00%	100.00%	Closed by the government's request to relocate
Qinghai Shengya Plateau Pasture Co., Ltd.	Huangzhong County, Xining City, Qinghai Province, China Limited liability company	3000	100.00%	100.00%	Dairy farming in China
Yuzhong Ruifeng Pasture Co., Ltd.	Yuzhong County, Lanzhou City, Gansu Province, China Limited liability company	2000	100.00%	100.00%	Dairy farming in China
Linxia County Ruiyuan Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu Province, China Limited liability company	3000	100.00%	100.00%	Dairy farming in China
Linxia County Ruian Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu Province, China Limited liability company	2000	100.00%	100.00%	Dairy farming in China
Wuwei Ruida Pasture Co., Ltd.	Wuwei City, Gansu Province, China Limited liability company	2000	100.00%	100.00%	Dairy farming in China
Ningxia Zhuangyuan Pasture Co., Ltd.	Wuzhong City, Hui Autonomous Region, Ningxia, China Limited liability company	2000	100.00%	100.00%	Closed by the government's request to relocate
Lanzhou Ruixing Animal Husbandry Co., Ltd.	Yongdeng County, Lanzhou City, Gansu Province, China Limited liability company	1000	100.00%	100.00%	Dairy farming in China
Gansu Ruijia Animal Husbandry Co., Ltd.	Jinchang City, Gansu Province, China Limited liability company	30000	100.00%	100.00%	Dairy farming in China



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company's financial instruments mainly include borrowings, accounts receivable and accounts payable, for details of these financial instruments please refer to Note V. For risks related to these financial instruments and the risk management policies adopted by the Company for the purpose of mitigating such risks, please see below. The Company's management shall manage and monitor these risk exposures to ensure that the aforesaid risks may be controlled within the restricted scope.

(I) Risk management objectives and policies

The Company implements risk management to keep proper balance between the risks and gains and attempt to reduce the adverse impacts of these financial risks on its financial performance. Based on such risk management objective, the Company has already worked out the risk management policy to identify and analyze its risk, set appropriate acceptable level of risk and design corresponding internal control process to monitor its risk level. The Company will also regularly review these risk management policies and internal control system so as to adapt to the market situations or changes to its business activities. The Company's internal auditing department will also regularly or at any time check whether the implementation of its internal control system is in compliance with the risk management policy.

1. Credit risk

On 31 December 2020, the biggest credit risk exposure resulting in the Company's financial loss mainly results from the failure by the other party to the contract to perform the obligations, thus, the Company suffers from any loss on the financial assets and has to provide the financial guarantee, specifically including the cash at bank and on hand and the accounts receivable.

In order to reduce the credit risk, the Company's management will continuously monitor these credit risk exposures.

The Company's cash at bank and on hand other than the cash is mainly deposited in the banks with higher credit rating, therefore, the management considers that there is no existence of higher credit risk and expects no loss to the Company arising from the default of the other party.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(Continued)*

(I) Risk management objectives and policies *(Continued)*

1. Credit risk *(Continued)*

As for the accounts receivable, the Company's management has already worked out the credit policy based on the actual situations and conduct credit evaluation on the customers to determine the credit limit and period. The credit evaluation depends on the customer's financial status. The accounts receivable will become due 30 days after the statement of accounts is issued or no later than 1 year. The debtor with overdue accounts receivable will be required to first repay any and all of the outstanding balance and then can obtain the further credit limit. Generally, the Company will not request the customer for provision of any mortgaged item. In addition, the Company will review the recovery of each accounts receivable on the date of each balance sheet to ensure the sufficient provision for bad and doubtful debts based on the estimated credit loss on such assets. Therefore, the Company's management considers that its credit risk has already been significantly reduced.

The Company's credit risk is mainly affected by the characteristic of each customer but not the industry or country and region of such customer. Therefore, the significant credit risk mainly results from the significant accounts receivable by the Company from the individual customer. On the balance sheet date, the accounts receivable from the Company's top 5 customers account for 55.42% (50.01% in 2019) of the total amount of accounts receivable by the Company; in addition, those accounts receivable by the Company that have not become overdue or been impaired mainly involve multiple customers without default records in recent times.

As for other receivables, the Company's management will implement management based on the nature of the receivables. With respect to the credit risk in connection with other receivables, the Company has already taken the net amount after loss on impairment into consideration and listed in the balance sheet.

The Company's largest credit risk exposure is the book amount of each financial asset listed in the balance sheet.

The Company has adopted the necessary policy to ensure that all the sale customers keep good credit records.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

2. Liquidity risk

Liquidity risk means while performing the obligations by way of settlement in cash or other financial assets, the enterprise suffers from the risk of lack of funds. The Company and each of its subsidiaries are responsible for their respective cash management work, including the cash surplus short-term investment and loan financing to meet the requirements for projected cash payable (if the amount of loan exceeds the upper limit authorized by certain presupposition, approval should be obtained from the Company's Board of Directors). The Company's policy is to regularly monitor short-term and long-term liquidity requirements and whether it meets the requirements of the loan agreement to ensure that sufficient cash reserves are maintained. Meanwhile, it obtains the commitments from major financial institutions for provision of sufficient reserve funds so as to satisfy the short- and long-term requirements for the current funds.

The following tables set out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at 31 December) and the earliest date the Group can be required to pay:

Item	Contractual undiscounted cash flow at 31 December 2020				Carrying value	
	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years but within 5 years	Over 5 years	Total	on the balance sheet date
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term borrowings	327,694				327,694	322,337
Bills payable	431,160				431,160	431,160
Accounts payable	214,105				214,105	214,105
Other payables	52,990				52,990	52,990
Long-term borrowings	58,827	85,466	169,259	92,977	406,529	311,282
Lease liabilities	6,045	3,654	9,734	48,520	67,953	40,483
Total	1,090,821	89,120	178,993	141,497	1,500,431	1,372,357

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

IX. FAIR VALUE

The following table includes the fair value information of the Company's assets and liabilities sustainably measured by the fair value on each balance sheet date at the end of the period of such report and the level of such measurement. The level of fair value measurement results depends on the input at the lowest level that significantly affects the fair value in general. Three levels of input are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3 inputs are unobservable inputs for the asset or liability.

(I) Fair value of assets and liabilities measured by fair value at the end of the year

Item	Fair value as at 31 December 2020			Total RMB'000
	Fair value measurement	Fair value measurement	Fair value measurement	
	at Level 1	at Level 2	at Level 3	
	RMB'000	RMB'000	RMB'000	
Sustainable fair value measurement			494,691	494,691
Bearer biological assets			494,691	494,691
Trading financial assets				

(Continued)

Item	Fair value as at 31 December 2019			Total RMB'000
	Fair value measurement	Fair value measurement	Fair value measurement	
	at Level 1	at Level 2	at Level 3	
	RMB'000	RMB'000	RMB'000	
Sustainable fair value measurement			380,507	380,507
Bearer biological assets			360,095	360,095
Trading financial assets			20,412	20,412

The carrying value of consumable biological assets on each balance sheet date during the report period is relatively minor, which is approximate to the fair value.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

IX. FAIR VALUE (Continued)

(II) Qualitative and quantitative information over the valuation technology and important parameters adopted by the evaluation on fair value of bearer biological assets

1. Quantitative information over fair value measurement at Level 3:

Category	Methods for valuation	Key unobservable inputs	Relationship between the key unobservable inputs and fair value measurement
Calves and heifers	The fair value of 14-month old heifer is calculated by reference to the market price of the active transaction market.	The average market price of 14-month old domestic heifer this year is RMB20,000 (RMB18,300 in 2019); and the average market price of 14-month old imported heifer is RMB23,000 (RMB21,400 in 2019).	When the market price is increased, it is estimated that the fair value will be increased.
Milkable cows	The fair value of milkable cows is determined according to the multi period-excess-earnings and based on the discounted future cash flow generated by the milkable cows.	<p>As for the quantity of milkable cows, it is assumed that the existing number of milkable cows is decreased at the end of the related period arising from the rejection rate due to natural or unnatural factors (including disease, difficult delivery, low milk production or end of all the gestation periods), it is estimated that the overall rejection rate this year will be 5.0%-100% as increase of the gestation period (5%-100% in 2019).</p> <p>Each milkable cow has 5-6 gestation periods to the maximum extent. It is estimated that in the self-operated pastures of 7 wholly-owned subsidiaries, within each gestation period of this year, each cow will averagely produce 9.12 tons of raw milk (the output of raw milk of the seven self-operated pastures varies, namely Ruixing (8.28- 10.43 tons); Wuwei Ruida (8.57-11.39 tons); Shengya (8.09-9.74 tons); Ruijia (7.47 tons); Ruiyuan (8.36-9.91 tons); Ruifeng (5.96 tons); and Shaanxi Duoxian (9.15-9.55 tons)) (the output of raw milk of the five self-operated pastures was 8.66 tons in 2019), depending on the number of times during the gestation period and the individual health status.</p> <p>It is estimated in this year that the future local market price of each ton of the raw milk is RMB4,305/ton(the price of the seven self-operated pastures varies, namely Ruixing (RMB4,429/ton); Wuwei Ruida (RMB4,202/ton); Shengya (RMB4,294/ton); Ruijia (RMB4,288/ton); Ruiyuan (RMB4,284/ton); Ruifeng (RMB4,223/ton); and Shaanxi Duoxian (RMB4,413/ton)) (RMB4,046/ton in 2019).</p> <p>Calculated as per the capital asset pricing model, the discount rate of this year is 10.75% (12.01% in 2019).</p>	<p>It is estimated that when the rejection rate is increased, the fair value will be decreased.</p> <p>It is estimated that when the production volume of raw milk is increased, the fair value will be increased.</p> <p>It is estimated that when the future local market price of the raw milk is increased, the fair value will be increased.</p> <p>When the discount rate is increased, it is estimated that the fair value will be decreased.</p>

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

X. RELATED PARTIES AND RELATED TRANSACTIONS

(I) Parent company of the Company

The Company has no parent company, and its ultimate controlling party is a natural person, Mr. Ma Hongfu.

(II) Subsidiary of the Company

For details please refer to “Note VII. Interest in the Subsidiaries”.

(III) Other related parties of the Company

Name of other related parties	Relationship between other related parties and the Company
Linxia County Ruihua Pasture Co., Ltd.	Entity under the common control of spouses of family members of the controlling shareholder, Ma Hongfu
Gansu Nongken Tianmu Dairy Company Limited	Jointly controlled by the same party with shareholders holding more than 5% of the Company's shares

(IV) Related transactions

1. Related transactions such as purchase and sales of commodities and provision and acceptance of labor service

The Company purchased 150.90 tons of raw milk from the related party Gansu Nongken Tianmu Dairy Company Limited for a total of RMB754,500.00 during the year.

2. Remuneration of key management personnel

Remuneration of key management personnel	Incurred during this period RMB'000	Incurred in previous period RMB'000
Total	1,852	2,523

3. Other related transactions

None



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XI. SHARE-BASED PAYMENT

(1) Overall Conditions of Share-based Payment

① According to the “Proposal on the 2019 Restricted Share Incentive Scheme (Draft) of Lanzhou Zhuangyuan Pasture Co., Ltd. and its Summary” considered and passed at the first extraordinary general meeting of the Company held on 23 May 2019 and the “Proposal on Adjusting Matters Related to the 2019 Restricted Share Incentive Scheme” and the “Proposal on the First Grant of Restricted Stock to Incentive Targets” considered and passed at the 21th meeting of the third session of the Board of the Company held on 21 June 2019, the number of restricted shares granted under the adjusted 2019 Restricted Share Incentive Scheme was 3,940,600 shares, including 3,340,600 shares in the first grant and 600,000 shares reserved, the total number of the incentive targets in the first grant was 84 individuals, and the price of grant was RMB6.96 per share. The targets of the incentive scheme included the Directors, senior management, middle-level management and core technicians (sales staff) of the Company. Source of shares: RMB common A-shares of Lanzhou Zhuangyuan Pasture Co., Ltd. issued to the incentive targets of the Company; date of grant: 21 June 2019; price of the grant: RMB6.96 per share; number of the grant: 3,340,600 shares; number of grantees: 84 individuals.

② Lock-up Arrangement

The unlocking arrangement under the first grant of the restricted shares is set out in the table below:

Unlocking arrangement	Unlocking time	Unlocking proportion
First unlocking period	Commencing on the first trading day after expiry of the 18-month period from the record date and ending on the last trading day of the 30-month period from the record date	30%
Second unlocking period	Commencing on the first trading day after expiry of the 30-month period from the record date and ending on the last trading day of the 42-month period from the record date	30%
Third unlocking period	Commencing on the first trading day after expiry of the 42-month period from the record date and ending on the last trading day of the 54-month period from the record date	40%

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions

During the unlocking period, the restricted shares granted to the incentive targets if the following conditions of grant are satisfied:

A. *There is no occurrence of any of the following events on the part of the Company*

- ① issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
- ② issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
- ③ failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
- ④ prohibition from implementation of a share incentive scheme by laws and regulations;
- ⑤ any other circumstances as determined by the CSRC.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

B. There is no occurrence of any of the following events on the part of the Incentive Participants:

- ① being subject to any identification as an ineligible personnel by a stock exchange in the last 12 months;
- ② being subject to any identification as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;
- ③ imposition of administrative penalties or measures prohibiting the Incentive Participants from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;
- ④ circumstances under which the Incentive Participant is prohibited from acting as a director and a member of the senior management of the Company pursuant to the Company Law;
- ⑤ circumstances under which the Incentive Participants are not allowed by the laws and regulations to participate in share incentive schemes of a listed company;
- ⑥ any other circumstances as determined by the CSRC.

In case the Company has any of the circumstances specified in the above sub-paragraph (1) during the implementation of the Incentive Scheme, all the restricted shares that have been granted to the Incentive Participants under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company and the repurchase price shall be the sum of the grant price and the interests on the bank deposits of the same term; in case any Incentive Participant has any of the circumstances specified in the above sub-paragraph (2), the Company will terminate its right to participate in the Incentive Scheme, and the restricted shares that have been granted to the Incentive Participant under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company and the repurchase price shall be the grant price.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

C. Performance appraisal targets at the Company level

The Incentive Scheme is subject to evaluation once an accounting year. The performance appraisal targets of the First Grant are as follows: Unlocking period

First unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2019 shall not be lower than 10%
Second unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2020 shall not be lower than 20%
Third unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2021 shall not be lower than 30%

In the event the Company fails to meet the performance appraisal targets above, all restricted shares which can be unlocked by the Incentive Participants in the respective assessment year shall not be unlocked and shall be repurchased and cancelled by the Company at the grant price plus the interest rate of bank deposits of the same term.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

D. Performance appraisal requirements at the Incentive Participant level

Incentive Participants can only unlock restricted shares if the Company achieved the abovementioned performance appraisal targets and individuals' post performance appraisal standards in the previous year. The specific unlocking ratio shall be determined based on the individual performance appraisal results of the Incentive Participants.

The individual performance appraisal of the Incentive Participants shall be conducted annually in accordance with the Assessment Management Measures for Implementation of the 2019 Incentive Scheme for Restricted Shares of Lanzhou Zhuangyuan Pasture Co., Ltd. (《蘭州莊園牧場股份有限公司2019年限制性股票激勵計劃實施考核管理辦法》). The assessment results shall be determined in accordance with individuals' performance appraisal and evaluation indicators. In principle, the performance evaluation results are classified into four grades, i.e. excellent (A), good (B), general (C), and poor (D), of which, A/B/C are qualified and D is unqualified. The appraisal and evaluation form is applicable to the assessment objects.

Appraisal results	Qualified			Unqualified
Standard grade	Excellent (A)	Good (B)	General (C)	Poor (D)
Standard coefficient	1.0	1.0	0.8	0

Individuals' actual unlock limit for the current year = standard coefficient × limit planned to be unlocked by individuals in the current year. The restricted shares which cannot be unlocked by the Incentive Participants in the year of appraisal shall be repurchased and cancelled by the Company.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XI. SHARE-BASED PAYMENT *(Continued)*

(2) Equity-settled share-based payment

Basis of the determination of the number of equity instruments expected to vest: At each balance sheet date during the vesting period, the Group makes the best estimation according to the latest information of the number of employees who are granted to vest and revises the number of equity instruments expected to vest. On vesting date, the estimate shall be equal to the number of equity instruments that ultimately vested.

Method to determine the fair value of equity instruments at the date of grant: the Company selected the closing price on the date of granting the restrictive Shares (RMB13.14 per Share) to determine the fair value of the restrictive Shares, and the total fair value of the equity instruments at the date of grant was RMB20,644,908.00, details of which are set out in the table below:

Item	Phase I	Phase II	Phase III	Total
Fair value per restrictive shares (RMB)	6.18	6.18	6.18	
Unlocked shares (RMB'000)	1,002	1,002	1,336	3,341
Total cost of restrictive shares for the current period (RMB'000)	6,193	6,193	8,258	20,645



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XI. SHARE-BASED PAYMENT (Continued)

(3) Cost of equity-settled share-based payment actually recognized during the year

- A. In 2020, the Company failed to complete the performance appraisal targets of the second batch restricted shares, did not recognize the share-based payment cost and reversed the second batch share-based payment cost recognized in 2019.
- B. The Company predicts that it will not be able to complete the third batch shares appraisal targets in 2021, and did not recognize the third batch share-based payment cost and reversed the third batch share payment cost recognized in 2019.

The actual share-based payment cost recognized during the year was RMB(2,418,000).

The amortization of restricted shares costs recognized in 2019 to 2022 by the Company based on the forecast that the third batch equity incentives cannot meet the performance conditions, is set out in the table below:

Item	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	Total RMB'000
Costs of the restrictive shares	2,418	(2,418)			

As of 31 December 2020, the Company expected the number of equity instruments would be 0 shares in the future and the accumulated amount of the equity-settled share-based payment included in the capital reserve for the current period was RMB0.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XII. COMMITMENTS AND CONTINGENT MATTERS

(I) Commitments Matters

(1) Capital Commitments

Item	Closing balance RMB'000	Opening balance RMB'000
Capital commitments contracted but not recognized in the financial statement	12,479	25,874
— Commitment to the construction of long-term assets	12,479	25,874
Total	12,479	25,874

(II) Contingency

None

XIII. EVENTS AFTER THE BALANCE SHEET DATE

1. On 22 January 2021, Mr. Ma Hongfu, the de facto controller of the Company, Mr. Hu Kaisheng, the shareholder of the Company, and Gansu Nongken Group Limited Liability Company signed the “The Agreement among Ma Hongfu, Hu Kaisheng and Gansu Nongken Group Limited Liability Company Regarding the Share Transfer of Lanzhou Zhuangyuan Investment Co., Ltd.”, such transaction involves the change of the Company’s controlling shareholder and de facto controller. Such share transfer is still subject to the passing the review of concentration of operators by the State Administration for Market Regulation, and obtaining the approval by Gansu SASAC on the share transfer.
2. On 15 January 2021, the Company held the 46th meeting of the third session of the Board of Directors and the 31st meeting of the third session of the Board of Supervisors to consider and approve the Proposal on the Repurchase and Cancellation of All Restricted Shares in the First Release of Locked Period under the 2019 Restricted Shares Incentive Scheme, Such repurchase and cancellation of some restricted shares by the Company will reduce the registered capital from RMB233,680,600 to RMB232,381,032.
3. On 29 March 2021, the Company considered and approved the “Proposal on the Company’s 2020 Profit Distribution” at the 51st meeting of the third session of the Board of Directors, pursuant to which it is proposed to distribute a cash dividend of RMB0.2 (tax inclusive, the actual distribution amount may vary slightly due to rounding) for every 10 shares, the total proposed cash dividend will be RMB4,673,612.00. Such matters is still subject to be considered at the general meeting.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XIV. OTHER IMPORTANT MATTERS

(I) Segment reporting

Considering the framework of internal organization, management requirements and internal reporting system, the Company has determined two reportable segments, which are dairy farming and dairy products production. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they acquire different technology and market strategies. The financial information of the different segments is regularly reviewed by the Company's management to determine the allocation of resources and assess the performance.

Name of segment	Principal activities of segments
Dairy farming	Breeding dairy cows to produce and sell raw milk
Dairy products production	Production and sales of Pasteurized Milk, UHT Milk, Modified Milk, Yogurt and Other Dairy Products

1. Profit or loss, assets and liabilities of reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the Company's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other long-term assets and current assets, such as receivable, with the exception of deferred tax assets and other unallocated corporate assets (if any). Segment liabilities include current and non-current liabilities, such as payables, bank borrowings, attributable to the individual segments, but exclude deferred tax liabilities (if any).

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XIV. OTHER IMPORTANT MATTERS (Continued)

(I) Segment reporting (Continued)

Financial performance is operating income (including operating income from external customers and inter-segment operating income) after deducting operating costs, taxes and surcharges, selling and distribution expenses, general and administrative expenses, financial expenses and non-operating income and expenses attributable to the individual segments but exclude unallocated corporate expenses (if any). Transfer pricing of income among reportable segments is in accordance with the similar terms of transaction with external parties.

Information regarding the Company's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the Company's management or is otherwise regularly provided to the Company's management, even if not included in the measurement of segment profit or loss and segment assets and liabilities:

Item	Dairy Products Production							
	Dairy farming Segment		Segment		Elimination among Segments		Total	
	Incurred		Incurred		Incurred		Incurred	
	In the year	in previous year	In the year	in previous year	In the year	in previous year	In the year	in previous year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating income from external customers	70,800	40,936	669,021	772,619			739,821	813,554
Inter-segment operating income	213,957	216,971			(213,957)	(216,971)		
Depreciation and amortization	35,802	24,501	61,415	52,542			97,217	77,043
Interests income	253	187	5,218	2,366			5,470	2,553
Interests expense	4,345	3,158	23,205	17,838			27,550	20,996
Total amount of profit/(losses)	(66,792)	(10,452)	79,152	75,430			12,361	64,979
Income tax expense			1,907	13,657			1,907	13,657
Net profit/(losses)	(66,792)	(10,452)	77,245	61,773			10,453	51,321
Total assets	1,520,434	970,763	2,203,694	2,189,997	(643,571)	(668,033)	3,080,558	2,492,727
Total liabilities	893,338	775,821	1,238,957	1,159,532	(643,571)	(668,033)	1,488,724	1,267,320
Additions on non-current assets	154,282	57,489	2,191	334,649			156,473	392,138



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XIV. OTHER IMPORTANT MATTERS (Continued)

(I) Segment reporting (Continued)

2. Geographic information

As the Company's revenue is derived from customers located in the Mainland of China and non-current assets are mainly taken from and wholly located in Mainland China and all the branches are managed on a national basis due to their similar customer classifications or classification and similar regulatory environment in all regions, no information has been provided to the management of the Group by geographical area in mainland China.

3. Major customers

In 2020 and 2019, there is no case in which revenue to a single customer exceeds 10% of the total revenue of the Company.

(II) Remuneration of directors, supervisors and employees

1. Remuneration of directors and supervisors

	Fees RMB	Salaries, allowances and benefits in kind RMB	Pension scheme contributions RMB	Total remuneration RMB	Total remuneration RMB
2020					
Executive Directors					
Mr. Ma Hongfu		98,100.00	212,400.00	10,517.76	321,017.76
Mr. Wang Guofu		90,240.00	269,760.00	10,517.76	370,517.76
Mr. Chen Yuhai*		50,040.00	69,960.00	7,888.32	127,888.32
Ms. Zhang Qianyu		69,140.00	114,960.00	10,517.76	194,617.76
Independent Non-Executive Directors					
Ms. Liu Zhijun	30,000.00				30,000.00
Mr. Zhao Xinmin	30,000.00				30,000.00
Mr. Wong Cho Hang Stanley	102,000.00				102,000.00
Supervisors:					
Mr. Wei Lin	30,000.00				30,000.00
Mr. Sun Chuang					0.00
Ms. Du Wei		78,300.00	63,746.29	10,517.76	152,564.05
Total					1,358,605.65

* Mr. Chen Yuhai resigned as executive Director on 6 March 2020.

** Mr. Song Xiaopeng resigned as non-executive Director on 22 December 2020.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XIV. OTHER IMPORTANT MATTERS (Continued)

(II) Remuneration of directors, supervisors and employees (Continued)

1. Remuneration of directors and supervisors (Continued)

Category of personnel	Directors and Supervisors Fees RMB	Wages, housing subsidies, other subsidies and physical benefits RMB	Discretionary bonus RMB	Retirement scheme contributions RMB	Total RMB
2019					
Executive directors					
Mr. Ma Hongfu		147,600.00	201,882.24	10,517.76	360,000.00
Mr. Wang Guofu		89,570.00	259,962.24	10,517.76	360,050.00
Mr. Chen Yuhai		100,130.00	261,402.24	10,517.76	372,050.00
Ms. Zhang Qianyu		68,227.00	105,162.24	10,517.76	183,907.00
Independent non-executive directors					
Ms. Liu Zhijun	30,000.00				30,000.00
Mr. Zhao Xinming	30,000.00				30,000.00
Mr. Wong Cho Hang Stanley	105,381.10				105,381.10
Supervisors					
Mr. Wei Lin	30,000.00				30,000.00
Mr. Sun Chuang					
Ms. Du Wei		78,685.55	62,741.69	10,517.76	151,945.00
Total	195,381.10	484,212.55	891,150.65	52,588.80	1,623,333.10

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



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XIV. OTHER IMPORTANT MATTERS (Continued)

(II) Remuneration of directors, supervisors and employees

2. Five Highest Paid Individuals

The five highest paid individuals of the Company during the year are shown as follows:

No.	Name	Incurring during this period RMB'000
1	Feng Jun	494
2	Wang Guofu	371
3	Ma Hongfu	321
4	Zhang Qianyu	195
5	Du Wei	153

The five highest paid employees during the year included three directors (2019: three), details of whose remuneration are set out above. Details of the remuneration for the year of the one (2019: one) highest paid employee who are neither a director nor chief executive of the Company are as follows:

	2020 RMB	2019 RMB
Salaries, allowances and benefits in kind	483,528.75	354,767.35
Pension scheme contributions	10,517.76	10,517.76
	494,046.51	365,285.11

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

	2020	2019
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	—	—
	1	1

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XIV. OTHER IMPORTANT MATTERS (Continued)

(III) Legal proceedings

1. On 13 February 2018, according to the Notice on the Closing and Relocation of Livestock Farms in the Livestock and Poultry Prohibited Area (《關於畜禽禁養區內養殖場關閉搬遷的通告》) issued by the People's Government of Litong District of Wuzhong City, Ningxia Zhuangyuan Pasture Co., Ltd. a wholly-owned subsidiary of the Company, was listed as the livestock farms planned to be closed and relocated, and the Company responded positively to the government's work arrangement and carried out the closure work. The Company has been actively negotiating compensation matters with the Litong District People's Government, but has not yet signed a compensation agreement with the People's Government of Litong District till the date of this announcement. The Company filed a lawsuit with the Intermediate People's Court of Wuzhong City and requested the People's Court to order the People's Government of Litong District of Wuzhong City to fulfill statutory obligations in accordance with the requirements of the Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》) and make compensation for the loss caused by the closure and relocation of the Company's farms. Ningxia Zhuangyuan recently received the Administrative Judgment ((2020) Ning 03 Xingchu No. 6) served by the People's Court of Wuzhong City of Ningxia Hui Autonomous Region. The main content of the Judgment is that "the People's Government of Litong District of Wuzhong City as defendant shall compensate Ningxia Zhuangyuan Pasture as plaintiff for the closure and relocation within 60 days from the date on which this Judgment takes effect". As of the date of this report, compensation for demolition and relocation is still in the process of negotiation and communication.



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XIV. OTHER IMPORTANT MATTERS (Continued)

(III) Legal proceedings (Continued)

2. On 25 July 2017, according to the notice on the Plan for Delineation of the Prohibited Area and Restricted Area of Livestock and Poultry in Xining City (Trial) (Ningzhengban 2017 No. 143) (《西寧市畜禽養殖禁養區限養區劃定方案(試行)》) issued by the General Office of the People's Government of Xining City, Qinghai Shengyuan Plateau Pasture Co., Ltd. a subsidiary of the Company, was included in the scope of the prohibited area. The Company respected environmental protection work arrangements, stopped the operations of farm and responded actively to close the relevant farm. The Company has requested the People's Government of Huangyuan County of Xining City to compensate for the relocation losses but has not yet received any response. To this end, the Company submitted an administrative complaint to the Intermediate People's Court of Xining City in Qinghai Province in accordance with the requirements of the Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》), requesting the People's Government of Huangyuan County of Xining City to make compensation. On 31 August 2020, Qinghai Shengyuan received the Administrative Judgment ((2020) Qing 01 Xingchu No. 16) served by the Intermediate People's Court of Xining City of Qinghai Province. The main content of the Judgment is that "the People's Government of Huangyuan County of Xining City as defendant shall compensate Qinghai Shengyuan Pasture Co., Ltd. as plaintiff for the closure and relocation within 60 days from the date on which this Judgment takes effect". As of the date of this report, compensation for demolition and relocation is still in the process of negotiation and communication.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Accounts receivable

1. Category of accounts receivable

Category	Closing balance			
	Balance of carrying value		Provision for bad and doubtful debts	
	Percentage		Percentage	
	Amount	(%)	Amount	(%)
	RMB'000		RMB'000	
Accounts receivable with provision for bad and doubtful debts on an individual basis				
Accounts receivable with provision for bad and doubtful debts on a group basis	15,184	100.00	87	0.57
Of which: aging portfolio	15,184	100.00	87	0.57
Total	15,184	100.00	87	0.57

(continued)

Item	Opening balance			
	Balance of carrying value		Provision for bad and doubtful debts	
	Percentage		Percentage	
	Amount	(%)	Amount	(%)
	RMB'000		RMB'000	
Accounts receivable with provision for bad and doubtful debts on an individual basis				
Accounts receivable with provision for bad and doubtful debts on a group basis	13,054	100.00	52	0.40
Of which: aging portfolio	13,054	100.00	52	0.40
Total	13,054	100.00	52	0.40

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

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

Aging	Closing balance			Opening balance		
	Balance of carrying value	Expected credit loss rate (%)	Provision for bad and doubtful debts	Balance of carrying value	Expected credit loss rate (%)	Provision for bad and doubtful debts
	RMB'000		RMB'000	RMB'000		RMB'000
Within 1 year	15,174		85	12,950		
Of which: 0-6 months	13,470			12,950		
7-12 months	1,703	5.00	85			
Over 1 year but within 2 years	10	20.00	2			
Over 2 years but within 3 years		50.00		104	50.00	52
Over 3 years		100.00				
Total	15,184	—	87	13,054	—	52

2. Provision for bad and doubtful debts made, recovered or reversed in the current period

The amount of provision for bad and doubtful debts made in the current period was RMB35,000.

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Accounts receivable (Continued)

3. Accounts receivable with top five closing balance by debtor

Name of entity	Closing balance RMB'000	Percentage of total accounts receivable (%)	Balance of provision for bad and doubtful debts RMB'000
Entity 1	3,231	21.28	63
Entity 2	2,160	14.22	6
Entity 3	1,136	7.48	
Entity 4	976	6.43	
Entity 5	641	4.22	
Total	8,144	53.63	69

(II) Other receivables

Category	Closing balance RMB'000	Opening balance RMB'000
Other receivables	495,553	593,626
Less: provision for bad and doubtful debts	527	483
Total	495,026	593,143



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(1) Category of other receivables by nature

Nature of accounts	Closing balance RMB'000	Opening balance RMB'000
Amounts due from disposal of cows		648
Deposit and earnest money	244	2,066
Reserve funds for employees	1,641	878
Current accounts from related parties	477,653	580,282
Performance compensation	14,106	8,702
Current accounts and others	1,909	1,050
Subtotal	495,553	593,626
Less: provision for bad and doubtful debts	527	483
Total	495,026	593,143

(2) Aging analysis of other receivables

Aging	Closing balance		Opening balance	
	Balance of carrying value RMB'000	Percentage (%)	Balance of carrying value RMB'000	Percentage (%)
Within 1 year	494,952	99.88	593,025	99.90
Over 1 year but within 2 years			148	0.02
Over 2 years but within 3 years	148	0.03		
Over 3 years	453	0.09	453	0.08
Total	495,553	100.00	593,626	100.00

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(3) Provision for bad and doubtful debts

	Stage 1 Expected credit losses over the next 12 months RMB'000	Stage 2 Lifetime ECL (no credit impairment occurred) RMB'000	Stage 3 Lifetime ECL (credit impairment occurred) RMB'000	Total RMB'000
Opening balance of 2019		30	453	483
Opening balance of 2019 reassessed in the current period		30	453	483
Provided in the current period		44		44
Reversed in the current period				
Written-off in the current period				
Other changes				
Closing balance		74	453	527



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(4) Other receivables with top five closing balance by debtor

Name of debtor	Nature of accounts	Closing balance RMB'000	Aging	Percentage of the total closing balance of other receivables (%)	Balance of provision for bad and doubtful debts RMB'000
Linxia Ruiyuan Pasture Co., Ltd.	Current accounts	133,034	within one year	26.85	
Qinghai Shengya Plateau Pasture Co., Ltd.	Current accounts	94,702	within one year	19.11	
Wuwei Ruida Pasture Co., Ltd.	Current accounts	71,893	within one year	14.51	
Yuzhong Ruifeng Pasture Co., Ltd.	Current accounts	53,651	within one year	10.83	
Lanzhou Ruixing Pasture Co., Ltd.	Current accounts	41,820	within one year	8.44	
Total	—	395,100	—	79.74	

(III) Long-term equity investment

Item	Closing balance			Opening balance		
	Balance of carrying value RMB'000	Provision for impairment RMB'000	Carrying value RMB'000	Balance of carrying value RMB'000	Provision for impairment RMB'000	Carrying value RMB'000
Investment in subsidiaries	1,032,734	30,000	1,002,734	533,789		533,789
Total	1,032,734	30,000	1,002,734	533,789		533,789

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(III) Long-term equity investment (Continued)

1. Investment in subsidiaries

Invested Entity	Opening balance RMB'000	Increase in the current period RMB'000	Decrease in the current period RMB'000	Closing balance RMB'000	Provision	Impairment
					for impairment in the current period RMB'000	provision Closing balance RMB'000
Qinghai Qinghai Lake Dairy Co., Ltd.	53,014			53,014		
Qinghai Shengya Plateau Pasture Co., Ltd.	30,000		30,000		30,000	30,000
Qinghai Shengyuan Pasture Co., Ltd.	30,000			30,000		
Linxia Ruiyuan Pasture Co., Ltd.	30,000			30,000		
Yuzhong Ruifeng Pasture Co., Ltd.	20,000			20,000		
Linxia County Ruian Pasture Co., Ltd.	20,000			20,000		
Wuwei Ruida Pasture Co., Ltd.	20,000			20,000		
Ningxia Zhuangyuan Pasture Co., Ltd.	20,000			20,000		
Lanzhou Ruixing Animal Husbandry Co., Ltd.	10,000			10,000		
Xi'an Dongfang Dairy Co., Ltd.	290,775			290,775		
Gansu Ruijia Animal Husbandry Co., Ltd.	10,000	498,945		508,945		
Total	533,789	498,945	30,000	1,002,734	30,000	30,000



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(IV) Operating income and operation cost

1. Operating income and operation cost by main category

Item	Incurred during this period		Incurred in previous period	
	Income RMB'000	Cost RMB'000	Income RMB'000	Cost RMB'000
I. subtotal of principal business	497,314	402,785	496,970	353,374
II. subtotal of other business	900	749	4,819	2,027
Total	498,214	403,534	501,789	355,401

Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XVI. SUPPORTING INFORMATION

(I) Statement of non-recurring profit or loss of the current period

Item	Amount RMB'000	Remark
1. Profit or loss from disposal of non-current assets, including the write-off portion for which provision for impairment of assets is made	(11,133)	Mainly represents the disposal of fixed assets
2. Tax rebates and deductions exceeding the approval, or without formal approval or incidentally incurred		
3. Government grants included in the current profit or loss, however, except for those which are closely related to the enterprise's business and are granted with specific quota or amount according to the national unified standards	11,748	mainly represents the government grants received by the Company
4. Funds occupation fees included in the current profit or loss and charged from non-financial enterprises		
5. Profit or loss when the investment cost of the enterprise for the purpose of acquisition of the subsidiaries, associates and joint ventures is lower than the fair value of net identifiable assets of the invested entity as entitled at the time of receipt of the investment		
6. Profit or loss from exchange of non-monetary assets		
7. Profit or loss from investment or management of assets by the others		
8. Provision for asset impairment due to force majeure factors, such as natural disasters		
9. Profit or loss from debts restructuring		
10. Enterprise restructuring fees, such as the expenses for employees settlement and the integration fees		
11. Profit or loss exceeding the fair value and generated from the transaction of which the transaction price is obviously unfair		
12. Net profit or loss in the current period of the subsidiaries generated from business combination under the same control from the beginning of the year to the date of consolidation		
13. Profit or loss from contingent issues irrelevant to the Group's normal business		
14. Except for the efficient hedging related to the Company's normal business, profit or loss from changes in fair value as generated from financial assets held-for-trading and financial liabilities held-for-trading and profit or loss from investment arising from disposal of financial assets held-for-trading, other non-current financial assets and financial liabilities held-for-trading		
15. Reversals of provision for impairment of receivables that is tested separately for impairment		
16. Profit or loss from entrusted loans		
17. Profit or loss from changes in fair value of the investment property that is subsequently measured by adopting the fair value mode		
18. Impacts on the current profit or loss by the one-time adjustments to profit or loss over the current period under the tax, accounting and other laws and regulations		
19. Trusteeship fees income from entrusted operation		mainly represents the performance compensation
20. Other non-operating income and expenses other than the aforesaid items	7,606	
21. Other profit or loss items as defined by the non-recurring profit or loss		
22. Amount of impact on income tax	(985)	
23. Amount of impact on minority shareholders		
Total	7,237	

Note: As for the figures in the non-recurring profit or loss column, "+" represents the gains and income, "-" represents the loss or expense.

The Company recognizes non-recurring profit or loss items according to the Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public-Non-recurring Gains and Losses (ZJHGG 2008 No. 43).



Notes to the Financial Statements (Continued)

1 January 2020 - 31 December 2020

XVI. SUPPORTING INFORMATION (Continued)

(II) Rate of return on net assets and earnings per share

Profit during the report period	Rate of return on weighted average net assets (%)		Earnings per share			
	The current year	The previous year	Basic earnings per share (RMB/ share)		Diluted earnings per Share (RMB/share)	
			The current year	The previous year	The current year	The previous year
Net profit attributable to the Company's ordinary shareholders	0.85	4.24	0.05	0.27	0.05	0.27
Net profit attributable to the ordinary shareholders of the Company after a deduction of non- recurring profit or loss	0.26	0.65	0.02	0.04	0.02	0.04

LANZHOU ZHUANGYUAN PASTURE CO LTD

29 March 2021

Financial Summary

Financial summary of audited financial statements of the Group for the respective years are set out below.

	Years ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Operating income	739,821	813,554	657,732	628,374	665,823
Profit for the year	10,453	51,321	63,533	68,352	75,910
Attributable to equity shareholders of the Company	10,453	51,321	63,533	68,352	75,910
Earnings per share (RMB) ⁽¹⁾	0.05	0.27	0.34	0.46	0.54
Proposed dividend per share (RMB)	2.00 cents	5.50 cents	6.80 cents	7.30 cents	7.42 cents
Total assets	3,080,558	2,492,727	2,048,109	1,803,718	1,341,588
Total liabilities	1,488,724	1,267,320	863,702	676,053	581,353
Total equity attributable to equity shareholders of the Company	1,591,834	1,225,407	1,184,407	1,127,665	760,235

(1) Please refer to Note 16 on page 229 for calculation of earnings per share.

