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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL RESULTS

The board of directors (the "**Board**" and the "**Directors**", respectively) of YuanShengTai Dairy Farm Limited (the "**Company**" or "**YuanShengTai**") announces the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with the comparative figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
REVENUE	*3*	**1,389,510**	1,099,547
Cost of sales		**(1,009,800)**	(846,920)
Gross profit		**379,710**	252,627
Other income and gain	*3*	**35,603**	25,938
Administrative expenses		**(61,938)**	(69,425)
Other expenses		**(11,588)**	(15,739)
Changes in fair value less costs to sell of biological assets		**(118,546)**	(313,472)
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Dairy Farming Co., Ltd. ("**Baiquan Ruixincheng Farm**")		**(161)**	(436,242)
PROFIT/(LOSS) BEFORE TAX	*4*	**223,080**	(556,313)
Income tax expense	*5*	**–**	–
PROFIT/(LOSS) FOR THE YEAR		**223,080**	(556,313)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,058**	23,190
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		**224,138**	(533,123)
Attributable to:			
Owners of the Company		**224,138**	(533,123)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	*7*	**RMB4.76 cents**	RMB(11.86) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,086,440**	2,118,597
Right-of-use assets		**86,574**	–
Prepaid land lease payments		**–**	86,684
Prepayments, other receivables and other assets		**19,119**	19,325
Biological assets		**1,333,438**	1,211,650
Total non-current assets		**3,525,571**	3,436,256
CURRENT ASSETS			
Inventories		**295,223**	302,610
Trade receivables	*8*	**126,758**	58,712
Prepayments, other receivables and other assets		**3,748**	8,167
Prepaid land lease payments		**–**	5,081
Cash and cash equivalents		**1,009,782**	979,573
Total current assets		**1,435,511**	1,354,143
CURRENT LIABILITIES			
Trade payables	*9*	**249,938**	285,759
Other payables and accruals		**266,773**	278,384
Total current liabilities		**516,711**	564,143
NET CURRENT ASSETS		**918,800**	790,000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,444,371**	4,226,256
NON-CURRENT LIABILITIES			
Other payables and accruals		**125,899**	134,327
Total non-current liabilities		**125,899**	134,327
Net assets		**4,318,472**	4,091,929
EQUITY			
Issued capital		**37,674**	37,674
Reserves		**4,280,798**	4,054,255
Total equity		**4,318,472**	4,091,929

NOTES TO FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**"), and Interpretations) issued by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Companies Ordinance, Chapter 622 of the laws of Hong Kong. They have been prepared under the historical cost convention, except for biological assets and agricultural produce which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 AND IAS 23

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, Standards Interpretation Committee Interpretations ("**SIC**")-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognizing rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognizes depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/(decrease)
	RMB'000
Assets	
Increase in right-of-use assets	**91,973**
Decrease in prepaid land lease payments	**(91,765)**
Decrease in prepayments, other receivables and other assets	**(208)**
Increase in total assets	**–**
Liabilities	
Increase in total liabilities	**–**
Decrease in retained earnings	**–**

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the financial position or performance of the Group.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw milk. For the purpose of resource allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

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

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

All non-current assets are located in Mainland China.

During the Year, the Group made sales to major customers, the revenue from which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2019 and 2018 is as follows:

	2019	2018
	RMB'000	*RMB'000*
Customer A	**835,298**	762,924
Customer B	**391,332**	154,958
Others	**162,880**	181,665
	1,389,510	1,099,547

3. REVENUE AND OTHER INCOME AND GAIN

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of raw milk	**1,389,510**	1,099,547
	1,389,510	1,099,547

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December

Segments	**2019** **Sale of raw milk** ***RMB'000***	2018 Sale of raw milk *RMB'000*
Type of goods or services		
Sale of goods	**1,389,510**	1,099,547
Total revenue from contracts with customers	**1,389,510**	1,099,547
Geographical markets		
Mainland China	**1,389,510**	1,099,547
Total revenue from contracts with customers	**1,389,510**	1,099,547
Timing of revenue recognition		
Goods transferred at a point in time	**1,389,510**	1,099,547
Total revenue from contracts with customers	**1,389,510**	1,099,547

(b) Performance obligation

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

Sale of raw milk

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

	2019 ***RMB'000***	2018 *RMB'000*
Other income and gain		
Government subsidies	**12,648**	14,198
Interest income from bank deposits	**8,248**	9,349
Foreign exchange gain	**14,488**	1,343
Others	**219**	1,048
	35,603	25,938

4. PROFIT/(LOSS) BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
Breeding costs to produce	**703,508**	594,360
Production costs for raw milk	**306,292**	252,560
Cost of sales	**1,009,800**	846,920
Depreciation of property, plant and equipment	**117,129**	121,678
Less: Capitalised in biological assets	**(41,015)**	(53,268)
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income*	**76,114**	68,410
Depreciation of right-of-use assets (2018: amortization of land lease payments)	**5,399**	5,099
Lease payments for short-term leases	**85**	–
Auditors' remuneration	**2,400**	2,400
Changes in fair value less costs to sell of biological assets	**118,546**	313,472
Employee benefit expenses excluding directors' and chief executive's remuneration:		
Wages and salaries	**86,875**	76,336
Equity-settled share option expense	**1,537**	8,927
Pension scheme contributions	**20,077**	19,200
Less: Capitalised in biological assets	**(36,210)**	(35,025)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the consolidated statement of profit or loss and other comprehensive income**	**72,279**	69,438
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm***	**161**	436,242
Loss on disposal of items of property, plant and equipment	**92**	5,022
Foreign exchange differences, net	**(14,488)**	(1,343)

* Depreciation of approximately RMB74,868,000 (2018: RMB66,778,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

** Employee benefit expenses of approximately RMB65,471,000 (2018: RMB51,811,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

*** Due to the withdrawal notice and removal notice received by Baiquan Ruixincheng Farm, impairment provision of RMB161,000 (2018: RMB436,242,000) was provided for additional accrued expenses, including transportation expenses.

5. INCOME TAX

No provision for Hong Kong profits tax has been made for the Year as the Group did not generate any assessable profits arising in Hong Kong during the Year (2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

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

6. DIVIDENDS

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

7. EARNINGS/LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the Year attributable to ordinary equity holders of the Company of RMB223,080,000 (2018: loss of RMB556,313,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2018: 4,690,496,400).

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2019 and 2018 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

8. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**126,758**	58,712

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**125,498**	56,303
Over 1 to 2 months	**238**	372
Over 2 months	**1,022**	2,037
	126,758	58,712

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

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

9. TRADE PAYABLES

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

	2019	2018
	RMB'000	*RMB'000*
Within 2 months	**181,684**	205,450
Over 2 to 6 months	**54,386**	68,432
Over 6 to 12 months	**8,698**	6,043
Over 1 year	**5,170**	5,834
	249,938	285,759

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Throughout 2019, driven by the increasing prices of dairy products on the international market, the domestic dairy market has achieved steady development and maintained a stable and favorable development trend as a whole. With the development of the society as well as the rise in the average individual income and the improvement of people's living standards, domestic consumption of dairy products continued to increase. Both domestic output and imports have continued to expand. Thanks to the pursuit of high-quality life and upgrades of consumption pattern, the dairy product industry has developed towards high-end products, differentiation and individualization of products, and the offerings have become increasingly abundant.

In the second half of 2019, due to the impact of the Sino-US trade war, the price of hay feed fluctuated due to tariffs. According to statistics from the Chinese Customs, the total amount of hay feed imported by China in 2019 was approximately 1,597,400 tonnes, representing a year-on-year decrease of 4.78%. Among them, alfalfa imports totaled to 1.356 million tonnes, accounting for 84.92% of hay imports, representing a year-on-year decrease of 2%. Imports of alfalfa picked up in the second half of 2019 with the suspension of increase in punitive tariffs. The total value of imports was US$459,827,200, representing a year-on-year increase of 10.44%; the average cost, insurance, and freight price was US$347.42/ton, representing a year-on-year increase of 10.8%. The rising price of imported hay feed has increased the business cost of the animal husbandry.

In contrast, the dairy industry has seen volatility in the import and export prices due to the Sino US trade war. The offerings of products on the Chinese dairy market are becoming more and more abundant. The innovation and development of dairy products have greatly increased the young generation's purchasing desire for dairy products. In addition, the innovative and convenient sales channels such as on-line shopping has empowered the development of new retail of the dairy industry. All these have contributed to the steady growth of China's consumer market of dairy products. According to the National Bureau of Statistics, milk output in the country reached 32.01 million tons in 2019, representing a steady increase of 4.1% over the same period of last year.

In recent years, as the state has strengthened the monitoring of the quality of dairy products, and dairy products have been continuously adjusted and upgraded during the course of production, consumers' trust in and love for domestic milk quality have gradually increased. Along with the upgrading of consumption and the improvement of consumption concepts, the amount of consumption of both high-end and basic dairy products has increased simultaneously, leading to a steady growth of the dairy market. Meanwhile, domestic and foreign dairy companies are actively seizing this new opportunity, which proposes huge market potential in the future. With the support of national policies, effective supervision, industry assistance, and the efforts of dairy companies to enhance their own quality and brand value, the domestic dairy product market has gradually matured with the fierce competition between domestic and international dairy products. The comprehensive strength of Chinese dairy brands has continued to increase. The dairy sector has shown a steady development trend as a whole, taking a big step toward the revitalization of the dairy industry.

As one of the leading dairy farming companies in the People's Republic of China (the "**PRC**"), the Group adhered to the large-scale and intensive development strategy. By adjusting the size of the herd, improving the breeding and production technology, the Group strived to achieve better economies of scale. In terms of quality of milk products, the Group strengthened standardized production of milk source, implemented rigorous quality supervision, and undertook to provide the highest quality raw milk to customers.

Business Review

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. During the Year, the total sales volume of raw milk of the Group increased by 18.5% to 334,424 tonnes from 282,261 tonnes in 2018. The total revenue amounted to RMB1,389.5 million, representing an increase of 26.4% as compared with the same period of 2018. During the Year, the Group recorded a net profit of of RMB223.1 million (2018: a net loss of RMB556.3 million), representing an increase of 140.1%. The increase in net profits was attributable to rising selling prices of milk. Affected by the Sino-US trade war, the price and cost of imported hay feed increased. The Group adjusted the feeding formula to reduce the cost increase caused by the increase in feed prices, effectively controlled some production costs, and improved sales performance and overall profitability.

Since its establishment, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2019, the three major customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group. During the Year, all these three major customers benefited from the preferential policy, continued to expand their product portfolio and expand into the international market, which were constructive to the sustained development of the Group's business. Among them, the proportion of sales of products to Mengniu Group significantly increased from 14.1% in 2018 to 28.2% as of 31 December 2019. The revenue from these three major customers accounted for nearly 94.4% of the Group's revenue. In the future, the Group is expected to continue to supply premium raw milk products to major customers in the long term, to further strengthen the customer base and secure future demand for raw milk.

Construction of Farms

As of 31 December 2019, we had six farms in Heilongjiang Province and one farm in Jilin Province, respectively. Each farm had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 square metres.

	Actual Designed Capacity *(Number of Cows/Head)*	**Actual Inventory Number**	**Area** *(m²)*
Gannan Farm	12,000	10,432	986,333
Kedong Heping Farm	6,000	5,646	384,000
Kedong Ruixinda Farm	18,000	10,327	784,000
Zhenlai Farm	15,000	13,466	1,066,667
Kedong Yongjin Farm	12,000	8,334	714,000
Baiquan Ruixincheng Farm	15,000	7,564	994,000
Keshan Farm	12,000	7,871	980,000
Total	90,000	63,640	5,909,000

Milk Yield

During the Year, the average annual milk yield per cow was 10.45 tonnes, representing an increase of 7.95% as compared to 9.68 tonnes in 2018. As operation of farms become more mature and stable, and the age mix of cattle and the cattle mix are upgraded and optimized, the Group expects that the average milk yield of herds will continue to increase. In the future, the Group will continue to improve its profitability by adjusting and optimizing the cattle mix and improving the feeding formula to achieve scientific and quality management.

Size of Our Herds

Driven by the advanced management model of our farms, the number of dairy cows of the Group's dairy farms remained stable from 63,644 heads as of 31 December 2018 to 63,640 heads as of 31 December 2019. Among them, the total number of our matured milkable cows increased from 32,425 heads as of 31 December 2018 to 33,716 heads as of 31 December 2019. The increase in number of our matured milkable cows contributed to the steady growth of quality raw milk of the Group.

	31 December 2019	31 December 2018
Number of matured milkable cows	**33,716**	32,425
Number of heifers and calves	**29,924**	31,219
Total number of dairy cows	**63,640**	63,644

Price of Raw Milk

Due to the Sino-US trade war, retailers increased imports of milk powder to ensure adequate milk powder supply. Meanwhile, the price of domestic raw milk remained at low levels despite a recovery, due to the oversupply of raw milk in the upstream market and the impact of the global economic environment. During the Year, the average selling price of the Group's raw milk was RMB4,155 per tonne, representing an increase of 6.65% over the same period of last year.

Outlook

With the promulgation and implementation of relevant policies to "Promote the Revitalization of the Dairy Industry", especially the "The Action Plan for Promoting Dairy Brand", the steady advancement of the modernization of the dairy industry, the large-scale and standardized livestock farming industry will continue to develop quickly, the manufacturing capacity of high-quality milk sources will grow steadily, and the quality of raw milk will be further improved In the future, the Group will continue to expand the cattle of large-scale farms and increase the number of farms in a timely manner according to market demand, which will gradually stabilize and recover the inventory number of dairy cows. Due to the increasing diversification and personalization of consumption pattern in the future, we believe that the offerings will shift towards differential, functional and high-end dairy products, and the Group will rely on its own technological advantages and resource endowments to continuously upgrade its product mix. Meanwhile, amidst the rapid development of the big health and wellness industry, there is a strong demand for high-quality protein foods. The Group will improve its technical standards and maintain the excellent quality of its products in an effort to strengthen its leading position in the dairy industry in China.

Our Revenue

During the Year, our total sales of milk produced increased by 26.4% from RMB1,099.5 million for the year ended 31 December 2018 to RMB1,389.5 million. The sales volume reached 334,424 tonnes in 2019, representing an increase of 52,163 tonnes or 18.5% as compared with 282,261 tonnes in 2018. The growth was primarily attributable to the increases in (i) herd size of matured milkable cows, and (ii) average annual milk yield per cow. Our average selling price of raw milk was RMB4,155 per tonne for the Year compared with RMB3,896 per tonne in 2018.

Cost of Sales

Our cost of sales for the Year was RMB1,009.8 million. The table below summarizes the components of our cost of sales by nature:

	2019	2018
	RMB'000	*RMB'000*
Cost of sales		
Feed	**703,508**	594,360
Salary, welfare and social insurance	**65,471**	51,811
Depreciation	**74,868**	66,778
Veterinary cost	**44,905**	42,541
Utility	**58,402**	40,672
Transportation expenses	**26,711**	22,841
Other costs	**35,935**	27,917
Cost of sales, total	**1,009,800**	846,920

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB703.5 million and RMB594.4 million for the years ended 31 December 2019 and 2018, respectively, representing 69.7% and 70.2% of the cost of sales for the respective financial years ended 31 December 2019 and 2018, respectively. The increase in our cost of sales was mainly attributable to an increase of feeding cost.

Gross Profit

Given the above factors, the gross profit increased to RMB379.7 million for the Year (2018: RMB252.6 million), representing an increase of 50.3% as compared to that for 2018. Our gross profit margin also increased from 23.0% in 2018 to 27.3% in 2019.

Other Income and Gain

Other income and gain for the Year amounted to RMB35.6 million (2018: RMB25.9 million), representing an increase of 37.5%. The increase in other income and gain were mainly attributable to an increase in exchange gains, which was due to the fluctuation of exchange rate.

Administrative Expenses

We incurred administrative expenses of RMB61.9 million for the Year (2018: RMB69.4 million) representing a decrease of approximately 10.8% as compared to 2018. The decrease was attributable to the decreases of (i) equity-settled share option expenses; and ii) travelling expenses.

Other Expenses

Other expenses for the Year amounted to RMB11.6 million (2018: RMB15.7 million). The decrease was primarily attributable to a decrease in the one-off transportation costs of cow dung.

Changes in Fair Value Less Costs to Sell of Biological Assets

Changes in fair value less costs to sell of biological assets was a loss of RMB118.5 million for the Year as compared to a loss of RMB313.5 million for 2018. The decrease in the loss was principally due to an increase in the price of the average market price for raw milk, which is one of the key parameters for the computation of the fair value of milkable cows.

Impairment Losses and Accrued Expenses Related to Removal of Baiquan Ruixincheng Farm

Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm amounted to RMB0.2 million for the Year (2018: RMB436.2 million). Details are set out in note 4 to the consolidated financial statements.

Particulars of Important Events

Baiquan Ruixincheng Farm, an indirect wholly-owned subsidiary of the Company, operates a farm in Baiquan County, Qiqihar City, Heilongjiang Province for the production and sale of milk. As at 31 December 2019, Baiquan Ruixincheng Farm had 7,564 dairy cows.

On 25 February 2019, Baiquan Ruixincheng Farm received a notice from the Heilongjiang Provincial Department of Ecology and Environment which conveyed its decision to withdraw its previous approval given to Baiquan Ruixincheng Farm in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm (the "**Withdrawal Decision**"). Without the previous approval given by the Heilongjiang Provincial Department of Ecology and Environment, Baiquan Rexincheng Farm cannot continue the operation of the farm.

On 8 March 2019, Baiquan Ruixincheng Farm received a notice from the Heilongjiang Shuangyang River Provincial Nature Reserve Management Office to request Baiquan Ruixincheng Farm to remove its farm from its current location by the end of June 2020.

The Board considered these external sources of information as impairment indicator and the Group recorded an impairment provision of RMB420,694,000 for immovable property, plant and equipment and prepayment for construction and equipment after netting off related government grants as at 31 December 2018. All movable inventories, dairy cows and property, plant and equipment will be transferred to the Group's other farms to continue its operation. In addition, the Group also accrued additional expenses of RMB15,548,000, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee. As at 31 December 2019, the Group accrued additional transportation expense of RMB161,000 due to an increase of the herd size of Baiquan Ruixincheng Farm.

Subsequent to the Year, on 24 February 2020, Baiquan Ruixincheng Farm received a notice from the Forestry and Grassland Bureau of Heilongjiang Province conveying its decision to withdraw its previous approval given to Baiquan Ruixincheng Farm in 2015 in relation to the use of forestland for Baiquan Ruixincheng Farm and the use of grassland for Baiquan Ruixincheng Farm (the "**Decision**").

The Board has engaged professional advisers to advise on the possible actions to be taken and has appealed to the Heilongjiang Province People's Government against the Decision. Depending on the outcome of this appeal, the Company may also commence administrative proceedings at the People's Court of the PRC in the future.

Profit for the Year of the Group

Taking into account all of the above factors, the Group's net profit was RMB223.1 million for the Year, as compared to a net loss of RMB556.3 million for the year ended 31 December 2018. Basic earnings per share was approximately RMB4.76 cents for the Year (2018: basic loss per share of RMB11.86 cents).

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year (2018: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB292.8 million, as compared to RMB287.6 million in 2018. As at 31 December 2019, the Group had cash and cash equivalents of RMB1,009.8 million (2018: RMB897.0 million).

The Group had no bank borrowing during the Year (2018: Nil).

CAPITAL STRUCTURE

As at 31 December 2019, the Company's issued share capital was HK$46,904,964 divided into 4,690,496,400 shares of HK$0.01 each (the "**Shares**") (2018: HK$46,904,964 divided into 4,690,496,400 Shares of HK$0.01 each). The Company did not issue any new Shares during the Year.

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

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

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

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2019 nor were there other plans for material investments on capital assets as at the date of this announcement.

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

The issued Shares were initially listed on the Main Board of the Stock Exchange on 26 November 2013. Gross proceeds raised from the IPO in such connection amounted to approximately HK$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company)) amounted to approximately HK$2,564 million. The net proceeds were spent broadly in accordance with the Company's plan as disclosed in the Prospectus.

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

	Planned use of net proceeds from the IPO (as stated in the prospectus)	**Actual use of net proceeds from the IPO up to 31 December 2019**	**Actual use of net proceeds from the IPO during the Year**	**Unused net proceeds from the IPO as at 31 December 2019**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Construction of new farms	1,923.0	1,923.0	–	–
Develop upstream operations	384.6	36.8	–	347.8
Working capital and general corporate purpose	256.4	256.4	–	–
Total	2,564.0	2,216.2	–	347.8

The unused net proceeds, being approximately HK$347.8 million, are expected to be used in accordance with the Company's plan as disclosed in the Prospectus (i.e. to develop upstream operations) by 2021. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

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

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

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

	Planned use of net proceeds from the Placing (as stated in the announcement of the Company dated 23 December 2016)	**Actual use of net proceeds from the Placing up to 31 December 2019**	**Actual use of net proceeds from the Placing during the Year**	**Unused net proceeds from the Placing as at 31 December 2019**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Importing heifers and calves from Australia and New Zealand and general working capital	384.6	98.7	–	285.9
Total	384.6	98.7	–	285.9

The unused net proceeds, being approximately HK$285.9 million, are expected to be used as intended by 2021. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

The Directors will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market conditions to deploy resources and proceeds better. Announcement(s) will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The remaining balance of such net proceeds was kept in licensed banks and approved financial institutions in Hong Kong and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

PLEDGE OF ASSETS

As at 31 December 2019, no assets of the Group were pledged as security for bank borrowings (2018: Nil).

FOREIGN EXCHANGE EXPOSURE

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

TREASURY POLICIES

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

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2019 and 2018 were RMB13.3 million and RMB41.4 million, respectively, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2019 (2018: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 1,524 employees (2018: 1,506 employees), of whom one was located in Hong Kong and all the others were located in the PRC.

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

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

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

EVENT AFTER REPORTING YEAR

On 24 February 2020, Baiquan Ruixincheng Farm received a notice (the "**Notice**") from the Forestry and Grassland Bureau of Heilongjiang Province conveying its decision (the "**Decision**") on the withdrawal of its approval given to Baiquan Ruixincheng Farm in 2015 in relation to the use of forestland for Baiquan Ruixincheng Farm and the use of grassland for Baiquan Ruixincheng Farm.

Pursuant to the Notice, Baiquan Ruixincheng Farm may within 60 days from the date of the Notice appeal to the National Forestry and Grassland Bureau or the Heilongjiang Provincial People's Government against the Decision. Baiquan Ruixincheng Farm may also commence administrative proceedings at the People's Court of the PRC within six months from the date of the Notice. The Board has engaged professional advisers to advise on the possible actions to be taken and has appealed to the Heilongjiang Province People's Government against the Decision. Depending on the outcome of this appeal, the Company may also commence administrative proceedings at the People's Court of the PRC in the future.

UPDATES IN RELATION TO THE NOVEL CORONAVIRUS PNEUMONIA

Since the outbreak of the coronavirus disease (COVID-19) (the "**Pandemic**") in December 2019, the Board has been monitoring the development of the Pandemic and assessing its impact to the Group's operations. The Company has since the Pandemic taken immediate steps and measures to protect its employees from being infected. As at the date of this announcement, the Board is not aware of any infected cases among the Group's employees. Despite there are a number of confirmed infected cases in Qiqihar, Heilongjiang province, where most of the Group's farms located, the Group's operations have not experienced any material disruptions. As at the date of this announcement, the Board is not aware of any material adverse impact to the Group' financial or trading position caused by the Pandemic.

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of the Shareholders. The Board considers that the Company complied with all the code provisions of the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules Governing the Listing of Securities on the Stock Exchange (the " **Listing Rules**") during the Year.

SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF ANNUAL RESULTS AND PRELIMINARY RESULTS ANNOUNCEMENT

The Board has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code, which was revised on 29 December 2018. The Audit Committee comprises all the three independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng) (committee chairman), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. The Audit Committee has reviewed with the Company's management team the Company's annual consolidated results for the Year.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year as set out in the preliminary announcement have been agreed by the Company's independent auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the Year. The work performed by the Company's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Company's independent auditors on the preliminary announcement.

PUBLICATION OF INFORMATION ON DESIGNATED WEBSITES

This results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ystdfarm.com and www.ystdairyfarm.com), respectively. The annual report of the Company for the Year will be despatched to the Shareholders and published on the same websites in due course in the manner as required by the Listing Rules.

By Order of the Board
YuanShengTai Dairy Farm Limited
Zhao Hongliang
Chairman

Hong Kong, 27 March 2020

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhao Hongliang (Chairman), Mr. Fu Wenguo (Chief Executive Officer), Mr. Chen Xiangqing (Chief Financial Officer) and Mr. Liu Gang; and three independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.