



# YuanShengTai Dairy Farm Limited 原生态牧业有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1431

# 2020

# INTERIM REPORT



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. Zhang Yuezhou (張月周)  
Mr. Zhu Zhanbo (朱戰波)  
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)

## JOINT COMPANY SECRETARIES

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

## AUTHORISED REPRESENTATIVES

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## INDEPENDENT AUDITOR

Ernst & Young

## PRINCIPAL BANKERS

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

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11, Bermuda

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

Qingxiang Street  
Kedong, Qiqihar  
Heilongjiang Province  
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road  
North Point  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## LEGAL ADVISORS

*As to Hong Kong Laws*  
Loeb & Loeb LLP

## STOCK CODE

1431

## BOARD LOTS

1,000 shares

## COMPANY'S WEBSITES

[www.ystdfarm.com](http://www.ystdfarm.com)  
[www.ystdairyfarm.com](http://www.ystdairyfarm.com)



# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

In the first half of 2020, due to the continuous spread of global public health events, the overall global economy has slowed down, and international trade, especially the supply chain, has shrunk significantly, causing many industries to face great challenges. Faced with the severe political and economic situations at home and abroad and the pressure of global public health events, peers in the domestic dairy products industry and YuanShengTai Dairy Farm Limited (“**YuanShengTai**” or the “**Company**”) and its subsidiaries (the “**Group**”) have closely monitored the status of the epidemic and worked together. We adopted a variety of measures to ensure the hygiene and safety of our production activities, and responded to the government’s call to resume work and production at the earliest time to ensure the stable supply and prices of the national dairy products market, so as to continue to provide consumers with high-quality dairy products.

In the first quarter of 2020, challenges and opportunities coexisted in the industry. Although the dairy products industry has faced challenges such as blocked terminal consumption of milk and restricted personnel mobility and logistics and transportation due to the impact of the epidemic, the e-commerce retail model has become a daily consumption platform for the masses. Large-scale downstream dairy products companies used their abundant resources to ensure logistics and transportation activities and speed up the resumption of work and production. At the same time, they increased their marketing and promotion efforts, resulting in a year-on-year increase in national fresh milk production during the six months ended 30 June 2020 (the “**Period**”). Despite the slight decline in the sales of dairy products, the supply and demand of raw milk remained roughly balanced. However, due to the continuous increase in the price of imported hay feed, the cost of epidemic prevention in pastures, labor costs and the cost of feed transportation, the operating costs of the animal husbandry industry have risen and the entire industry is under tremendous pressure. In general, in the first quarter of 2020, the average price of fresh milk showed a slight downward trend due to rising inventories and declining sales of dairy products companies nationwide.

However, in the second quarter of 2020, thanks to the gradual relief of the domestic epidemic and the increased public awareness of balanced nutrition and enhanced immunity after the epidemic, the overall sales of the domestic dairy products industry rebounded rapidly and both production and imports continued to expand. Throughout the first half of 2020, the outbreak of global public health events has had a huge impact on the dairy products industry and even the domestic society and economy, but such impact is believed to be temporary. To conclude, the domestic dairy products industry continues to maintain overall stability with quality improvement. The price of raw milk has remained relatively stable, and the dairy products industry is also moving towards a development stage of brand diversification, high-quality products and digitalization.

As a leading dairy farming company in the People’s Republic of China (the “**PRC**”), the Group will continue to maintain its large-scale, diversified and intensive development strategy. By adjusting the size of the herd and improving the breeding and production technology, the Group strives to achieve better economies of scale. In terms of quality, by adjusting the herb mix and further strengthening standardized production of milk sources, the Group implemented rigorous quality supervision, and undertook to provide the highest quality raw milk to customers.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. For the Period, the total sales volume of raw milk of the Group increased by 6.7% to 175,469 tonnes from 164,438 tonnes in 2019. The total revenue amounted to RMB751.3 million during the Period, representing an increase of 14.3% from RMB657.3 million as compared with the same period of 2019. The gross profit amounted to RMB217.2 million during the Period, representing an increase of 24.5% from RMB174.5 million as compared with the same period of last year. During the Period, the Group recorded a net profit of RMB123.9 million, representing a significant increase of 266.6% from RMB33.8 million as compared with the same period of 2019. The increase in the net profit was mainly attributable to the increases in (i) sales price of fresh milk; and (ii) yield during the Period. Affected by the epidemic, the feed cost of the Group increased by 13.4% during the Period due to the increase of the price and cost of imported hay feed as compared with the same period of last year. However, the Group adjusted the feeding formula to reduce the cost pressure caused by the increase in feed prices, and had effectively controlled some production costs, and improved sales performance and overall profitability.

Since its early business development, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In the first half of 2020, the three major customers of the Company continued to be Feihe Dairy Group, Mengniu Group and Bright Dairy Group. The revenue from these three major customers accounted for approximately 98.7% of the Group's total revenue. In the future, the three major customers will continue to expand their product portfolio and put down roots in the international market with the support of preferential policies from the government, which will definitely continue to benefit the development of the Group's business. The Group is expected to continue to supply raw milk products to its three major customers in the long term in order to further consolidate the Group's customer base and secure the future demand for raw milk products of the Group.

### Construction of Farms

As of 30 June 2020, the Group had six farms in Heilongjiang Province and one farm in Jilin Province, respectively. Each farm has 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 m<sup>2</sup>.

	<b>Actual Designed Capacity (Number of Cows/Head)</b>	<b>Actual Inventory Number</b>	<b>Area (m<sup>2</sup>)</b>
Gannan Farm	12,000	10,736	986,333
Kedong Heping Farm	6,000	5,163	384,000
Kedong Ruixinda Farm	18,000	10,315	784,000
Zhenlai Farm	15,000	13,742	1,066,667
Kedong Yongjin Farm	12,000	8,697	714,000
Baiquan Ruixincheng Farm	15,000	8,406	994,000
Keshan Farm	12,000	8,827	980,000
Total	90,000	65,886	5,909,000



## MANAGEMENT DISCUSSION AND ANALYSIS

### Milk Yield

During the Period, the average annual milk yield per cow was 10.65 tonnes, representing an increase of 4.2% as compared to 10.22 tonnes in the same period of 2019. As the 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 achieve scientific and quality management and thus improve its profitability by adjusting the cattle mix and improving the feeding formula.

### Size of Our Herds

Driven by the advanced management model of our farms, the number of dairy cows of the Group's dairy farms increased from 63,640 heads as of 31 December 2019 to 65,886 heads as of 30 June 2020. Among them, the total number of our matured milkable cows increased from 33,716 heads as of 31 December 2019 to 34,757 heads as of 30 June 2020. The increase in the number of our matured milkable cows further contributed to the steady supply of quality raw milk by the Group.

	<b>30 June 2020</b>	31 December 2019
Number of matured milkable cows	<b>34,757</b>	33,716
Number of heifers and calves	<b>31,129</b>	29,924
Total number of dairy cows	<b>65,886</b>	63,640

### Price of Raw Milk

Affected by the epidemic, retailers increased imports of milk powder to ensure the adequate supply of milk powder. The price of domestic raw milk remained at low levels despite a recovery, due to the continuous oversupply of raw milk in the upstream market. However, benefiting from the increase in the sales of dairy products from downstream customers, the Group's demand for raw milk increased, which drove the increase in milk prices. During the Period, the average selling price of the Group's raw milk was RMB4,281 per tonne (six months ended 30 June 2019: RMB3,997 per tonne), representing an increase of 7.1% over the same period of last year.

## OUTLOOK

With the steady recovery of the macroeconomy, the impact of the epidemic on the dairy products industry has gradually weakened. With the additional support of a series of consumption-promoting measures and policies aimed at supporting the dairy products industry adopted by the government, the dairy products industry has generally recovered and remained stable.

Looking into the second half of the year, domestic milk prices are also expected to rebound. The total retail sales of China's dairy products market exceeded RMB400 billion in 2019 after years of development. It is predicted that China's dairy products market will continue to enjoy steady development in the next five years. It is estimated that the retail sales of the dairy products market may exceed RMB550 billion in 2024. During the epidemic, the Dairy Association of China actively responded to the "Dietary Guidelines" of the National Health Commission and issued the initiative of "a glass of milk a day keeps you healthy (天天飲奶·健康中國人)", with a view to actively popularizing the knowledge of the benefits of drinking milk among the people, raising people's awareness of the importance of dairy products and promoting China's transformation from a large country to a powerful country in the dairy industry. It is believed that the public's demand for dairy products, especially high-end dairy products, is expected to continue to rise.



## MANAGEMENT DISCUSSION AND ANALYSIS

The continuous improvement of awareness of drinking milk among the public, the increase of public demand for high-quality dairy products, the gradual diversification of dairy product sales channels and the sustained increase of domestic dairy product brands in the future will further promote the consumption of dairy products. The Group will also seize opportunities and rely on its own technological advantages and resource endowments to continuously promote the upgrading of the cattle herd structure, provide high-quality milk sources and optimize the cost structure, thereby achieving the profit growth and consolidating its leading position in the dairy farming industry in China.

### OUR REVENUE

During the Period, our total sales of milk produced increased by 14.3% to RMB751.3 million as compared with RMB657.3 million in the six months ended 30 June 2019. The increase of the total sales was mainly benefited from an increase in the demand of raw milk. The sales volume reached 175,469 tonnes, representing an increase of 11,031 tonnes or 6.7% as compared with 164,438 tonnes in the six months ended 30 June 2019. The average selling price of our raw milk was RMB4,281 per tonne compared with RMB3,997 per tonne in the six months ended 30 June 2019.

### COST OF SALES

Our cost of sales for the Period was RMB534.1 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2020 and 2019:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Cost of sales		
Feed	377,541	332,871
Salary, welfare and social insurance	33,553	32,892
Depreciation	38,005	36,519
Veterinary cost	30,820	28,546
Utility	31,758	26,488
Transportation expenses	11,060	12,866
Other cost	11,360	12,659
Cost of sales, total	534,097	482,841

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB377.5 million and RMB332.9 million for the six months ended 30 June 2020 and 2019, respectively, representing 70.7% and 68.9% of the cost of sales for the respective six months ended 30 June 2020 and 2019. The increase in our feed costs was attributable to the increases in (i) number of milkable cows; and (ii) the proportion of concentrated feed in the adjusted feeding formula.



## MANAGEMENT DISCUSSION AND ANALYSIS

### GROSS PROFIT

Resulted from the factors discussed above, the gross profit increased to RMB217.2 million for the Period (six months ended 30 June 2019: RMB174.5 million), representing an increase of 24.5%. Our gross profit margin increased from 26.5% for the six months ended 30 June 2019 to 28.9% for the Period.

### OTHER INCOME

Other income for the six months ended 30 June 2020 and 2019 amounted to RMB45.0 million and RMB12.0 million, respectively, representing an increase of 275.0%. The increase in other income was mainly attributable to the increase in exchange gains, which was due to the fluctuation of exchange rate.

### ADMINISTRATIVE EXPENSES

We incurred administrative expenses of RMB37.2 million for the Period, representing an increase of approximately 11% as compared to RMB33.5 million for the six months ended 30 June 2019. The increase was attributable to the increases in wages and salaries, travel, meal and entertainment expenses.

### OTHER EXPENSES

We incurred other expenses of RMB9.7 million for the Period (six months ended 30 June 2019: RMB6.6 million), representing an increase of approximately 47.0% period-on-period. The increase was attributable to an increase in the cost of sublease.

### IMPAIRMENT LOSSES AND ACCRUED EXPENSES RELATED TO REMOVAL OF BAIQUAN RUIXINCHENG FARM

Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm, a farm operated by Baiquan Ruixincheng Dairy Farming Co., Ltd. (“**Baiquan Ruixincheng**”), amounted to RMB51,000 for the Period (six months ended 30 June 2019: RMB855,000). Details are set out in note 5 to the interim condensed consolidated financial information.

### PROFIT OF THE GROUP FOR THE PERIOD

As a result of all the above factors and the fact that a decrease in loss on changes in fair value less cost to the sale of biological assets of RMB91.3 million was recorded in the Period (six months ended 30 June 2019: loss of RMB111.6 million) principally due to the increase in the price of the average market price for a milkable cow of 24 months old, the Group recorded a net profit of RMB123.9 million for the Period, as compared to a net profit of RMB33.8 million for the six months ended 30 June 2019. Basic earnings per share was approximately RMB2.6 cents for the Period (six months ended 30 June 2019: RMB0.7 cent).

### INTERIM DIVIDEND

The Board has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2019: Nil).



## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group's net cash inflow from operating activities amounted to RMB561.8 million, as compared to RMB247.7 million for the six months ended 30 June 2019. As at 30 June 2020, the Group had cash and cash equivalents of RMB1,167.8 million (31 December 2019: RMB1,009.8 million), which were denominated in Renminbi.

The Company did not have any bank borrowings during the Period.

### CAPITAL STRUCTURE

As at 30 June 2020, the Company's issued share capital was HK\$46,904,964 divided into 4,690,496,400 ordinary shares of HK\$0.01 each (the "**Shares**"). The Company did not issue any new Shares during the Period.

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

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

As part of the Group's future strategies, planned capital expenditures of the Group 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 in 2017 under the general mandate approved by the shareholders of the Company (the "**Shareholders**") and the unutilized 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**"). The particulars thereof are detailed below.

### 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 of Hong Kong Limited (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.



## MANAGEMENT DISCUSSION AND ANALYSIS

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

	<b>Planned use of net proceeds from the IPO (as stated in the Prospectus)</b> HK\$ million	<b>Actual use of net proceeds from the IPO up to 30 June 2020</b> HK\$ million	<b>Actual use of net proceeds from the IPO during the Period</b> HK\$ million	<b>Unused net proceeds from the IPO as at 30 June 2020</b> 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	–	–
<b>Total</b>	<b>2,564.0</b>	<b>2,216.2</b>	<b>–</b>	<b>347.8</b>

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:

	<b>Planned use of net proceeds from the Placing (as stated in the announcement of the Company dated 23 December 2016)</b> HK\$ million	<b>Actual use of net proceeds from the Placing up to 30 June 2020</b> HK\$ million	<b>Actual use of net proceeds from the Placing during the Period</b> HK\$ million	<b>Unused net proceeds from the Placing as at 30 June 2020</b> HK\$ million
Importing heifers and calves from Australia and New Zealand and general working capital	384.6	98.7	–	285.9
<b>Total</b>	<b>384.6</b>	<b>98.7</b>	<b>–</b>	<b>285.9</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

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 of the Company (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 Period, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

### PLEDGE OF ASSETS

As at 30 June 2020, no assets of the Group were pledged as security for bank borrowings (31 December 2019: 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 clients. To manage the 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 COMMITMENTS AND CONTINGENCIES

Capital commitments of the Group as at 30 June 2020 were RMB93.7 million, which were for construction of our new farms and renewal of existing facilities. The Group did not have any significant contingent liabilities as at 30 June 2020.



## MANAGEMENT DISCUSSION AND ANALYSIS

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had approximately 1,622 employees (31 December 2019: 1,524 employees), of whom one was located in Hong Kong and all the others were located in the PRC. The remuneration and staff cost for the Period was RMB61.8 million (six months ended 30 June 2019: RMB62.7 million).

The salaries of the Group's employees largely depend on their type and level of work as well as their 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 Company 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. The Company has adopted a share option scheme 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 remuneration committee of the Board regularly reviews and recommends to the Board for consideration and approval the remuneration and compensation packages of the Directors and senior management by reference to the salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

### EVENT AFTER REPORTING PERIOD

In July 2020, Baiquan Ruixincheng (as the appellant) received a successful administrative appeal verdict issued by the Baiquan County People's Government in favour of Baiquan Ruixincheng revoking the previous removal request issued by the Heilongjiang Shuangyang River Provincial Nature Reserve Management Office. In August 2020, Baiquan Ruixincheng further received a notice from the Qiqihar City Baiquan County Department of Ecology and Environment stating that as the area of the nature reserve has been adjusted and the Baiquan Ruixincheng Farm is no longer within the nature reserve area, they have agreed to revoke their previous removal request. Baiquan Ruixincheng is currently reapplying for the approvals as stated in the announcement of the Company dated 5 August 2020. Please refer to the announcements of the Company dated 1 March 2019, 15 March 2019, 25 February 2020, 2 April 2020 and 5 August 2020 for further details.

Save as disclosed above, the Group does not have any material subsequent event after the Period and up to the date of this report.



# CORPORATE GOVERNANCE AND OTHER INFORMATION

## SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 7 November 2013 (the “Share Option Scheme”) for the purpose of providing incentives or rewards to selected participants for their contributions to the Group.

Under the Share Option Scheme, the Directors may grant share options (the “Options”) to subscribe for ordinary Shares of HK\$0.01 each to eligible participants, including without limitation employees of the Group as well as directors of the Company and its subsidiaries. Options comprising a total of 317,350,000 underlying Shares were granted under the Share Option Scheme to certain employees of the Group and the Directors on 22 August 2014 (the “First Grant Date”), 8 December 2015 (the “Second Grant Date”) and 5 June 2018, respectively.

Options previously granted to the grantees to subscribe for a total of 102,750,000 Shares among which 35,650,000 Shares at the exercise price of HK\$1.462 with validity period from 22 August 2014 to 21 August 2021 (both days inclusive) and 67,100,000 Shares at the exercise price of HK\$0.59 with validity period from 8 December 2015 to 7 December 2022 (both days inclusive) were cancelled on 5 June 2018.

As at 30 June 2020, the Company had 190,900,000 Options outstanding under the Share Option Scheme.

Details of the movements of the Options during the Period are as follows:

Grantees	Number of underlying Shares comprised in Options					Outstanding as at 30.06.2020	Exercise price per Share HK\$	Grant Date	Validity period of the Options
	Outstanding as at 01.01.2020	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Exercise during the Period				
<b>Directors</b>									
Mr. Zhao Hongliang	4,500,000	-	-	-	-	4,500,000	0.24	05.06.2018	Note 3
Mr. Fu Wenguo	20,000,000	-	-	-	-	20,000,000	0.24	05.06.2018	Note 3
Mr. Chen Xiangqing	13,500,000	-	-	-	-	13,500,000	0.24	05.06.2018	Note 3
Mr. Liu Gang	15,000,000	-	-	-	-	15,000,000	0.24	05.06.2018	Note 3
<b>Senior management member</b>									
Mr. Wang Yongxin	7,000,000	-	-	-	-	7,000,000	0.24	05.06.2018	Note 3
<b>Employees</b>									
	6,600,000	-	-	-	-	6,600,000	1.462	22.08.2014	Note 1
(in aggregate)	22,800,000	-	-	-	-	22,800,000	0.59	08.12.2015	Note 2
	102,500,000	-	-	(1,000,000)	-	101,500,000	0.24	05.06.2018	Note 3
<b>Total</b>	<b>191,900,000</b>	<b>-</b>	<b>-</b>	<b>(1,000,000)</b>	<b>-</b>	<b>190,900,000</b>			



## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Notes:

1. The validity period of the Options shall expire on the 7th anniversary of the First Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:  
  
Tranche I: beginning on the 1st anniversary of the First Grant Date: 30% of such Options granted;  
  
Tranche II: beginning on the 2nd anniversary of the First Grant Date: 30% of such Options granted; and  
  
Tranche III: beginning on the 3rd anniversary of the First Grant Date: 40% of such Options granted.
2. The validity period of the Options shall expire on the 7th anniversary of the Second Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:  
  
Tranche I: beginning on the 1st anniversary of the Second Grant Date: 30% of such Options granted;  
  
Tranche II: beginning on the 2nd anniversary of the Second Grant Date: 30% of such Options granted; and  
  
Tranche III: beginning on the 3rd anniversary of the Second Grant Date: 40% of such Options granted.
3. The validity period of the Options is from 5 June 2018 to 4 June 2025. 60% of the Options granted will be vested and exercisable on or after 5 June 2018 and the remaining 40% of the Options granted will be vested and exercisable on or after 5 June 2019.

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

The Company did not redeem any of its Shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares during the Period.

### 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 has complied with all the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**" and the "**CG Code**", respectively) during the Period and up to the date of this report.

### COMPLIANCE WITH MODEL CODE

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 Period.

### REVIEW BY AUDIT COMMITTEE

The Board has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code, which were revised and adopted on 29 December 2018 with effect from 1 January 2019. The Audit Committee comprises all the three independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng) ("**Mr. Meng**"), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. Mr. Meng is the chairman of the Audit Committee. The Company's unaudited condensed consolidated interim results for the Period and this report have been reviewed by the Audit Committee.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2020, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

#### Long Positions in the Shares

Name of Directors/ Chief Executive	Capacity/Nature of interests	Number of Shares held	Number of underlying Shares held <sup>(Note 3)</sup>	Total	Approximate percentage of issued Shares
Mr. Zhao Hongliang <i>(Note 1)</i>	(i) Interest in a controlled corporation and beneficial owner/Corporate and personal interest	1,150,900,000	4,500,000	1,155,400,000	24.63%
	(ii) Deemed interest under S.317 of the SFO/Others	170,200,000	–	170,200,000	3.63%
	Total	1,321,100,000	4,500,000	1,325,600,000	28.26%
Mr. Chen Xiangqing	(i) Beneficial owner/Personal interest	1,115,000	13,500,000	14,615,000	0.31%
	(ii) Interest of spouse/ Family interest <sup>(Note 2)</sup>	2,050,000	–	2,050,000	0.04%
	Total	3,165,000	13,500,000	16,665,000	0.35%
Mr. Fu Wenguo	Beneficial owner/Personal interest	–	20,000,000	20,000,000	0.43%
Mr. Liu Gang	Beneficial owner/Personal interest	5,621,000	15,000,000	20,621,000	0.44%

#### Notes:

- 1,150,900,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao Hongliang, an executive Director and the chairman of the Board (the "Chairman"). Therefore, Mr. Zhao Hongliang was deemed or taken to be interested in all the Shares beneficially owned by ZHL Asia Limited by virtue of the SFO.

Options were granted to Mr. Zhao Hongliang on 5 June 2018 pursuant to the Share Option Scheme, which entitle him to subscribe for a total of 4,500,000 Shares upon his exercise of such Options.

170,200,000 Shares were beneficially owned by ZHY Asia Limited which is solely owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao Hongliang and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao Hongliang was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. Therefore, Mr. Zhao Hongliang was deemed to be interested in an aggregate of approximately 28.26% of the issued Share.

- Ms. Zhang Yanxia, the wife of Mr. Chen Xiangqiang, was beneficially interested in 2,050,000 Shares. As such, Mr. Chen Xiangqiang was deemed to be interested in all the Shares beneficially owned by Ms. Zhang Yanxia by virtue of the SFO.
- These represent the Shares to be issued and allotted by the Company upon exercise of the Options granted under the Share Option Scheme.

Save as disclosed above and so far as is known to the Directors, as at 30 June 2020, none of the Directors and the chief executive of the Company had or was deemed to have any other interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2020, so far as it was known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interests in the Shares and the underlying Shares as recorded in the register kept under section 336 of the SFO were as follows:

#### Long Positions and Short Positions in the Shares

Name of Shareholders	Capacity/Nature of interests	Number of Shares held	Number of underlying Shares held	Deemed interest	Total	Approximate percentage of issued Shares
				pursuant to Section 317 of the SFO		
ZHL Asia Limited <sup>(Note 1)</sup>	Beneficial owner/Personal interest	1,150,900,000	–	174,700,000	1,325,600,000	28.26%
Ms. Li Shuxia <sup>(Note 2)</sup>	Interest of spouse/Family interest	1,150,900,000	4,500,000	170,200,000	1,325,600,000	28.26%
ZHY Asia Limited <sup>(Note 1)</sup>	Beneficial owner/Personal interest	170,200,000	–	1,155,400,000	1,325,600,000	28.26%
Mr. Zhao Hongyu <sup>(Note 1)</sup>	Interest in controlled corporation/ Corporate interest	170,200,000	–	1,155,400,000	1,325,600,000	28.26%

Notes:

- Please refer to note 1 under the section headed “Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures” above.
- Ms. Li Shuxia is the wife of Mr. Zhao Hongliang, an executive Director and the Chairman. Accordingly, Ms. Li Shuxia was deemed or taken to be interested in all the Shares in which Mr. Zhao Hongliang was interested and deemed or taken to be interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2020, so far as it was known by or otherwise notified to the Directors or the chief executive of the Company, no other corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interests in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO.



# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



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## To the board of directors of YuanShengTai Dairy Farm Limited

(Incorporated in Bermuda with limited liability)

### INTRODUCTION

We have reviewed the interim financial information set out on pages 17 to 32, which comprises the condensed consolidated statement of financial position of YuanShengTai Dairy Farm Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

## Ernst & Young

*Certified Public Accountants*

Hong Kong

21 August 2020



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
	<i>Notes</i>		
<b>REVENUE</b>	4	<b>751,258</b>	657,321
Cost of sales		<b>(534,097)</b>	(482,841)
Gross profit		<b>217,161</b>	174,480
Other income		<b>44,980</b>	11,975
Administrative expenses		<b>(37,221)</b>	(33,475)
Other expenses		<b>(9,657)</b>	(6,644)
Changes in fair value less costs to sell of biological assets	10	<b>(91,293)</b>	(111,637)
Impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Farm		<b>(51)</b>	(855)
<b>PROFIT BEFORE TAX</b>	5	<b>123,919</b>	33,844
Income tax expense		-	-
<b>PROFIT FOR THE PERIOD</b>		<b>123,919</b>	33,844
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<b>316</b>	602
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>124,235</b>	34,446
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Equity holders of the Company		<b>123,919</b>	33,844
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Equity holders of the Company		<b>124,235</b>	34,446
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic (expressed in RMB per share)	8	<b>0.026</b>	0.007
Diluted (expressed in RMB per share)	8	<b>0.026</b>	0.007



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	2,127,667	2,086,440
Investment properties		83,715	–
Right-of-use assets		84,206	86,574
Prepayments and other receivables		43,597	19,119
Biological assets	10	1,360,089	1,333,438
Total non-current assets		3,699,274	3,525,571
<b>CURRENT ASSETS</b>			
Inventories		184,230	295,223
Trade receivables	11	135,871	126,758
Prepayments and other receivables		8,814	3,748
Cash and cash equivalents	12	1,167,775	1,009,782
Total current assets		1,496,690	1,435,511
<b>CURRENT LIABILITIES</b>			
Trade payables	13	209,890	249,938
Other payables and accruals	14	345,076	266,773
Lease liabilities		15,280	–
Total current liabilities		570,246	516,711
<b>NET CURRENT ASSETS</b>		926,444	918,800
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,625,718	4,444,371
<b>NON-CURRENT LIABILITIES</b>			
Other payables and accruals	14	123,557	125,899
Lease liabilities		59,454	–
Total non-current liabilities		183,011	125,899
<b>NET ASSETS</b>		4,442,707	4,318,472
<b>EQUITY</b>			
Share capital	15	37,674	37,674
Reserves		4,405,033	4,280,798
Total equity		4,442,707	4,318,472

Director  
**Zhao Hongliang**

Director  
**Chen Xiangqing**



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company							Total equity RMB'000
	Issued capital	Merger reserve	Share premium	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2020 (audited)	37,674	186,000	2,956,372	455,505	20,733	9,958	652,230	4,318,472
Profit for the period	-	-	-	-	-	-	123,919	123,919
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	316	-	316
Total comprehensive income for the period	-	-	-	-	-	316	123,919	124,235
Transfer of share option reserve upon the forfeiture of share options	-	-	-	-	(85)	-	85	-
At 30 June 2020 (unaudited)	37,674	186,000	2,956,372	455,505	20,648	10,274	776,234	4,442,707
At 1 January 2019 (audited)	37,674	186,000	2,956,372	455,505	18,824	8,900	428,654	4,091,929
Profit for the period	-	-	-	-	-	-	33,844	33,844
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	602	-	602
Total comprehensive income for the period	-	-	-	-	-	602	33,844	34,446
Equity-settled share option arrangements	-	-	-	-	2,360	-	-	2,360
Transfer of share option reserve upon the forfeiture of share options	-	-	-	-	(486)	-	486	-
At 30 June 2019 (unaudited)	37,674	186,000	2,956,372	455,505	20,698	9,502	462,984	4,128,735



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>561,830</b>	247,689
Purchases of items of property, plant and equipment	(100,625)	(58,746)
Additions to biological assets	(173,985)	(159,806)
Proceeds from disposal of biological assets	76,885	63,731
(Increase)/decrease in time deposits	(213,801)	82,608
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(411,526)</b>	(72,213)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(12,648)</b>	13,500
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>137,656</b>	188,976
Cash and cash equivalents at beginning of period	1,009,782	896,965
Effect of foreign exchange rate changes, net	20,337	1,667
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,167,775</b>	1,087,608
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	558,334	322,770
Time deposits	609,441	764,838
Cash and cash equivalents as stated in the statement of financial position	1,167,775	1,087,608
Less: Non-pledged time deposits with original maturity of more than three months when acquired	213,801	-
Cash and cash equivalents as stated in the statement of cash flows	953,974	1,087,608



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

## 1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendment did not have any impact on the financial position and performance of the Group.
- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

## 3. 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.



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

## 4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of raw milk	751,258	657,321

### Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2020 Sale of raw milk RMB'000 (Unaudited)	2019 Sale of raw milk RMB'000 (Unaudited)
<b>Segments</b>		
Sale of raw milk	751,258	657,321
Total revenue from contracts with customers	751,258	657,321
<b>Geographical market</b>		
Mainland China	751,258	657,321
Total revenue from contracts with customers	751,258	657,321
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	751,258	657,321
Total revenue from contracts with customers	751,258	657,321



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

## 5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Breeding costs to produce	377,541	332,871
Production costs for raw milk	156,556	149,970
Cost of sales	<b>534,097</b>	482,841
Depreciation of property, plant and equipment	59,431	58,219
Less: Capitalised in biological assets	(18,344)	(18,348)
Depreciation recognised in the statement of profit or loss and other comprehensive income*	<b>41,087</b>	39,871
Depreciation of right-of-use assets	2,598	2,759
Auditors' remuneration	1,500	1,400
Changes in fair value less costs to sell of biological assets	91,293	111,637
Depreciation of investment properties	2,790	–
Lease payments for short-term leases	877	43
Employee benefit expenses excluding directors' and chief executive's remuneration		
Wages and salaries	50,461	43,817
Equity-settled share option expense	–	1,508
Pension scheme contributions	5,737	11,467
Less: Capitalised in biological assets	(18,498)	(18,464)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the statement of profit or loss and other comprehensive income**	<b>37,700</b>	38,328
Impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Farm***	51	855
Loss on disposal of items of property, plant and equipment	399	81
Foreign exchange differences, net	(29,703)	(1,926)



## 5. PROFIT BEFORE TAX (continued)

- \* Depreciation of approximately RMB38,005,000 (six months ended 30 June 2019: RMB36,519,000) is included in the cost of sales on the face of the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2020.
- \*\* Employee benefit expenses of approximately RMB33,553,000 (six months ended 30 June 2019: RMB32,892,000) are included in the cost of sales on the face of the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2020.
- \*\*\* Due to the withdrawal notice and removal notice received by Baiquan Ruixincheng, impairment provision of nil (six months ended 30 June 2019: RMB748,000) for immovable property, plant and equipment, and impairment provision of RMB51,000 (six months ended 30 June 2019: RMB107,000) for additional accrued transportation expenses, are charged to the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2020.

## 6. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2020 as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

## 7. DIVIDENDS

No dividend was paid or proposed by the Company during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2020 attributable to ordinary equity holders of the Company of RMB123,919,000 (unaudited) (2019: RMB33,844,000 (unaudited)) and the weighted average number of ordinary share of 4,690,496,400 (unaudited) (2019: 4,690,496,400 (unaudited)) in issue during the six months ended 30 June 2020.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

### 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

The calculation of the diluted earnings per share amount is based on the profit for the six months ended 30 June 2020 attributable to ordinary equity holders of the Company of RMB123,919,000 (unaudited) (2019: RMB33,844,000 (unaudited)). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 4,729,961,767 (unaudited) (2019: 4,690,496,400 (unaudited)) in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 39,465,367 (unaudited) (2019: Nil (unaudited)) assumed to have been issued at no consideration into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic/diluted earnings per share calculation	<b>123,919</b>	33,844

	Number of shares For the six months ended 30 June	
	2020	2019
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b>4,690,496,400</b>	4,690,496,400
Effect of dilution – weighted average number of ordinary shares:		
Share options	<b>39,465,367</b>	–
	<b>4,729,961,767</b>	4,690,496,400

### 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired assets with a cost of RMB102,059,000 (unaudited) (30 June 2019: RMB36,782,000 (unaudited)).

Assets with a net book value of RMB399,000 (unaudited) were disposed of by the Group during the six months ended 30 June 2020 (30 June 2019: RMB81,000 (unaudited)), resulting in a net loss on disposal of RMB399,000 (unaudited) (30 June 2019: RMB81,000 (unaudited)).

During the six months ended 30 June 2020, an impairment loss of nil (unaudited) (30 June 2019: RMB3,476,000 (unaudited)) was recognised for immovable property, plant and equipment as a result of the removal of Baiquan Ruixincheng Farm. The recoverable amount of these assets amounted was nil.



## 10. BIOLOGICAL ASSETS

### A – Nature of activities

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

The quantity of dairy cows owned by the Group at 30 June 2020 and 31 December 2019 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 30 June 2020 and 31 December 2019 were dairy cows that have not had their first calves.

	<b>30 June 2020 (Unaudited) Heads</b>	31 December 2019 (Audited) Heads
Dairy cows		
Milkable cows	<b>34,757</b>	33,716
Heifers and calves	<b>31,129</b>	29,924
Total dairy cows	<b>65,886</b>	63,640

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

In general, the heifers are inseminated with semen when they reach approximately 16 months old. After approximately nine months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before an approximately 60 days' dry period.

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



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

## 10. BIOLOGICAL ASSETS (continued)

### B – Value of dairy cows

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

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)	
Dairy cows	<b>1,360,089</b>	1,333,438	
	<b>Heifers and calves</b>	<b>Milkable cows</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2019	530,110	681,540	1,211,650
Increase due to raising (feeding costs and others)	384,738	–	384,738
Increase due to purchase	–	–	–
Transfer (out)/in	(316,235)	316,235	–
Decrease due to sales	(67,749)	(76,655)	(144,404)
Loss arising from changes in fair value less costs to sell	(41,321)	(77,225)	(118,546)
Balance as at 31 December 2019 and 1 January 2020 (audited)	489,543	843,895	1,333,438
Increase due to raising (feeding costs and others)	<b>194,829</b>	–	<b>194,829</b>
Transfer (out)/in	<b>(200,458)</b>	<b>200,458</b>	–
Decrease due to sales	<b>(21,436)</b>	<b>(55,449)</b>	<b>(76,885)</b>
Gain/(Loss) arising from changes in fair value less costs to sell	<b>22,761</b>	<b>(114,054)</b>	<b>(91,293)</b>
Balance as at 30 June 2020 (unaudited)	<b>485,239</b>	<b>874,850</b>	<b>1,360,089</b>



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

## 10. BIOLOGICAL ASSETS (continued)

### C – Fair value hierarchy

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

	<b>Fair value measurement using significant unobservable inputs</b> (Level 3) RMB'000
As at 30 June 2020 (unaudited)	<b>1,360,089</b>
As at 31 December 2019 (audited)	1,333,438

## 11. TRADE RECEIVABLES

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

	<b>30 June 2020</b> <b>RMB'000</b> <b>(Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Within 1 month	<b>124,787</b>	125,498
1 to 2 months	<b>11,084</b>	238
Over 2 months	<b>–</b>	1,022
	<b>135,871</b>	126,758

## 12. CASH AND CASH EQUIVALENTS

	<b>30 June 2020</b> <b>RMB'000</b> <b>(Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Cash and bank balances	<b>558,334</b>	254,715
Time deposits	<b>609,441</b>	755,067
Cash and cash equivalents	<b>1,167,775</b>	1,009,782



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

## 13. 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:

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Within 2 months	158,615	181,684
2 to 6 months	40,245	54,386
6 to 12 months	5,413	8,698
Over 1 year	5,617	5,170
	<b>209,890</b>	249,938

## 14. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Deferred income	139,333	136,661
Other payables – construction	179,624	145,821
Other payables – equipment and materials	21,023	12,535
Accrued expenses related to the removal of Baiquan Ruixincheng Farm	15,760	15,709
Others	112,893	81,946
	<b>468,633</b>	392,672
<b>Non-current portion</b>		
Deferred income	<b>(123,557)</b>	(125,899)
	<b>345,076</b>	266,773

The above amounts are non-interest-bearing and have no fixed terms of settlement.

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



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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## 15. SHARE CAPITAL

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Authorised: 50,000,000,000 ordinary shares of HK\$0.01 each	<b>406,897</b>	406,897
Issued and fully paid: 4,690,496,400 ordinary shares of HK\$0.01 each	<b>37,674</b>	37,674

## 16. COMMITMENTS

The Group had the following commitments at the end of the reporting period:

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for: Plant and machinery	<b>93,741</b>	13,276

## 17. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2020 RMB'000 (Unaudited)</b>	2019 RMB'000 (Unaudited)
Short term employee benefits	<b>2,099</b>	1,694
Post-employment benefits	<b>158</b>	172
Equity-settled share option expense	<b>–</b>	1,022
Total compensation paid to key management personnel	<b>2,257</b>	2,888



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At the end of the reporting period, the carrying amounts of the Group's financial assets and financial liabilities approximated to their fair values.

## 19. EVENT AFTER THE REPORTING PERIOD

In July 2020, Baiquan Ruixincheng received a successful administrative appeal verdict issued by the Baiquan County People's Government in favour of Baiquan Ruixincheng revoking the previous removal request issued by the Heilongjiang Shuangyang River Provincial Nature Reserve Management Office. Subsequently, Baiquan Ruixincheng further received a notice from the Qiqihar City Baiquan County Department of Ecology and Environment stating that as the area of the nature reserve has been adjusted and the Baiquan Ruixincheng Farm is no longer within the nature reserve area, they have agreed to revoke their previous removal request. Baiquan Ruixincheng is currently reapplying for the approvals as stated in the announcement of the Company dated 5 August 2020.

