



YuanShengTai Dairy Farm Limited 原生态牧業有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1431



2023 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)

Non-executive Directors

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

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INDEPENDENT AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11, Bermuda

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

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS

As to Hong Kong Laws

Loeb & Loeb LLP

As to PRC Laws

Jingtian & Gongcheng (北京市競天公誠律師事務所)

STOCK CODE

1431

BOARD LOTS

1,000 shares

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

Management Discussion and Analysis

MARKET REVIEW

Looking back to the first half of 2023, the slow recovery in the global economy due to the persistent geopolitical conflicts, aggravated inflation and increasing uncertainties, cast a shadow over the prospect. According to the Global Economic Outlook published by the World Bank in June 2023, due to the high inflation, tightening monetary policies and more exacting credit terms, the global annual economic growth rate is projected to slow down to 2.1% in 2023, 1 percentage point down from the same period of 2022. The global economic growth rate is projected to slow down to 2.7% in 2023 in the economic outlook report released by the Organization for Economic Cooperation and Development (OECD).

Despite the struggle for economic recovery, China's economy and society fully resumed to normal operation in the first half of 2023. By relieving various pressures under the guidance of macro policies, China registered a better-than-expected national economic growth and gradual improvement in market demand, implying a healthy economy on the whole. According to the statistics released by the National Bureau of Statistics, the gross domestic product (GDP) of the PRC for the first half of 2023 amounted to RMB59.3034 trillion, representing a year-on-year increase of 5.5%. China was recovering from the negative effect brought about by the COVID-19 pandemic (the "**Pandemic**"), which has provided an important impetus for the Asian economy and even the economic activities around the globe.

The size of the global dairy market in 2022 amounted to US\$944.39 billion, and is estimated to grow to US\$1,329.15 billion by 2027. According to a report published by the Ministry of Agriculture and Rural Affairs in June 2023, the global food supply were still exposed to uncertainties caused by the tension between Russia and Ukraine. Oversupply emerged since the beginning of this year when the global milk production was increased, while the milk consumption was lower than anticipated. According to the forecast of the Food and Agriculture Organization of the United Nations, in 2023, the global milk production is expected to increase by 0.9% to 940 million tonnes, and the trade volume is expected to reach 85 million tonnes, representing a year-on-year increase of 0.5%. In addition, international prices of dairy products continued to decline. The international dairy price index for May 2023 was at 118.7 points, down by 17.7% year-on-year, falling for 11 consecutive months.

In recent years, major manufacturers of dairy products strengthened the construction of milk sources, leading to steady growth of the inventory of dairy cows on the farms in China. In the first half of 2023, production of dairy products in China tended to grow. According to the statistics released by the National Bureau of Statistics, the national milk output was 17.94 million tonnes, representing a year-on-year increase of 7.5%. However, the consumption demand for dairy products has declined due to the cyclical adjustment and the weak post-Pandemic consumption. The temporary oversupply on the raw milk market caused a decline in prices of raw milk. According to the statistics monitored by the Ministry of Agriculture and Rural Affairs, the average monthly price of raw milk in May 2023 was RMB3.88 per kilogram, representing a month-on-month decrease of 1.53%, falling for seven consecutive months, and translating into a year-on-year decrease of 6.7%. With respect to feed cost, the tight supply of hay feed fueled across-the-board rise in feed prices in the first half of 2023. According to the statistics released by China Customs, China's import of hay feed from January through May 2023 decreased by 25.6% as compared with the same period of last year, and the average cost, insurance and freight price was US\$572.55 per tonne, representing a year-on-year increase of 26.8%. China's total import of alfalfa hay from January through May 2023 decreased by 23.3% as compared with the same period of last year, and the average cost, insurance and freight price was US\$580.64 per tonne, representing a year-on-year increase of 27.4%.

Management Discussion and Analysis

Currently, China is leading in terms of production, processing and consumption of dairy products in the world. The scale of its dairy sector has been expanded significantly, and its position in the field has been further enhanced. The Ministry of Agriculture and Rural Affairs pointed out that, the milk output in China maintained a growing momentum, and the self-sufficiency ratio of milk sources continued to rise. The national milk output is expected to reach 42.27 million tonnes in 2023, up by 5% over last year.

As one of the leading dairy farming companies in the PRC, YuanShengTai Dairy Farm Limited (“**YuanShengTai**” or the “**Company**”) and its subsidiaries (collectively, the “**Group**”) will continue to achieve better economies of scale by adjusting the size of the herd and improving the breeding and production technology. In order to pursue its goal of producing high-quality raw milk, YuanShengTai will continue to strengthen standardized production of raw milk and implement rigorous quality supervision so as to satisfy the society’s increasingly diversified needs for dairy products and offer the best quality raw milk to customers.

BUSINESS REVIEW

YuanShengTai is a company that focuses on producing high-quality raw milk. In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. The sales volume of raw milk of the Group for the six months ended 30 June 2023 (the “**Period**”) was 222,236 tonnes, representing an increase of 15.0% as compared with the same period of last year. The total revenue from sales of raw milk of the Group amounted to RMB1,081.9 million, representing an increase of 7.2% as compared with the same period of last year. The Group’s net loss for the Period amounted to RMB264 million, as compared to a net profit of RMB52.7 million for the same period of last year. The increase in net loss was attributable to the year-on-year decrease in unit selling price of raw milk as a result of the increasing cost and expenses per kilogram, which were caused by rises in prices of certain feeds and the increase in indirect operating expenses from January to June this year. The Group will offset the cost increase caused by the rises in prices of certain feeds by adjusting the feeding formula and optimizing the feeding methods.

The Group continued to build long-term and stable relationship with leading manufacturers of dairy products in China. In the first half of 2023, the Group’s three major customers were Feihe Dairy Group, Mengniu Group and Yili Group, which in aggregate accounted for approximately 99.6% of the Group’s total revenue. All the three major customers are leading manufacturers of dairy products in China. They contribute to the high quality development of China’s dairy industry via continuous expansion of their product portfolios, and pioneering the technology innovation in the industry, which will definitely continue to benefit the long-term development of the Group’s business. In the future, the Group expects to continue to supply raw milk products to these three major customers on a long-term basis, for the purpose of providing raw milk with the highest safety and nutritional standards in China, in line with China’s rising demand for high-end raw milk, and further consolidating the Group’s customer base.

Construction of Farms

As of 30 June 2023, the Group had ten dairy cow farms in Heilongjiang Province, one dairy cow farm in Jilin Province, and one dairy goat farm in Shaanxi Province, respectively. Each cow farm had an actual capacity ranging from 1,960 to 30,000 heads of dairy cows. The total site area of the eleven farms amounts to approximately 9,694,458 square metres. The dairy goat farm occupies a site area of 429,133 square metres, with an actual designed capacity of 20,000 heads of dairy goats. Yi’an Farm and Bei’an Farm of the Group in Heilongjiang Province have just commenced operation and started raising heifers since early 2023. As of 30 June 2023, 9,390 heads of imported dairy cows have arrived at these farms.

Management Discussion and Analysis

	Actual Designed Capacity <i>(Number of Cows/Head)</i>	Actual Inventory Number	Area <i>(m²)</i>
Gannan Farm	12,000	10,596	986,333
Kedong Heping Farm	6,000	6,021	384,000
Kedong Ruixinda Farm	18,000	10,798	784,000
Kedong Yongjin Farm	12,000	8,112	714,000
Zhenlai Farm	30,000	24,318	2,066,667
Baiquan Farm	15,000	8,631	994,000
Keshan Farm	12,000	8,257	980,000
Longjiang Ruixincheng Farm	1,960	1,781	84,300
Longjiang Jinyuan Farm	12,000	11,851	798,400
Yi'an Farm	15,000	5,727	857,713
Bei'an Farm	10,000	5,221	1,045,045
Total	143,960	101,313	9,694,458

	Actual Designed Capacity <i>(Number of Goats/Head)</i>	Actual Inventory Number	Area <i>(m²)</i>
Shaanxi Ruixiang Chengda Farm	20,000	5,217	429,133
Total	20,000	5,217	429,133

Milk Yield

During the Period, the average annual milk yield per matured milkable cow was 11.33 tonnes, representing an increase of 3.7% as compared with 10.93 tonnes in the first half of 2022. As operation of farms becomes more mature and stable, and the age mix of cows and the herd 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, standardized and quality farming by expanding production and operation and improving the feeding formula.

Management Discussion and Analysis

Size of Our Herds

The Group has established a perfect and high-quality farm management system, with the continuous expansion of herd size and a reasonable herd structure. As of 30 June 2023, the total number of inventory dairy cows on the farms operated by the Group increased to 101,313 heads, up by 19.7% as compared with 84,619 heads in the same period of 2022. The total number of inventory dairy cows has increased for four consecutive years since the second half of 2019, and has exceeded 100,000 heads. Among them, the total number of our matured milkable cows steadily increased from 38,180 heads as of 30 June 2022 to 41,682 heads as of 30 June 2023, representing a year-on-year increase of 9.2%. The total number of matured milkable cows accounts for 41.1% of the total number of inventory dairy cows. The increase in the number of our matured milkable cows further contributed to the constant supply of quality raw milk of the Group. During the Period, the Group imported heifers and calves through newly-built Yi'an Farm and Bei'an Farm, bringing the total number of heifers and calves up to 59,631 heads, representing a year-on-year increase of 28.4%. As of 30 June 2023, the number of dairy goats was 5,217 heads, including 3,604 matured milkable goats and 1,613 lambs and young goats.

	30 June 2023	30 June 2022
Number of matured milkable cows	41,682	38,180
Number of heifers and calves	59,631	46,439
Total number of dairy cows	101,313	84,619

	30 June 2023	30 June 2022
Number of matured milkable goats	3,604	5,064
Number of lambs and young goats	1,613	1,605
Total number of dairy goats	5,217	6,669

Price of Raw Milk

In the first half of 2023, raw milk was in a downward cycle. During the Period, the domestic price of raw milk was under pressure as the weak consumption of domestic dairy products led to oversupply of raw milk, and price of the Group's raw milk dropped accordingly. During the Period, the average selling price of the Group's raw cow milk was RMB4,863 per tonne, representing a decrease of 6.7% as compared with the same period of last year. The average selling price of the Group's raw goat milk was RMB7,031 per tonne during the Period, representing a decrease of 4.0% as compared with the same period of last year.

OUTLOOK

In recent years, the development of the dairy industry in China has accelerated. Thanks to a number of strategic policies issued by the Chinese Government, significant milestone achievements have been made in the revitalization of the dairy industry. It was proposed in The Opinions on the Strategic Development of Dairy Cow Seed Industry in China* (《中國奶牛種業戰略發展意見》) that by 2030, there shall be an effective modern independent dairy cow breeding system, the basic dairy cow breeding shall be carried out in an all-round way, breakthroughs shall be made in independent development and application of new breeding technologies, there shall be a general improvement in the efficiency of efficient propagation, the system of population genetic technical improvement shall reach the international advanced level, and the biosafety level of the national dairy cow core breeding farm and bull breeding station shall be significantly improved. The unit yield of dairy cows shall increase continuously, and the core competitiveness of seed industry shall be significantly improved.

The Ministry of Agriculture and Rural Affairs forecasts that, from 2023 to 2032, China's dairy industry will be fully revitalized and the mechanism for ensuring the supply of important agricultural products will be further improved, and the scale of dairy farming and the production technical efficiency will be steadily improved, further consolidating the growth foundation of domestic milk production.

Dairy industry is an important basic industry in China. With growing income of urban and rural residents and the upgrading of consumption pattern in China, the food consumption demand in China is being upgraded at a faster pace and is being diversified. The Group believes that urban and rural residents in China will pay increasing attention to healthy diets in the future, and the consumption demand for dairy products in China will continue to grow, suggesting huge consumption potential, which will simultaneously drive up the total demand for raw milk. This is conducive to the long-term stable development of upstream farming enterprises.

The Group will seize the market opportunities and follow the strategic development policies of dairy industry and dairy seed industry in China, to continuously improve the operating performance, expand the herd size, increase the average annual output of dairy cows and increase the sales of raw milk. YuanShengTai will continue to improve its production and management level, achieve sustainable comprehensive profitability of the Group, and contribute to the high-quality development and accelerating the modern industrial system of China's dairy industry.

OUR REVENUE

During the Period, our total sales of raw milk increased by 7.2% to RMB1,081.9 million as compared with RMB1,009.0 million for the six months ended 30 June 2022. The sales volume of raw cow milk reached 221,707 tonnes for the Period, representing an increase of 15.2% as compared with 192,412 tonnes for the six months ended 30 June 2022. The sales volume of raw goat milk reached 529 tonnes for the Period, representing a decrease of 31.1% as compared with 768 tonnes for the six months ended 30 June 2022.

Management Discussion and Analysis

COST OF SALES

Our cost of sales for the Period was RMB824.8 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2023 and 2022:

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Cost of sales		
Feed	618,343	533,995
Salary, welfare and social insurance	54,068	50,390
Depreciation	49,831	45,673
Veterinary cost	30,190	26,567
Utility	46,592	43,496
Transportation expenses	409	14,308
Other cost	25,352	22,478
Cost of sales, total	824,785	736,907

Feed costs represent the feed consumed by our milkable cows and goats. The feed costs for milkable cows and milkable goats were RMB618.3 million and RMB534.0 million for the six months ended 30 June 2023 and 2022, respectively, representing 75.0% and 72.5% of the cost of sales for the respective six months ended 30 June 2023 and 2022. The increase in our feed costs was attributable to the increases in (i) the number of milkable cows; and (ii) the price of hay feed.

GROSS PROFIT

Resulted from the factors discussed above, the gross profit decreased to RMB257.1 million for the Period (six months ended 30 June 2022: RMB272.1 million), representing a decrease of 5.5%. Our gross profit margin decreased from 27.0% for the six months ended 30 June 2022 to 23.8% for the Period.

OTHER INCOME AND GAINS

Other income and gains for the six months ended 30 June 2023 and 2022 amounted to RMB58.3 million and RMB56.3 million, respectively, representing an increase of 3.6%. The increase in other income and gains was attributable to the increase in exchange gain.

ADMINISTRATIVE EXPENSES

We incurred administrative expenses of RMB53.6 million for the Period, representing a decrease of approximately 20.7% as compared to RMB67.6 million for the six months ended 30 June 2022. The decrease was attributable to the decreases in (i) one-off tax expenses; and (ii) share option expense recognised for the Period. Share options were granted to Directors and employees of the Company pursuant to a share option scheme adopted by China Feihe Limited (“China Feihe”) on 22 June 2020.

OTHER EXPENSES

Other expenses for the Period amounted to RMB16.8 million (six months ended 30 June 2022: RMB20.2 million), representing a decrease of approximately 16.8%. The decrease in other expenses was attributable to the decrease in expense related to the disposal of cow waste.

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 RMB410.3 million for the Period as compared with a loss of RMB185.4 million for the six months ended 30 June 2022. The increase in loss was attributable to the increase in feeding costs and the decrease in the price of raw milk.

IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the Period, an impairment loss of RMB85,925,000 (six months ended 30 June 2022: Nil) was recognised for property, plant and equipment and right-of-use assets of an indirect wholly-owned subsidiary of the Company. The operating loss of such subsidiary was much greater than expected due to the decrease in the price of raw milk and the increase in feeding costs. The management considered that it is unlikely that such subsidiary could make a profit in near future, as such, full impairment loss was provided for its property, plant and equipment and right-of-use assets. The recoverable amount was based on valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional qualified valuer.

LOSS OF THE GROUP FOR THE PERIOD

As a result of all the above factors, the Group recorded a net loss of RMB264.1 million for the Period, as compared with a net profit of RMB52.7 million for the six months ended 30 June 2022. Basic loss per share was approximately RMB5.6 cents for the Period, as compared with basic earnings per share amounted RMB1.1 cents for the six months ended 30 June 2022.

Management Discussion and Analysis

INTERIM DIVIDEND

The board of directors of the Company (the “**Directors**” and the “**Board**”, respectively) has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2022: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group’s net cash inflow from operating activities amounted to RMB531.7 million, as compared with RMB668.8 million for the six months ended 30 June 2022. As at 30 June 2023, the Group had cash and cash equivalents of RMB745.5 million (31 December 2022: RMB576.3 million). Save for cash and cash equivalents equivalent to RMB582.7 million which were denominated in the United States dollars (“**USD**”), and RMB4.3 million which were denominated in Hong Kong dollars (“**HKD**”), the Group’s remaining cash and cash equivalents were denominated in Renminbi (“**RMB**”).

The Group had interest-bearing bank and other borrowings of RMB1,003.8 million as at 30 June 2023 (31 December 2022: RMB836.5 million) which was denominated in RMB. The annual interest rate of the bank and other borrowings as at 30 June 2023 ranged from 2.90% to 3.85% (31 December 2022: ranged from 2.95% to 3.85%). The gearing ratio (calculated by dividing net debt by the equity attributable to owners of the parent plus net debt) was 13.9% (31 December 2022: 13.2%). Net debt includes interest-bearing bank and other borrowings, trade payables, and certain other payables and accruals, less cash and cash equivalents and time deposits.

CAPITAL STRUCTURE

As at 30 June 2023, 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 construction of new farms and major maintenance and acquisition of additional equipment and cows 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 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**”).

Save as disclosed above and in the Prospectus, there were no significant investments held as at 30 June 2023 nor were there other plans for material investments on capital assets as at the date of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE “IPO”)

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\$3,298.0 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders of the Company (the “**Shareholders**”) (i.e. not receivable by the Company)) amounted to approximately HK\$2,564.0 million. The net proceeds were spent broadly in accordance with the Company’s plan as disclosed in the Prospectus.

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

	Planned use of net proceeds from the IPO (as stated in the Prospectus) <i>HK\$ million</i>	Actual use of net proceeds from the IPO up to 30 June 2023 <i>HK\$ million</i>	Actual use of net proceeds from the IPO during the Period <i>HK\$ million</i>	Unused net proceeds from the IPO as at 30 June 2023 <i>HK\$ million</i>
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 end of 2023. As the Board is still observing the market conditions which are slowly recovering after the Pandemic, the expected timeline for unused net proceeds in respect of developing upstream operations will be further delayed to the end of 2024. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

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

Management Discussion and Analysis

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 2023, no assets of the Group were pledged as security for bank borrowings (31 December 2022: Nil).

FOREIGN EXCHANGE EXPOSURE

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

TREASURY POLICIES

The Group adopts a conservative approach to treasury management. 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 2023 were RMB154.0 million (31 December 2022: RMB240.3 million), which were for construction of our new farms, renewal of existing facilities and purchase of dairy cows. The Group did not have any significant contingent liabilities as at 30 June 2023 (31 December 2022: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the Group had 2,319 employees (31 December 2022: 2,241 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 RMB134.8 million (six months ended 30 June 2022: RMB116.8 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 making 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 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.

EVENTS AFTER REPORTING PERIOD

On 2 August 2023, the Company entered into a processing framework agreement with Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司) ("**Feihe Dairy HLJ**"), a wholly-owned subsidiary of China Feihe (for itself and on behalf of its subsidiaries), pursuant to which the Company agreed to engage Feihe Dairy HLJ and its subsidiaries to provide processing services for processing raw milk into full cream milk powder for a term commencing from 2 August 2023 and ending on 31 December 2023 subject to the terms and conditions contained therein. Details of which are set out in the announcement of the Company dated 2 August 2023.

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

* For identification purpose

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 to eligible participants, including without limitation employees of the Group as well as directors of the Company and its subsidiaries.

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

During the Period, no Option was granted, exercised, cancelled or lapsed under the Share Option Scheme and no Option was outstanding under the Share Option Scheme as at 30 June 2023.

As at 1 January 2023 and 30 June 2023, the total number of Options available for grant under the Share Option Scheme were 95,224,700.

The total number of Shares that may be issued in respect of Options granted under all schemes of the Company during the Period divided by the weighted average number of Shares in issue for the Period was Nil.

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 Part 2 of 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 four independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng) (“**Mr. Meng**”), Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Ms. Liu Jinping. Mr. Meng is the chairman of the Audit Committee. The Company’s unaudited condensed consolidated interim results for the Period have been reviewed by the Audit Committee.

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

As at 30 June 2023, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the “**SFO**”)), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(i) Long Positions in the Shares

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

Note: 3,342,320,920 Shares were beneficially owned by China Feihe which is owned as to 49.37% by Mr. Leng, a non-executive Director. Therefore, Mr. Leng is deemed or taken to be interested in 3,342,320,920 Shares beneficially owned by China Feihe by virtue of the SFO.

Corporate Governance and Other Information

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

Name of Directors	Capacity/Nature of interests	Number of shares held	Number of underlying shares held	Approximate percentage of issued shares
Mr. Leng ^(Note 1)	Interest in a controlled corporation and founder of a discretionary trust/corporate and other interest	4,477,428,339	–	49.37%
Mr. Liu Hua (“ Mr. Liu ”) ^(Note 2)	Interest in a controlled corporation and founder of a discretionary trust/corporate and other interest	345,681,920	–	3.81%
Mr. Chen ^(Note 3)	Beneficial owner/Personal interest	–	189,000	0.00%
Mr. Fu Wenguo (“ Mr. Fu ”) ^(Note 4)	Beneficial owner/Personal interest	–	1,549,200	0.02%
Mr. Zhao Hongliang (“ Mr. Zhao ”) ^(Note 5)	Beneficial owner/Personal interest	–	1,549,200	0.02%
Mr. Liu Gang	Beneficial owner/Personal interest	464,000	–	0.01%
Mr. Cai Fangliang (“ Mr. Cai ”) ^(Note 6)	Interest in a controlled corporation/corporate interest	101,647,734	–	1.12%

Notes:

- 587,516,458 shares were held by Mr. Leng through his controlled corporation – Dasheng Limited (“**Dasheng**”). 66.66% of the equity interests in Dasheng were held directly by Mr. Leng. 3,889,911,881 shares were held by Harneys Trustees Limited (“**Harneys**”) as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited (“**LYB**”), which in turn holds the entire issued share capital of Garland Glory Holdings Limited (“**Garland Glory**”). Leng Family Trust was established by Mr. Leng as the settlor and the only discretionary object.
- 345,681,920 shares were held by Harneys as the trustee of LH Family Trust, which in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited, LH Family Trust was established by Mr. Liu as the settlor and the only discretionary object.
- Share options were granted to Mr. Chen on 15 July 2021 pursuant to a share option scheme adopted by China Feihe on 22 June 2020 (the “**2020 Share Option Scheme**”), which entitles him to subscribe for a total of 189,000 shares upon his exercise of such options.
- Share options were granted to Mr. Fu on 15 July 2021 and 24 January 2022 pursuant to the 2020 Share Option Scheme, which entitles him to subscribe for a total of 1,549,200 shares upon his exercise of such options.
- Share options were granted to Mr. Zhao on 15 July 2021 and 24 January 2022 pursuant to the 2020 Share Option Scheme, which entitles him to subscribe for a total of 1,549,200 shares upon his exercise of such options.
- 101,647,734 Shares were held by Adroit Shipping Limited, which is wholly owned by Mr. Cai.

Corporate Governance and Other Information

Save as disclosed above and so far as is known to the Directors, as at 30 June 2023, none of the Directors and the chief executive of the Company had or was deemed to have any other interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2023, as far as known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interests in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

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

Notes:

1. Please refer to note under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
2. 3,342,320,920 Shares were held by Harneys as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB, which in turn holds the entire issued share capital of Garland Glory, which in turn holds 42.82% of China Feihe. Leng Family Trust is a discretionary trust established by Mr. Leng as the settlor and the only discretionary object. Accordingly, each of Harneys, LYB and Garland Glory was deemed or taken to be interest in 3,342,320,920 Shares directly held by China Feihe.

Save as disclosed above, as at 30 June 2023, so far as it was known by or otherwise notified to the Directors or the chief executive of the Company, no other corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interest in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

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 19 to 36, 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 2023 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 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
28 August 2023

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2023

		2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
	<i>Notes</i>		
REVENUE	4	1,081,881	1,009,035
Cost of sales		(824,785)	(736,907)
Gross profit		257,096	272,128
Other income and gains		58,323	56,317
Administrative expenses		(53,580)	(67,623)
Other expenses		(16,805)	(20,223)
Finance costs		(12,857)	(2,559)
Impairment losses on property, plant and equipment and right-of-use assets	5	(85,925)	–
Changes in fair value less costs to sell of biological assets	10	(410,329)	(185,380)
(LOSS)/PROFIT BEFORE TAX	5	(264,077)	52,660
Income tax expense		–	–
(LOSS)/PROFIT FOR THE PERIOD		(264,077)	52,660
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(5,959)	(2,421)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(270,036)	50,239
(LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		(264,077)	52,660
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		(270,036)	50,239
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (expressed in RMB per share)	8	(0.056)	0.011

Interim Condensed Consolidated Statement of Financial Position

30 June 2023

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,784,186	3,831,079
Investment properties		89,416	109,812
Right-of-use assets		77,115	74,776
Prepayments and other receivables		75,542	271,571
Biological assets	10	2,200,092	2,025,292
Total non-current assets		6,226,351	6,312,530
CURRENT ASSETS			
Inventories		481,095	787,544
Trade receivables	11	838	26,017
Prepayments and other receivables		48,792	6,578
Structured deposit		50,595	–
Restricted cash		2,865	–
Time deposits	12	187,293	232,332
Cash and cash equivalents	12	745,544	576,309
Total current assets		1,517,022	1,628,780
CURRENT LIABILITIES			
Trade and bills payables	13	399,125	388,667
Other payables and accruals	14	1,069,199	1,132,462
Interest-bearing bank and other borrowings		117,998	120,000
Lease liabilities		11,958	20,293
Total current liabilities		1,598,280	1,661,422
NET CURRENT LIABILITIES		(81,258)	(32,642)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,145,093	6,279,888
NON-CURRENT LIABILITIES			
Other payables and accruals	14	379,083	383,134
Interest-bearing bank and other borrowings		885,784	716,534
Lease liabilities		59,904	92,082
Total non-current liabilities		1,324,771	1,191,750
NET ASSETS		4,820,322	5,088,138
EQUITY			
Share capital	15	37,674	37,674
Reserves		4,782,648	5,050,464
Total equity		4,820,322	5,088,138

Director
Zhao Hongliang

Director
Chen Xiangqing

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

Attributable to owners of the Company

	Issued capital <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2023 (audited)	37,674	186,000	2,977,020	455,505	9,660	12,182	1,410,097	5,088,138
Loss for the period	-	-	-	-	-	-	(264,077)	(264,077)
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	(5,959)	-	(5,959)
Total comprehensive loss for the period	-	-	-	-	-	(5,959)	(264,077)	(270,036)
Equity-settled share option arrangements	-	-	-	-	2,220	-	-	2,220
At 30 June 2023 (unaudited)	37,674	186,000	2,977,020	455,505	11,880	6,223	1,146,020	4,820,322
At 1 January 2022 (audited)	37,674	186,000	2,977,020	455,505	-	9,343	1,387,256	5,052,798
Profit for the period	-	-	-	-	-	-	52,660	52,660
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	(2,421)	-	(2,421)
Total comprehensive (loss)/income for the period	-	-	-	-	-	(2,421)	52,660	50,239
Equity-settled share option arrangements	-	-	-	-	5,800	-	-	5,800
At 30 June 2022 (unaudited)	37,674	186,000	2,977,020	455,505	5,800	6,922	1,439,916	5,108,837

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	531,654	668,805
Purchases of items of property, plant and equipment	(160,510)	(375,654)
Additions to biological assets	(446,144)	(436,237)
Purchases of structured deposit	(50,000)	–
Proceeds from disposal of biological assets	111,022	82,271
Proceeds from disposal of items of property, plant and equipment	–	2,786
Receipt of government grants for property, plant and equipment	5,000	–
Decrease/(increase) in time deposits	45,039	(14,832)
Acquisition of a business	–	(135,883)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(495,593)	(877,549)
New bank loans	287,247	341,600
Repayment of bank loans	(120,000)	–
Repayment of other borrowing	–	(190,000)
Interest paid	(17,573)	(3,981)
Principal portion of lease payments	(32,834)	(20,706)
NET CASH FLOWS FROM FINANCING ACTIVITIES	116,840	126,913
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	152,901	(81,831)
Cash and cash equivalents at beginning of period	576,309	959,411
Effect of foreign exchange rate changes, net	16,334	1,040
CASH AND CASH EQUIVALENTS AT END OF PERIOD	745,544	878,620
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	449,359	297,604
Non-pledged time deposits with original maturity of less than three months when acquired	296,185	581,016
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position and the interim condensed consolidated statement of cash flows	745,544	878,620

Notes to Interim Condensed Consolidated Financial Information

30 June 2023

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the Period has been prepared in accordance with International Accounting Standard (“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 2022.

Going concern

In preparation of the interim condensed consolidated financial information for the Period, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s total current liabilities exceeded its total current assets by RMB81,258,000 (31 December 2022: RMB32,642,000). Taking into account (i) the available credit facilities of approximately RMB348,138,000 which remain unutilised as at 30 June 2023 obtained from licensed banks; (ii) the expected net cash inflows generated from the Group’s operations for the next twelve months, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future. Accordingly, the interim condensed consolidated financial information has been prepared on a going concern basis.

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 2022, except for the adoption of the following new and revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group’s interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group’s annual consolidated financial statements.
- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group’s policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

Notes to Interim Condensed Consolidated Financial Information

30 June 2023

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw cow milk and goat milk. The two businesses are regarded as separate operating segments by the chief operating decision maker. As the operating segments have similar economic characteristics and both operating segments are similar in respect of the nature of products and service, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the service, and the nature of the regulatory environment, both operating segments are aggregated for financial reporting purposes. Accordingly, no operating segment information is presented.

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of raw milk	1,081,881	1,009,035

Disaggregated revenue information for revenue from contracts with customers

Segments	For the six months ended 30 June	
	2023	2022
	Sale of raw milk	Sale of raw milk
	RMB'000	RMB'000
Type of goods		
Sale of raw milk	1,081,881	1,009,035
Total revenue from contracts with customers	1,081,881	1,009,035
Geographical market		
Mainland China	1,081,881	1,009,035
Total revenue from contracts with customers	1,081,881	1,009,035
Timing of revenue recognition		
Goods transferred at a point in time	1,081,881	1,009,035
Total revenue from contracts with customers	1,081,881	1,009,035

Notes to Interim Condensed Consolidated Financial Information

30 June 2023

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Breeding costs to produce	618,343	533,997
Production costs for raw milk	206,442	202,910
Cost of sales	824,785	736,907
Depreciation of property, plant and equipment	100,306	97,596
Less: Capitalised in biological assets	(49,858)	(51,162)
Depreciation recognised in the statement of profit or loss and other comprehensive income*	50,448	46,434
Depreciation of right-of-use assets	4,102	2,626
Depreciation of investment properties	10,511	8,718
Auditors' remuneration	1,650	1,650
Changes in fair value less costs to sell of biological assets	410,329	185,380
Lease payments for short-term leases	47	35
Employee benefit expenses excluding directors' and chief executive's remuneration		
Wages and salaries	96,413	85,510
Pension scheme contributions	29,813	25,231
Equity-settled share option expense	920	2,926
Less: Capitalised in biological assets	(48,265)	(40,321)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the statement of profit or loss and other comprehensive income**	78,881	73,346
Impairment losses on property, plant and equipment and right-of-use assets***	85,925	–
Loss on disposal of items of property, plant and equipment	127	658
Foreign exchange differences, net	(16,323)	(1,040)

* Depreciation of approximately RMB49,831,000 (six months ended 30 June 2022: RMB45,673,000) is included in the cost of sales on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

** Employee benefit expenses of approximately RMB54,068,000 (six months ended 30 June 2022: RMB50,711,000) is included in the cost of sales on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

*** Impairment loss of RMB85,575,000 (six months ended 30 June 2022: Nil) for property, plant and equipment and impairment loss of RMB350,000 (six months ended 30 June 2022: Nil) for right-of-use assets of an indirect wholly-owned subsidiary of the Company are charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

Notes to Interim Condensed Consolidated Financial Information

30 June 2023

6. INCOME TAX

No provision for Hong Kong profits tax has been made for the Period as the Group did not generate any assessable profits arising in Hong Kong during the Period (six months ended 30 June 2022: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

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

7. DIVIDENDS

No dividend was paid or proposed by the Company during the Period (six months ended 30 June 2022: Nil).

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted loss per share amounts is based on the loss for the Period attributable to ordinary equity holders of the Company of RMB264,077,000 (unaudited) (2022: profit of RMB52,660,000 (unaudited)) and the weighted average number of ordinary shares is 4,690,496,400 (unaudited) (2022: 4,690,496,400 (unaudited)) in issue during the Period. The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 and 30 June 2022.

The calculations of basic and diluted (loss)/earnings per share are based on:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic/diluted (loss)/earnings per share calculation	(264,077)	52,660
	Number of shares	
	For the six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic/diluted (loss)/earnings per share calculation	4,690,496,400	4,690,496,400

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired assets with a cost of RMB118,695,000 (unaudited) (six months ended 30 June 2022: RMB291,148,000 (unaudited)).

Assets with a net book value of RMB127,000 (unaudited) were disposed of by the Group during the Period (six months ended 30 June 2022: RMB3,444,000 (unaudited)), resulting in a net loss on disposal of RMB127,000 (unaudited) (six months ended 30 June 2022: RMB658,000 (unaudited)).

During the Period, an impairment loss of RMB85,575,000 (six months ended 30 June 2022: Nil) was recognised for property, plant and equipment of an indirect wholly-owned subsidiary of the Company as a result of the significant loss incurred during the Period. The recoverable amount was nil which has been determined at the level of the cash-generating unit based on a value-in-use calculation using cash flow projections. The recoverable amount was based on valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional qualified valuer. The cash-generating unit mainly consisted of property, plant and equipment allocated to a subsidiary. The discount rate applied to the cash flow projections is 14%.

10. BIOLOGICAL ASSETS

A – Nature of activities

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

The quantity of dairy cows owned by the Group as at 30 June 2023 and 31 December 2022 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held as at 30 June 2023 and 31 December 2022 were dairy cows that have not had their first calves.

	30 June 2023 (Unaudited) Heads	31 December 2022 (Audited) Heads
Dairy cows		
Milkable cows	41,682	40,235
Heifers and calves	59,631	49,202
Total dairy cows	101,313	89,437

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

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10. BIOLOGICAL ASSETS (Continued)

A – Nature of activities (Continued)

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

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

The quantity of dairy goats owned by the Group as at 30 June 2023 is shown below. The Group's dairy goats contain lambs, young goats and milkable goats. Lambs and young goats held as at 30 June 2023 were dairy goats that have not had their first lambs.

	30 June 2023 (Unaudited) Heads	31 December 2022 (Audited) Heads
Dairy goats		
Milkable goats	3,604	4,482
Lambs and young goats	1,613	1,491
Total dairy goats	5,217	5,973

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

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10. BIOLOGICAL ASSETS (Continued)

B – Value of dairy cows and goats

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

	30 June 2023	31 December 2022	
	RMB'000	RMB'000	
	(Unaudited)	(Audited)	
Dairy cows	2,177,100	1,996,691	
	Heifers and calves	Milkable cows	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as at 1 January 2022 (audited)	762,103	945,214	1,707,317
Increase due to raising (feeding costs and others)	810,324	–	810,324
Transfer (out)/in	(558,130)	558,130	–
Decrease due to sales	(34,993)	(119,994)	(154,987)
Loss arising from changes in fair value less costs to sell	(47,995)	(317,968)	(365,963)
Balance as at 31 December 2022 and 1 January 2023 (audited)	931,309	1,065,382	1,996,691
Increase due to raising (feeding costs and others)	448,498	–	448,498
Increase due to purchase	242,220	–	242,220
Transfer (out)/in	(366,810)	366,810	–
Decrease due to sales	(27,243)	(83,279)	(110,522)
Loss arising from changes in fair value less costs to sell	(69,624)	(330,163)	(399,787)
Balance as at 30 June 2023 (unaudited)	1,158,350	1,018,750	2,177,100

Notes to Interim Condensed Consolidated Financial Information

30 June 2023

10. BIOLOGICAL ASSETS (Continued)

B – Value of dairy cows and goats (Continued)

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)	
Dairy goats	22,992	28,601	
	Lambs and young goats RMB'000	Milkable goats RMB'000	Total RMB'000
Balance as at 1 January 2022 (audited)	–	–	–
Increase due to acquisition of a business	24,263	20,524	44,787
Increase due to raising (feeding costs and others)	7,845	–	7,845
Transfer (out)/in	(15,199)	15,199	–
Decrease due to sales	(217)	(174)	(391)
Loss arising from changes in fair value less costs to sell	(10,852)	(12,788)	(23,640)
Balance as at 31 December 2022 and 1 January 2023 (audited)	5,840	22,761	28,601
Increase due to raising (feeding costs and others)	5,430	–	5,430
Transfer (out)/in	(365)	365	–
Decrease due to sales	(227)	(270)	(497)
Loss arising from changes in fair value less costs to sell	(4,628)	(5,914)	(10,542)
Balance as at 30 June 2023 (unaudited)	6,050	16,942	22,992

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10. BIOLOGICAL ASSETS (Continued)

C – Fair value hierarchy

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

	Fair value measurement using significant unobservable inputs (Level 3) <i>RMB'000</i>
As at 30 June 2023 (unaudited)	2,200,092
As at 31 December 2022 (audited)	2,025,292

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:

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Within 1 month	838	26,017

12. CASH AND CASH EQUIVALENTS

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Cash and bank balances	449,359	280,174
Time deposits	483,478	528,467
	932,837	808,641
Less: Non-pledged time deposits with maturity of more than three months when acquired	(187,293)	(232,332)
Cash and cash equivalents	745,544	576,309

Notes to Interim Condensed Consolidated Financial Information

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13. TRADE AND BILLS PAYABLES

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 2 months	289,471	317,841
2 to 6 months	68,025	52,231
6 to 12 months	23,619	10,962
Over 1 year	18,010	7,633
	399,125	388,667

14. OTHER PAYABLES AND ACCRUALS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Deferred income	399,520	402,300
Contract liabilities	671,977	694,692
Other payables – construction	195,335	225,960
Other payables – equipment and materials	49,613	39,093
Others	131,837	153,551
	1,448,282	1,515,596
Non-current portion		
Deferred income	(379,083)	(383,134)
	1,069,199	1,132,462

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 for which they are intended to compensate over the weighted average of the expected useful life of the relevant property, plant and equipment.

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15. SHARE CAPITAL

	30 June 2023	31 December 2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	406,897	406,897
Issued and fully paid:		
4,690,496,400 ordinary shares of HK\$0.01 each	37,674	37,674

16. COMMITMENTS

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

	30 June 2023	31 December 2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Plant and machinery	146,848	193,590
Dairy cows	7,172	46,724
	154,020	240,314

17. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the period:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of raw milk to the ultimate holding company	1,058,572	858,216
Purchase of milk powder from an associate of the ultimate holding company	600	–

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17. RELATED PARTY TRANSACTIONS (Continued)

- (b) Other transaction with related parties:

As at 30 June 2023, the Group's Chief Executive Officer and his wife have provided guarantees for certain of the Group's bank loan facilities up to RMB875,000,000 (31 December 2022: RMB875,000,000), of which an amount of RMB565,784,000 (31 December 2022: RMB434,582,000) has been utilised.

- (c) Outstanding balances with related parties:

The Group had an outstanding balance of contract liabilities due to China Feihe (included in other payables and accruals) amounting to RMB671,977,000 (unaudited) as at 30 June 2023 (31 December 2022: RMB694,692,000 (audited)). This balance is unsecured, interest-free and has no fixed terms of repayment.

The Group had an outstanding balance of amounts due from an associate of China Feihe (included in prepayments and other receivables) amounting to RMB34,400,000 as at 30 June 2023 (31 December 2022: Nil (audited)), of which an amount of RMB4,400,000 is the prepaid consideration for purchasing milk powder and the remaining balance of RMB30,000,000 is unsecured and interest-free, and will be collected within one year.

- (d) Compensation of key management personnel of the Group is as follows:

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Short term employee benefits	2,492	2,199
Post-employment benefits	276	332
Equity-settled share option expense	1,381	2,874
Total compensation paid to key management personnel	4,149	5,405

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows

	Carrying amounts		Fair values	
	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Financial asset				
Structured deposit	50,595	–	50,595	–
Financial liabilities				
Interest-bearing bank and other borrowings	1,003,782	836,534	1,002,897	836,177

Management has assessed that the fair values of cash and cash equivalents, time deposits, restricted cash, trade receivables, financial assets included in prepayments and other receivables, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2023 were assessed to be insignificant.

The fair value of the structured deposit is determined in accordance with discounted cash flow analysis.

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Asset measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2023 (unaudited)				
Structured deposit	-	50,595	-	50,595

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2023 (unaudited)				
Interest-bearing bank and other borrowings	-	1,002,897	-	1,002,897
At 31 December 2022 (audited)				
Interest-bearing bank and other borrowings	-	836,177	-	836,177

The Group did not have any financial liabilities measured at fair value as at 30 June 2023 (31 December 2022: Nil).

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets and financial liabilities (31 December 2022: Nil).

19. EVENTS AFTER THE REPORTING PERIOD

On 2 August 2023, the Company entered into a processing framework agreement with Feihe Dairy HLJ, a wholly-owned subsidiary of China Feihe, pursuant to which, the Company agreed to engage Feihe Dairy HLJ and its subsidiaries to provide service of processing raw milk into full cream milk powder and for a term commencing from 2 August 2023 and ending on 31 December 2023 subject to the terms and conditions contained therein. The annual cap in connection with the processing service for the period from 2 August 2023 to 31 December 2023 is RMB29,000,000. Details of the agreement are set out in the announcement of the Company dated 2 August 2023.