



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

(Incorporated in Bermuda with limited liability)

Stock Code: 1431



# 2019 Interim Report

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# CORPORATE INFORMATION

As at 17 September 2019

## 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 Director

Mr. Lau Ho Fung (劉浩峰)  
(resigned with effect from 3 September 2019)

### 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)  
Sir Kwok Siu Man KR (郭兆文黎剌騎士勳賢)

## 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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

In the first half of 2019, dairy demand in China recovered with a gradual increase of upstream fresh milk production. Given the sustained and rigid growth in milk consumption, prices of China's raw milk continued their upward streak in last year, showing a moderate upward trend, and the industry as a whole maintained a sound development momentum. There are indications that the situation of low prices of raw milk, which has lasted for years, is changing.

At the same time, the state has provided strong support for the dairy industry on the policy side. In February 2019, the central government issued the No. 1 document ("Certain Opinions of Central Committee of the Communist Party of China and the State Council on Prioritizing the Development of Agriculture and Rural Areas and Providing Comprehensive Services for 'Agriculture, Rural Areas and Farmers'" (《中共中央國務院關於堅持農業農村優先發展做好「三農」工作的若干意見》), a further request was made on prosperous development of the dairy industry that "the government shall take steps for prosperous development of the dairy industry by intensifying the construction of high-quality milk source base and upgrading small and medium-sized dairy farms", and specified the goals of industrial revitalization of China's dairy industry, which has given important and clear guidance for the development of the industry, setting a general tone for China's dairy industry and provided strong support of the dairy industry on policy side, which are believed to help a lot in promoting the stable development of China's dairy industry in the future.

As a leading dairy farming company in the People's Republic of China (the "**PRC**"), YuanShengTai Dairy Farm Limited ("**YuanShengTai**" or the "**Company**") and its subsidiaries (collectively, the "**Group**") will continue to maintain a large-scale and intensive development strategy. In respect of quality, we shall actively implement the Group's primary policy – "adjust the herd structure and optimize the milk source"; on the other hand, we have improved our cattle feeding formula to control production costs. In terms of business, the Group is also seeking more development opportunities to generate more revenue.

## BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. For the six months ended 30 June 2019 (the "**Period**"), the total sales of raw milk of the Group increased by approximately 17.9% to 164,438 tons as compared with the same period of 2018. In addition, the prices of domestic raw milk increased moderately during the Period. The total revenue of the Group during the Period amounted to RMB657.3 million, representing a satisfactory increase of 22.5% as compared with the same period of 2018. During the Period, the gross profit increased by 39.7% to RMB174.5 million as compared with the first half of 2018, and we managed to record a net profit of RMB33.8 million as compared to a net loss of RMB53.3 million for the first half of 2018. During the Period, the Group managed to reduce the rise in cost caused by the increasing prices of some feed by adjusting the feeding formula, thereby having effectively controlled production costs and improved sales performance.

## MANAGEMENT DISCUSSION AND ANALYSIS

Although the competition in the raw milk market is still fierce, the high cost of dairy farming in China and the impact of import shocks have not been alleviated, the average price of domestic raw milk has risen moderately to RMB3.57 per kg during the Period from RMB3.45 per kg during the first half of 2018, thanks to the favorable environment created by national policy support and strong demand for dairy products.

Since the commencement of business, the Group has established and maintained long-term relationship with leading dairy manufacturers in the PRC. In the first half of 2019, the top three customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group, the revenue from which accounted for 94.7% of the Group's revenue. At present, the revenue of high-end products of Feihe Dairy is growing steadily, combined with the rebound in sales of Mengniu Group and the recovery of the industry, and we believe that it will be conducive to the business of the Group in the future. The Group is expected to continue to supply raw milk products to the top three customers in the long run, which will further consolidate the stability of the customer base of the Group and ensure future demand for raw milk products of the Group.

### Construction of Farms

As of 30 June 2019, the Group had six farms in Heilongjiang Province and one farm in Jilin Province. Each farm had an actual 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 Dairy Cows/Head)</b>	<b>Actual Inventory Number</b>	<b>Area (m<sup>2</sup>)</b>
Gannan Farm	12,000	10,448	986,333
Kedong Heping Farm	6,000	5,712	384,000
Kedong Ruixinda Farm	18,000	9,812	784,000
Zhenlai Farm	15,000	13,336	1,066,667
Kedong Yongjin Farm	12,000	8,455	714,000
Baiquan Ruixincheng Farm	15,000	6,763	994,000
Keshan Farm	12,000	8,596	980,000
Total	<u>90,000</u>	<u>63,122</u>	<u>5,909,000</u>

### Milk Yield

During the Period, the average annual milk yield per cow was 10.22 tons. As the operation of the farms becomes more stable and the age mix and herd structure of the cattle are further upgraded and optimized, the Group expects that the average milk production of the cattle will further increase. In the future, the Group will improve its profit level by adjusting the structure of the herd and improving the feeding formula to achieve scientific and quality management.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Size of Our Herds

The number of dairy cows on the farms operated by the Group decreased from 63,644 as of 31 December 2018 to 63,122 as of 30 June 2019. The total number of matured milkable cows increased from 32,425 as at 31 December 2018 to 34,236 as at 30 June 2019. The increase in number of matured milkable cows has ensured our steady source of quality raw milk.

	<b>30 June 2019</b>	31 December 2018
Number of matured milkable cows	<b>34,236</b>	32,425
Number of heifers and calves	<b>28,886</b>	31,219
Total number of dairy cows	<b>63,122</b>	63,644

### Price of Raw Milk

We expect that the price of raw milk will enter an upward cycle, and the dairy farming enterprises will benefit for a long time, and enjoy a rise in profit. According to market statistics, raw milk continued to be in short supply in 2019, and the prices of milk have a strong rising momentum. During the Period, the average selling price of raw milk of the Group was RMB3,997 per ton, a slight increase as compared with the same period of last year (six months ended 30 June 2018: RMB3,846 per ton).

## OUTLOOK

The concept proposed by “Healthy China 2030 Plan” has gradually penetrated into the lives of the people, and the dairy industry has gradually become an indispensable industry for healthy China and strong people. In recent years, the pace of revitalization of China’s dairy industry has been accelerating supported by more and more related favorable policies. With the structural adjustment of the industry, the scale and standardization of dairy farming in China have increased, and production efficiency has been improved as well. Annual milk production has stabilized at approximately 30 million tons. In addition to high production efficiency, the further improvement in dairy quality has also driven consumers’ confidence in domestic dairy products.

After years of publicity campaign about the importance of dairy products, China’s milk consumption per capita has increased from less than 6 kg per capita to 36 kg, and the dairy consumption per capita in Beijing, Shanghai, Guangzhou and other first-tier cities has reached more than 50 kg. Although China’s dairy consumption per capita has increased, it is still less than one-half of Asia’s dairy consumption per capita, and China’s dairy market still has huge potential for development. Looking ahead, the domestic dairy market will continue to maintain an upward trend driven by continued domestic demand growth and upgrades of consumer demand. The Group will also seize the opportunity to optimize the herd mix, provide quality milk sources, optimize cost structure and achieve profit growth, and contribute to revitalization of China’s dairy industry.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OUR REVENUE

During the Period, our total sales of milk produced increased by 22.5% to RMB657.3 million as compared with RMB536.5 million in the six months ended 30 June 2018. The increase of the total sales was mainly benefited from an increase in the demand of raw milk. The sales volume reached 164,438 tons, representing an increase of 24,927 tons or 17.9% as compared with 139,511 tons in the six months ended 30 June 2018. The average selling price of our raw milk was RMB3,997 per ton compared with RMB3,846 per ton in the six months ended 30 June 2018.

### COST OF SALES

Our cost of sales for the Period was RMB482.8 million. The table below summarizes the components of our cost of sales by nature for the six-month periods ended 30 June 2019 and 2018:

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Cost of sales		
Feed	332,871	286,439
Salary, welfare and social insurance	32,892	25,101
Depreciation	36,519	35,351
Veterinary cost	28,546	24,454
Utility	26,488	19,937
Transportation expenses	12,866	11,112
Other cost	12,659	9,225
Cost of sales, total	482,841	411,619

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB332.9 million and RMB286.4 million for the six-month periods ended 30 June 2019 and 2018, respectively, representing 68.9% and 69.6% of the cost of sales for the respective six-month periods ended 30 June 2019 and 2018. The increase in our feed costs was attributable to an increase in the number of milkable cows.

### GROSS PROFIT

Resulted from the factors discussed above, the gross profit increased to RMB174.5 million for the Period (six months ended 30 June 2018: RMB124.9 million), representing an increase of 39.7%. Our gross profit margin increased from 23.3% for the six months ended 30 June 2018 to 26.5% for the Period.

### OTHER INCOME

Other income for the six-month periods ended 30 June 2019 and 2018 amounted to RMB12.0 million and RMB14.2 million, respectively, representing a decrease of 15.5%. The decrease in other income was mainly attributable to a decrease in interest income from bank deposits.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ADMINISTRATIVE EXPENSES

We incurred administrative expenses of RMB33.5 million for the Period, representing a decrease of approximately 24.7% as compared to RMB44.5 million for the six months ended 30 June 2018. The decrease was attributable to the decreases in: (i) share option expenses; and (ii) travel, meal and entertainment expenses.

### OTHER EXPENSES

We incurred other expenses of RMB6.6 million for the Period (six months ended 30 June 2018: RMB7.0 million), representing a decrease of approximately 5.7% period-on-period. The decrease was attributable to a decrease in the losses on disposal of equipment.

### IMPAIRMENT LOSSES AND ACCRUED EXPENSES RELATED TO REMOVAL OF BAIQUAN RUIXINCHENG DAIRY FARM LTD (“BAIQUAN RUIXINCHENG”)

Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng amounted to RMB855,000 for the Period, and there were no such losses or accrued expenses for the period ended 30 June 2018. Details are set out in note 5 to the notes 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 RMB111.6 million was recorded in the Period (six months ended 30 June 2018: loss of RMB140.8 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 RMB33.8 million for the Period, as compared to a net loss of RMB53.3 million for the six months ended 30 June 2018. Basic earnings per share was approximately RMB0.7 cent for the Period (six months ended 30 June 2018: basic loss per share of RMB1.1 cents).

### INTERIM DIVIDEND

The board of directors of the Company (the “**Directors**” and the “**Board**”, respectively) has resolved not to declare any interim dividend for the Period (six months ended 30 June 2018: nil).

### SHARE OPTION SCHEME

A share option scheme (the “**Share Option Scheme**”) was adopted by the Company on 7 November 2013 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 the Company of HK\$0.01 each (the “**Shares**”) 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 (the “**Options**”) 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 (the “**Third Grant Date**”), 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 2019, the Company had 191,900,000 Options outstanding under the Share Option Scheme.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

Grantees	Number of underlying Shares comprised in Options					Outstanding As at 30.06.2019	Exercise price per Share HK\$	Grant Date	Validity Period of the Options
	Outstanding As at 01.01.2019	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>									
(in aggregate)	6,600,000	-	-	-	-	6,600,000	1.462	22.08.2014	Note 1
	22,800,000	-	-	-	-	22,800,000	0.59	08.12.2015	Note 2
	108,500,000	-	-	(6,000,000)	-	102,500,000	0.24	05.06.2018	Note 3
Total	197,900,000	-	-	(6,000,000)	-	191,900,000			

Notes:

- 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.
- 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.
- 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group's net cash inflow from operating activities amounted to RMB247.7 million, as compared to RMB269.0 million for the six months ended 30 June 2018.

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

### CAPITAL STRUCTURE

As at 30 June 2019, the Company's issued share capital was HK\$46,904,964 divided into 4,690,496,400 Shares of HK\$0.01 each. The 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 2019</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 2019</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 2019</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 2019</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 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 2019, no assets of the Group (31 December 2018: nil) were pledged as security for bank borrowings.

### FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as the United States dollar and Hong Kong dollar. 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 2019 were RMB13.2 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 2019.

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had approximately 1,540 employees (31 December 2018: 1,506 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 RMB62.7 million (six months ended 30 June 2018: RMB35.9 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

## 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 THE 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 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. The Company's independent auditor (the "**Independent Auditor**"), Ernst & Young, has also reviewed the interim condensed consolidated financial information for the Period 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. The report of the Independent Auditor is set out on page 17 in this report.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2019, 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 interest	Number of Shares held	Number of underlying Shares held <sup>(Note 2)</sup>	Total	Approximate percentage of issued Shares
Mr. Zhao Hongliang <sup>(Note 1)</sup>	(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	<u>1,321,100,000</u>	<u>4,500,000</u>	<u>1,325,600,000</u>	<u>28.26%</u>
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 3)</sup>	2,050,000	–	2,050,000	0.04%
	Total	<u>3,165,000</u>	<u>13,500,000</u>	<u>16,665,000</u>	<u>0.36%</u>
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%

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Notes:

1. 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.

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.

2. These represent the Shares to be issued and allotted by the Company upon exercise of the Options granted under the Share Option Scheme.
3. Ms. Zhang Yanxia, the wife of Mr. Chen Xiangqiang, is 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.

Save as disclosed above and so far as is known to the Directors, as at 30 June 2019, 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.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2019, 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 interest	Number of Shares held	Number of underlying Shares held	Deemed interest pursuant to Section 317 of the SFO	Total	Approximate percentage of issued Shares
ZHL Asia Limited <sup>(Note 1)</sup>	Beneficial owner/ Personal interest	1,150,900,000	–	174,700,000	1,325,600,000	28.26%
Mr. Zhao Hongliang <sup>(Note 1)</sup>	Interest in a controlled corporation and beneficial owner/ Corporate and personal interest	1,150,900,000	4,500,000	170,200,000	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 2019, 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 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 18 to 34, 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 2019 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

28 August 2019

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

For the six months ended 30 June 2019

For the six month ended  
30 June

	Notes	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
<b>REVENUE</b>	4	<b>657,321</b>	536,501
Cost of sales		<b>(482,841)</b>	(411,619)
Gross profit		<b>174,480</b>	124,882
Other income		<b>11,975</b>	14,170
Administrative expenses		<b>(33,475)</b>	(44,547)
Other expenses		<b>(6,644)</b>	(7,049)
Changes in fair value less costs to sell of biological assets	10	<b>(111,637)</b>	(140,798)
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Dairy Farm Ltd.		<b>(855)</b>	–
<b>PROFIT/(LOSS) BEFORE TAX</b>	5	<b>33,844</b>	(53,342)
Income tax expense	6	–	–
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>33,844</b>	(53,342)
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<b>602</b>	7,347
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>		<b>34,446</b>	(45,995)
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Ordinary equity holders of the Company		<b>33,844</b>	(53,342)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Ordinary equity holders of the Company		<b>34,446</b>	(45,995)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic and diluted (expressed in RMB per share)	8	<b>0.007</b>	(0.011)

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	2,093,148	2,118,597
Prepaid land lease payments		–	86,684
Right-of-use assets		89,214	–
Prepayments and other receivables		12,936	19,325
Biological assets	10	1,218,263	1,211,650
Total non-current assets		3,413,561	3,436,256
<b>CURRENT ASSETS</b>			
Inventories		198,507	302,610
Trade receivables	11	64,589	58,712
Prepayments and other receivables		9,724	8,167
Prepaid land lease payments		–	5,081
Cash and cash equivalents	12	1,087,608	979,573
Total current assets		1,360,428	1,354,143
<b>CURRENT LIABILITIES</b>			
Trade payables	13	248,737	285,759
Other payables and accruals	14	266,729	278,384
Total current liabilities		515,466	564,143
<b>NET CURRENT ASSETS</b>		844,962	790,000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,258,523	4,226,256
<b>NON-CURRENT LIABILITIES</b>			
Other payables and accruals	14	129,788	134,327
Total non-current liabilities		129,788	134,327
<b>NET ASSETS</b>		4,128,735	4,091,929
<b>EQUITY</b>			
Share capital	15	37,674	37,674
Reserves		4,091,061	4,054,255
Total equity		4,128,735	4,091,929

Director  
Zhao Hongliang

Director  
Chen Xiangqing

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company							Total equity RMB'000
	Issued capital RMB'000	Merger reserve RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	
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
At 1 January 2018 (audited)	37,674	186,000	2,956,372	455,505	37,530	(14,290)	953,262	4,612,053
Loss for the period	-	-	-	-	-	-	(53,342)	(53,342)
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	7,347	-	7,347
Total comprehensive income/(loss) for the period	-	-	-	-	-	7,347	(53,342)	(45,995)
Equity-settled share option arrangements	-	-	-	-	10,082	-	-	10,082
Transfer of share option reserve upon the forfeiture of share options	-	-	-	-	(30,861)	-	30,861	-
At 30 June 2018 (unaudited)	37,674	186,000	2,956,372	455,505	16,751	(6,943)	930,781	4,576,140

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six month ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>247,689</b>	269,003
Purchases of items of property, plant and equipment	(58,746)	(175,838)
Additions to biological assets	(159,806)	(219,281)
Proceeds from disposal of biological assets	63,731	63,875
Decrease in time deposits	82,608	533,067
Other investing cash flows	-	846
<b>NET CASH FLOWS (USED IN)/GENERATED FROM INVESTING ACTIVITIES</b>	<b>(72,213)</b>	202,669
<b>NET CASH FLOWS GENERATED FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>13,500</b>	(62,000)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>188,976</b>	409,672
Cash and cash equivalents at beginning of period	896,965	363,606
Effect of foreign exchange rate changes, net	1,667	4,619
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,087,608</b>	777,897
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	322,770	541,916
Time deposits	764,838	477,229
Cash and cash equivalents	<b>1,087,608</b>	1,019,145
Less: Non-pledged time deposits with original maturity of more than three months when acquired	-	(239,248)
Cash and cash equivalents as stated in the statement of cash flows	<b>1,087,608</b>	777,897

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

## 1. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the Period (the “**Interim Condensed Consolidated Financial Information**”) has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 *Interim Financial Reporting* and the disclosure requirements of the Listing Rules. 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 2018 (the “**Annual Financial Statements**”).

## 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 Annual Financial Statements, except for the adoption of the new and revised International Financial Reporting Standards (“**IFRSs**”) effective as of 1 January 2019.

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

Other than as explained below regarding the impact of IFRS 16 *Leases* and International Financial Reporting Interpretations Committee Interpretation 23, the new and revised standards are not relevant to the preparation of the Interim Condensed Consolidated Financial Information. The nature and impact of the new and revised IFRSs are described below:

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

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

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

### (a) Adoption of IFRS 16 (continued)

#### ***New definition of a lease***

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g. property management services for leases of properties) as a single lease component.

#### ***As a lessee – Leases previously classified as operating leases***

##### *Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g. laptop computers and telephones); and (ii) leases that, at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

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

### (a) Adoption of IFRS 16 (continued)

#### **As a lessee – Leases previously classified as operating leases (continued)**

##### *Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

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

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

### (a) Adoption of IFRS 16 (continued)

#### **Summary of new accounting policies**

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

#### *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties.

The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

#### *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Right-of-use assets of the Group mainly included prepaid land lease payments, in which lease contracts, total lease payments were paid at the commencement date in prior years, and, therefore, no lease liability was recognised upon adoption of IFRS 16 from 1 January 2019.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

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

### (a) Adoption of IFRS 16 (continued)

#### **Significant judgement in determining the lease term of contracts with renewal options**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

#### **Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss and other comprehensive income**

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

	<b>Prepaid land lease payments</b>	<b>Motor vehicles</b>	<b>Subtotal of right-of-use assets</b>
	RMB'000	RMB'000	RMB'000
As at 1 January 2019	91,765	208	91,973
Additions	–	–	–
Depreciation charge	(2,675)	(84)	(2,759)
<b>As at 30 June 2019</b>	<b>89,090</b>	<b>124</b>	<b>89,214</b>

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

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

### 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.

### 4. REVENUE

An analysis of revenue is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2019 (Unaudited) RMB'000</b>	2018 (Unaudited) RMB'000
<i>Revenue from contracts with customers</i>		
Sale of raw milk	<b>657,321</b>	536,501

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

	<b>For the six months ended 30 June</b>	
	<b>2019 (Unaudited) Sale of raw milk RMB'000</b>	2018 (Unaudited) Sale of raw milk RMB'000
<b>Segments</b>		
<b>Type of goods or services</b>		
Sale of goods	<b>657,321</b>	536,501
Total revenue from contracts with customers	<b>657,321</b>	536,501
<b>Geographical markets</b>		
Mainland China	<b>657,321</b>	536,501
Total revenue from contracts with customers	<b>657,321</b>	536,501
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	<b>657,321</b>	536,501
Total revenue from contracts with customers	<b>657,321</b>	536,501

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

## 5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Breeding costs to produce	332,871	286,439
Production costs for raw milk	149,970	125,180
Cost of sales	<b>482,841</b>	411,619
Depreciation in property, plant and equipment	58,219	60,052
Less: Capitalised in biological assets	(18,348)	(18,804)
Depreciation recognised in the statement of profit or loss and other comprehensive income*	<b>39,871</b>	41,248
Depreciation in right-of-use assets	2,759	–
Recognition of prepaid land lease payments	–	2,550
Auditors' remuneration	1,400	1,400
Changes in fair value less costs to sell of biological assets	111,637	140,798
Employee benefit expenses excluding Directors' and chief executive's remuneration		
Wages and salaries	43,817	39,237
Equity-settled share option expense	1,508	6,503
Pension scheme contributions	11,467	8,424
Less: Capitalised in biological assets	(18,464)	(16,767)
Employee benefit expenses excluding directors' and chief executive's remuneration recognized in the statement of profit or loss and other comprehensive income**	<b>38,328</b>	37,397
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng***	855	–
Loss on disposal of items of property, plant and equipment	81	2,464
Foreign exchange differences, net	(1,926)	(1,756)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

### 5. PROFIT/(LOSS) BEFORE TAX (continued)

- \* Depreciation of approximately RMB36,519,000 (six months ended 30 June 2018: RMB35,351,000) 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 RMB32,892,000 (six months ended 30 June 2018: RMB25,101,000) 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.
- \*\*\* Due to the withdrawal notice and removal notice received by Baiquan Ruixincheng, impairment provision of RMB748,000 (six months ended 30 June 2018: Nil) for immovable property, plant and equipment, and impairment provision of RMB107,000 (six months ended 30 June 2018: Nil) for additional accrued transportation expenses, are charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

### 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 2018: 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 Period (six months ended 30 June 2018: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company of RMB33,844,000 (unaudited) (2018 – basic loss per share: losses of RMB53,342,000 (unaudited)) and the weighted average number of 4,690,496,400 (unaudited) (2018: 4,690,496,400 (unaudited)) ordinary Shares in issue during the Period.

No adjustment has been made to the basic earnings per share amounts for the period (2018 – basic loss per share: Nil) in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

### 9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired assets with a cost of RMB36,782,000 (unaudited) (30 June 2018: RMB66,032,000 (unaudited)).

Assets with a net book value of RMB81,000 (unaudited) were disposed by the Group during the Period (30 June 2018: RMB58,895,000 (unaudited)), resulting in a net loss on disposal of RMB81,000 (unaudited) (30 June 2018: RMB2,464,000 (unaudited)).

During the Period, an impairment loss of RMB3,476,000 (30 June 2018: Nil) was recognised for immovable property, plant and equipment as a result of the removal of Baiquan Ruixincheng. The recoverable amount of these assets amounted to 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 2019 and 31 December 2018 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 30 June 2019 and 31 December 2018 were dairy cows that have not had their first calves.

	<b>30 June 2019 (Unaudited) Heads</b>	31 December 2018 (Audited) Heads
Dairy cows		
Milkable cows	<b>34,236</b>	32,425
Heifers and calves	<b>28,886</b>	31,219
Total dairy cows	<b>63,122</b>	63,644

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 derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when they 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.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

## 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 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Dairy cows	<b>1,218,263</b>	1,211,650

  

	<b>Heifers and calves RMB'000</b>	<b>Milkable cows RMB'000</b>	<b>Total RMB'000</b>
Balance as at 1 January 2018	574,186	637,639	1,211,825
Increase due to raising (feeding costs and others)	394,234	–	394,234
Increase due to purchase	8,933	–	8,933
Transfer (out)/in	(367,456)	367,456	–
Decrease due to sales	(32,196)	(57,674)	(89,870)
Loss arising from changes in fair value less costs to sell	(47,591)	(265,881)	(313,472)
Balance as at 31 December 2018 and 1 January 2019 (audited)	530,110	681,540	1,211,650
Increase due to raising (feeding costs and others)	<b>181,981</b>	–	<b>181,981</b>
Transfer (out)/in	<b>(185,764)</b>	<b>185,764</b>	–
Decrease due to sales	<b>(30,048)</b>	<b>(33,683)</b>	<b>(63,731)</b>
Loss arising from changes in fair value less costs to sell	<b>(16,705)</b>	<b>(94,932)</b>	<b>(111,637)</b>
Balance as at 30 June 2019 (unaudited)	<b>479,574</b>	<b>738,689</b>	<b>1,218,263</b>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

## 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) RMB'000
As at 30 June 2019 (unaudited)	<b>1,218,263</b>
As at 31 December 2018 (audited)	1,211,650

## 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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 1 month	63,857	56,303
Over 1 month to 2 months	31	372
Over 2 months	701	2,037
	<b>64,589</b>	58,712

## 12. CASH AND CASH EQUIVALENTS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Cash and bank balances	322,770	179,532
Time deposits	764,838	800,041
Cash and cash equivalents	<b>1,087,608</b>	979,573

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

### 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 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Within 2 months	<b>158,430</b>	205,450
Over 2 months to 6 months	<b>78,322</b>	68,432
Over 6 months to 12 months	<b>6,242</b>	6,043
Over 1 year	<b>5,743</b>	5,834
	<b>248,737</b>	285,759

### 14. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Deferred income	<b>140,404</b>	145,201
Other payables – construction	<b>135,965</b>	163,305
Other payables – equipment and materials	<b>15,089</b>	18,704
Accrued expenses related to removal of Baiquan Ruixincheng Dairy Farm Ltd.	<b>15,655</b>	15,548
Others	<b>89,404</b>	69,953
	<b>396,517</b>	412,711
<b>Non-Current Portion</b>		
Deferred income	<b>(129,788)</b>	(134,327)
	<b>266,729</b>	278,384

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

As at 30 June 2019

### 15. SHARE CAPITAL

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
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 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Contracted, but not provided for: Plant and machinery	<b>13,238</b>	41,372

### 17. RELATED PARTY TRANSACTIONS

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

	<b>For the six months ended 30 June</b>	
	<b>2019 (Unaudited) RMB'000</b>	2018 (Unaudited) RMB'000
Short term employee benefits	<b>1,694</b>	573
Post-employment benefits	<b>172</b>	204
Equity-settled share option expense	<b>1,022</b>	2,797
Total compensation paid to key management personnel	<b>2,888</b>	3,574

### 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.