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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL RESULTS

The board of directors (the "**Board**" and the "**Directors**", respectively) of YuanShengTai Dairy Farm Limited (the "**Company**" or "**YuanShengTai**") announces the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2020 (the "**Year**") together with the comparative figures for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	**2020** **RMB'000**	2019 RMB'000
REVENUE	3	**1,554,012**	1,389,510
Cost of sales		**(1,090,732)**	(1,009,800)
Gross profit		**463,280**	379,710
Other income and gains	3	**43,860**	35,603
Administrative expenses		**(140,100)**	(61,938)
Other expenses		**(28,026)**	(11,588)
Finance costs		**(2,653)**	–
Changes in fair value less costs to sell of biological assets		**(171,299)**	(118,546)
Impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Dairy Farming Co., Ltd.		**412,889**	(161)
PROFIT BEFORE TAX	4	**577,951**	223,080
Income tax expense	5	**–**	–
PROFIT FOR THE YEAR		**577,951**	223,080
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**73**	1,058
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**578,024**	224,138
Attributable to:			
Owners of the Company		**578,024**	224,138
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	7	**RMB12.32 cents**	RMB4.76 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 *RMB'000*	2019 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,632,948**	2,086,440
Investment properties		**78,134**	–
Right-of-use assets		**82,271**	86,574
Prepayments, other receivables and other assets		**64,482**	19,119
Biological assets		**1,441,940**	1,333,438
Total non-current assets		**4,299,775**	3,525,571
CURRENT ASSETS			
Inventories		**316,608**	295,223
Trade receivables	*8*	**131,084**	126,758
Prepayments, other receivables and other assets		**6,287**	3,748
Cash and cash equivalents		**1,029,583**	1,009,782
Total current assets		**1,483,562**	1,435,511
CURRENT LIABILITIES			
Trade payables	*9*	**194,751**	249,938
Other payables and accruals		**426,224**	266,773
Lease liabilities		**9,466**	–
Total current liabilities		**630,441**	516,711
NET CURRENT ASSETS		**853,121**	918,800
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,152,896**	4,444,371
NON-CURRENT LIABILITIES			
Other payables and accruals		**188,752**	125,899
Lease liabilities		**67,648**	–
Total non-current liabilities		**256,400**	125,899
Net assets		**4,896,496**	4,318,472
EQUITY			
Issued capital		**37,674**	37,674
Reserves		**4,858,822**	4,280,798
Total equity		**4,896,496**	4,318,472

NOTES TO FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

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

The nature and impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the novel coronavirus disease (Covid-19) (the "**Pandemic**") covid. The practical expedient applies only to rent concessions occurring as a direct consequence of the Pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the Group.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2. OPERATING SEGMENT INFORMATION

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

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

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

All non-current assets were located in Mainland China.

During the Year, the Group made sales to major customers, the revenue from which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2020 and 2019 is as follows:

	2020	2019
	RMB'000	*RMB'000*
Customer A	**1,299,369**	835,298
Customer B	**196,902**	391,332
Others	**57,741**	162,880
	1,554,012	1,389,510

3. REVENUE AND OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of raw milk	**1,554,012**	1,389,510
	1,554,012	1,389,510

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December

	2020	2019
Segments	**Sale of raw milk**	Sale of raw milk
	RMB'000	*RMB'000*
Type of goods		
Sale of raw milk	**1,554,012**	1,389,510
Total revenue from contracts with customers	**1,554,012**	1,389,510
Geographical market		
Mainland China	**1,554,012**	1,389,510
Total revenue from contracts with customers	**1,554,012**	1,389,510
Timing of revenue recognition		
Goods transferred at a point in time	**1,554,012**	1,389,510
Total revenue from contracts with customers	**1,554,012**	1,389,510

(b) ***Performance obligation***

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

Sale of raw milk

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

	2020	2019
	RMB'000	*RMB'000*
Other income and gains		
Government subsidies	**19,899**	12,648
Interest income from bank deposits	**13,676**	8,248
Gross rental income	**9,486**	–
Foreign exchange gain	**–**	14,488
Others	**799**	219
	43,860	35,603

4. PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Breeding costs to produce		**776,108**	703,508
Production costs for raw milk		**314,624**	306,292
Cost of sales		**1,090,732**	1,009,800
Depreciation of property, plant and equipment		**116,192**	117,129
Less: Capitalised in biological assets		**(39,638)**	(41,015)
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income*		**76,554**	76,114
Depreciation of right-of-use assets		**5,137**	5,399
Depreciation of investment properties		**8,371**	–
Lease payments for short-term leases		**91**	85
Auditors' remuneration		**3,200**	2,400
Changes in fair value less costs to sell of biological assets		**171,299**	118,546
Employee benefit expenses excluding directors' and chief executive's remuneration:			
Wages and salaries		**96,532**	86,875
Equity-settled share option expense		**–**	1,638
Pension scheme contributions		**11,425**	20,077
Less: Capitalised in biological assets		**(36,002)**	(36,210)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the consolidated statement of profit or loss and other comprehensive income**		**71,955**	72,279
Impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Farm***		**(412,889)**	161
Loss on disposal of items of property, plant and equipment		**2,930**	92
Foreign exchange differences, net		**61,936**	(14,488)

* Depreciation of approximately RMB75,004,000 (2019: RMB74,868,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

** Employee benefit expenses of approximately RMB65,291,000 (2019: RMB65,471,000) are included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

*** Approvals granted by the Department of Ecology and Environment of Qigihar City to Baiquan Ruixincheng Farm for its continuous usage of the farm premises indicate that a previously recognised impairment loss should be reversed. Reversal of impairment provision of RMB432,851,000 for immovable property, plant and equipment, reversal of impairment provision of RMB32,293,000 for a prepayment for construction and equipment, reversal of additional accrued expenses, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee of RMB15,709,000 and reversal of government grants of RMB67,964,000 related to the construction of the farm are charged to the consolidated statement of profit or loss and other comprehensive income for the Year.

5. INCOME TAX

No provision for Hong Kong profits tax has been made for the Year as the Group did not generate any assessable profits arising in Hong Kong during the Year (2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

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

6. DIVIDENDS

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

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

The calculation of the basic earnings per share amount is based on the profit for the Year attributable to ordinary equity holders of the Company of RMB577,951,000 (2019: RMB223,080,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2019: 4,690,496,400).

No adjustment has been made to the basic earnings per share amounts for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of the share options outstanding as at 31 December 2019 had an anti-dilutive effect on the basic earnings per share amount and no share options were outstanding as at 31 December 2020.

8. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**131,084**	126,758

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

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

	2020	2019
	RMB'000	*RMB'000*
Within 1 month	**131,084**	125,498
1 to 2 months	**–**	238
Over 2 months	**–**	1,022
	131,084	126,758

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

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

9. TRADE PAYABLES

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

	2020	2019
	RMB'000	*RMB'000*
Within 2 months	**162,035**	181,684
2 to 6 months	**24,049**	54,386
6 to 12 months	**4,068**	8,698
Over 1 year	**4,599**	5,170
	194,751	249,938

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Looking back to 2020, the novel coronavirus (COVID-19) (the "**Pandemic**") was taking a toll on the development of China's dairy industry in the first half of the Year. The farming sector bore a brunt in terms of production, sales, and financial status. Generally, upstream milk prices were weak in the first half of the Year. In the second half of the Year, prices of raw milk rose sharply above record highs. In addition, the frequent outbreaks of the Pandemic fuelled rapid growth of the demand for white milk, low-temperature milk, milk powder and other products, which in turn drove up demand for raw milk.

With respect to feeds, the price of hay feed fluctuated due to the impact of the Pandemic and the Sino-US trade war in 2020. According to statistics released by China customs, the total amount of hay feed imported by China from January through November 2020 was 1.54 million tonnes, representing a year-on-year increase of 6.49%, and the average cost, insurance, and freight (CIF) price was US$359.06 per tonne, representing an increase of 5.35% as compared with the same period of previous year. Among them, the alfalfa imports totaled to approximately 1.24 million tonnes, representing a year-on-year increase of 1.15%, and the average CIF price was US$361.84 per tonne, representing a year-on-year increase of 7.0%. The rising price of imported hay feed has increased the business cost of farming companies.

With respect to the dairy industry, the staged decline in sales and consumption of dairy products as a result of the Covid-19 outbreak early in the Year had a certain degree of impact on the industry. As the Pandemic and corresponding measures have become a norm, consumers' purchase through diversified channels maintained steady growth. The industry as a whole was still showing a steady and positive development trend thanks to the continuous innovation of dairy products, the rapid development of channels such as online shopping and other new retail outlets, the improvement of domestic cold chain logistics, and the evolvement of consumer preferences and the constant upgrade of the dairy product mix in recent years. According to the statistics released by the National Bureau of Statistics, total milk output in the country reached 34.4 million tonnes in 2020, representing a year-on-year increase of 7.5%.

In recent years, the state and industry associations have been monitoring the quality of dairy products, evidenced by implementation of the initiatives such as "Action Plan for Dairy Product Quality and Safety Improvement" issued by the China's State Administration for Market Regulation, and the "Modern Dairy Farm Grading and Evaluation Measures (Trial)" issued by the China Dairy Association. Thus the brand influence and quality of domestic dairy products had greatly improved. According to the data in the "2020 Consumer Trend Report (Dairy Products)" released by China Institute of Economic Trends, as of 6 November 2020, the self-purchased sales amount of liquid dairy products by Chinese urban households increased by 3% as compared with the same period of the previous year while sales volume increased by 5% as compared with the same period of the previous year. The liquid dairy consumer market was gradually recovering after the Covid-19 outbreak.

In addition, the Customs Tariff Commission of the State Council stated in the "Adjustment Plan of Provisional Tariff Rates for Imports of 2021" that, starting from 1 January 2021, provisional import tariff tax rates that are lower than the most-favored-nation tariff rates applies to nearly 30 dairy products and raw material-related products. These include a variety of mixed natural feeds based on alfalfa and legumes. The business cost of the farming sector is expected to decrease benefiting from relevant policies.

As one of the leading dairy farming companies in the People's Republic of China (the "**PRC**"), the Group will continue to achieve better economies of scale by adjusting the size of the herd, improving the breeding and production technology. YuanShengTai will continue stive to produce high-quality raw milk, strengthen standardized production of milk source, implement strict quality supervision, and meet the society's increasingly diversified needs for dairy products.

Business Review

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. During the Year, the total sales volume of raw milk of the Group increased by 6.3% to 355,599 tonnes from 334,424 tonnes in 2019. The total revenue amounted to RMB1,554 million, representing an increase of 12% as compared with the same period of 2019. During the Year, the Group recorded a net profit of RMB578.0 million (2019: RMB223.1 million), representing a year-on-year increase of 159%.

Since its establishment, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2020, the three major customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group. All these three major customers benefited from the preferential policy, continued to expand their product portfolio and expand into the international market, which were constructive to the sustained development of the Group's business. The revenue from these three major customers accounted for approximately 99.3% of the Group's revenue.

Following the close of the conditional voluntary general offer by CLSA Limited on behalf of China Feihe Limited ("**Feihe**") (Stock Code: 6186, a company listed on the Main Board of the Stock Exchange) for all of the outstanding shares of the Company and for the cancellation of all of the outstanding options of the Company on 2 December 2020, Feihe acquired 71.26% of issued shares of the Company from existing shareholders and obtained control over the Group with a consideration of HKD2,105.7 million. In addition, Feihe paid compensation to existing option holders of the Group with a consideration of HKD63.9 million. On 3 December 2020, Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang, directors of Feihe, were appointed as non-executive Directors and Ms. Liu Jinping, a director of Feihe, was appointed as an independent non-executive Director. Senior management of the Group did not change after the acquisition.

For more details of the acquisition by Feihe, please refer to the joint announcements dated 6 September 2020, 28 September 2020, 12 October 2020, 30 September 2020, 28 October 2020, 18 November 2020 and 2 December 2020 and the composite document dated 30 October 2020 jointly issued by the Company and Feihe.

In line with the increasing demand of the market for high-quality raw milk, the Group plans to continue to construct new farms in addition to the existing farms to grow its production capacity. In the future, the Group is expected to continue to supply raw milk products to the three major customers in the long term, and be committed to providing raw milk according to the highest safety standards and nutritional standards in China.

Construction of Farms

As of 31 December 2020, we had six farms in Heilongjiang Province and one farm in Jilin Province. Each farm had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 square metres.

	Actual Designed Capacity *(Number of Cows/Head)*	**Actual Headcounts**	**Area** *(m²)*
Gannan Farm	12,000	11,307	986,333
Kedong Heping Farm	6,000	5,763	384,000
Kedong Ruixinda Farm	18,000	10,660	784,000
Zhenlai Farm	15,000	14,531	1,066,667
Kedong Yongjin Farm	12,000	8,393	714,000
Baiquan Ruixincheng Farm	15,000	9,361	994,000
Keshan Farm	12,000	9,383	980,000
Total	90,000	69,398	5,909,000

Milk Yield

During the Year, the average annual milk yield per cow was 10.61 tonnes, representing an increase of 1.5% as compared with 10.45 tonnes in 2019.

As our operation of farms becomes more mature and stable, and the age mix of cattle and the mix of herds are upgraded and optimized, the Group expects that the average milk yield of herds will continue to increase. In the future, the Group will continue to improve its profitability by adjusting and optimizing the cattle mix and improving the feeding formula and upgrading intelligent quality management.

Size of Our Herds

Driven by the advanced management model of our farms, the number of dairy cows of the Group's farms increased from 63,640 heads as of 31 December 2019 to 69,398 heads as of 31 December 2020. Among them, the total number of our matured milkable cows increased from 33,716 heads as of 31 December 2019 to 35,128 heads as of 31 December 2020. The increase in number of our matured milkable cows contributed to the steady growth of quality raw milk of the Group.

	31 December 2020	31 December 2019
Number of matured milkable cows	**35,128**	33,716
Number of heifers and calves	**34,270**	29,924
Total number of dairy cows	**69,398**	63,640

Price of Raw Milk

Due to the impact of the Pandemic, the supply and demand in the post-Pandemic phase returned to a tight balance. The raw milk was in short supply in the upstream, and as a result, domestic raw milk prices continued to rise. During the Year, the average selling price of raw milk of the Group was RMB4,370 per tonne, representing an increase of 5.2% as compared with the same period of previous year.

Outlook

According to the data in the "2020 China Dairy Industry Development Report" (the "**Report**"), the current per capita consumption of dairy products in China is insufficient. At present, two most imperative concerns are the revitalization of the dairy industry and the steady modernization of the farming industry. The Report further pointed out that the dairy industry boasts of huge consumption potential and bright market prospects. In order to satisfy the diversified and personalised consumer needs, the Group will devote itself to improving the operational capabilities of the farms, focusing on production of high-quality raw milk, and strengthening standardised and large-scale production of products. In the future, the Group will seize market opportunities and upgrade its product mix, continuously leveraging on its own technological advantages and resource endowments in line with the innovation and consumption upgrading trend. We believe that while providing high-quality dairy products to the society, YuanShengTai will maintain its leading position in China's dairy farming industry and make its greatest contribution to the revitalization of China's dairy industry.

Our Revenue

During the Year, our total sales of milk produced increased by 11.8% from RMB1,389.5 million for the year ended 31 December 2019 to RMB1,554.0 million. The sales volume for the Year reached 355,599 tonnes, representing an increase of 21,175 tonnes or 6.3% as compared with 334,424 tonnes in 2019. The growth was primarily attributable to the increases in (i) herd size of matured milkable cows; and (ii) average annual milk yield per cow. Our average selling price of raw milk was RMB4,370 per tonne for the Year compared with RMB4,155 per tonne in 2019.

Cost of Sales

Our cost of sales for the Year was RMB1,090.7 million. The table below summarizes the components of our cost of sales by nature:

	2020	2019
	RMB'000	*RMB'000*
Cost of sales		
Feed	**776,108**	703,508
Salary, welfare and social insurance	**65,291**	65,471
Depreciation	**75,004**	74,868
Veterinary cost	**47,447**	44,905
Utility	**64,835**	58,402
Transportation expenses	**23,309**	26,711
Other costs	**38,738**	35,935
Cost of sales, total	**1,090,732**	1,009,800

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB776.1 million and RMB703.5 million for the years ended 31 December 2020 and 2019, respectively, representing 71.2% and 69.7% of the cost of sales for the respective financial years ended 31 December 2020 and 2019. The increase in our feed costs was attributable to the increases in (i) the number of milkable cows; and (ii) the proportion of concentrated feed in the adjusted feeding formula.

Gross Profit

Given the above factors, the gross profit increased to RMB463.3 million for the Year (2019: RMB379.7 million), representing an increase of 22.0% as compared with that for 2019. Our gross profit margin also increased from 27.3% in 2019 to 29.8% in 2020.

Other Income and Gains

Other income and gains for the Year amounted to RMB43.9 million (2019: RMB35.6 million), representing an increase of 23.3%. The increase in other income and gains was attributable to: (i) income from land sublease generated by Zhenlai Farm for the first time in the current year. In order to ensure the supply of feeds required by the Group amidst the Pandemic, Zhenlai Farm leased a parcel of land which was sublet afterwards. This business is a sub-lease business under the operating lease model, and sub-lease income was recognized; (ii) increase in interest income; and (iii) increase in government subsidies, including subsidies for replacement of grains with feed and subsidies for retaining employees under the Covid-19.

Administrative Expenses

We incurred administrative expenses of RMB140.1 million for the Year (2019: RMB61.9 million) representing an increase of approximately 126.3% as compared with 2019. The increase in administrative expenses was attributable to: (i) exchange losses caused by the depreciation of the U.S. dollar; and (ii) professional fees related to the relocation of Baiquan Ruixincheng Farm; and (iii) professional fees related to the acquisition of the Company's shares by Feihe as mentioned in the paragraph headed "Business Review".

Other Expenses

Other expenses for the Year amounted to RMB28.0 million (2019: RMB11.6 million). The increase in other expenses was attributable to: the expense on land sub-lease incurred by Zhenlai Farm for the first time during the current year. In order to ensure the supply of feeds required by the Group amidst the Pandemic, Zhenlai Farm leased a parcel of land which was sublet afterwards. According to the IFRSs, the acquired land should be treated as an investment property and be measured at cost, and expense was recognized in respect of the sublease.

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 RMB171.3 million for the Year as compared with a loss of RMB118.5 million for 2019. The increase was attributable to the increase of the feeding cost.

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

The reversal of impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm amounted to RMB412.9 million for the Year, comparing with the impairment losses and accrued expenses of RMB0.2 million for 2019. Details are set out in note 4 to the financial statements.

Particulars of Important Events

Baiquan Ruixincheng Dairy Farming Co., Ltd. ("**Baiquan Ruixincheng**"), an indirect wholly-owned subsidiary of the Company, operates a farm in Baiquan County, Qiqihar City, Heilongjiang Province for the production and sale of milk. As at 31 December 2020, Baiquan Ruixincheng Farm had 9,361 dairy cows.

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

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

On 24 February 2020, Baiquan Ruixincheng received a notice from the Forestry and Grassland Bureau of Heilongjiang Province conveying its decision to withdraw its previous approval given to Baiquan Ruixincheng in 2015 in relation to the use of forestland for Baiquan Ruixincheng Farm and the use of grassland for Baiquan Ruixincheng Farm.

On 31 March 2020, Baiquan Ruixincheng received notice from the Qiqihar City Baiquan County Department of Ecology and Environment (齊齊哈爾市拜泉縣生態環境局) conveying its request for Baiquan Ruixincheng to remove the Baiquan Ruixincheng Farm from its current location at Baiquan County, Heilongjian Province, the PRC in 15 days.

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

As of 12 January 2021, Baiquan Ruixincheng has successfully obtained all of the approvals granted previously to it in relation to the Baiquan Ruixincheng farm from relevant government authorities. Please refer to the announcements of the Company dated 1 March 2019, 15 March 2019, 25 February 2020, 2 April 2020, 5 August 2020 and 12 January 2021 for further details.

As a result of the above, reversal of impairment losses of approximately RMB412.9 million in respect of immovable fixed assets, construction in progress, and prepayments related to construction equipment and deferred income was recognised during the Year.

Profit for the Year of the Group

Taking into account all of the above factors, the Group's net profit was RMB578.0 million for the Year, as compared with a net profit of RMB223.1 million for the year ended 31 December 2019. Basic earnings per share was approximately RMB12.32 cents for the Year (2019: basic earnings per share of RMB4.76 cents).

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year (2019: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB581.1 million, as compared with RMB292.8 million in 2019. As at 31 December 2020, the Group had cash and cash equivalents of RMB1,029.6 million (2019: RMB1,009.8 million).

The Group had no bank borrowing during the Year (2019: Nil).

CAPITAL STRUCTURE

As at 31 December 2020, the Company's issued share capital was HK$46,904,964 divided into 4,690,496,400 shares of HK$0.01 each (the "**Shares**") (2019: HK$46,904,964 divided into 4,690,496,400 Shares of HK$0.01 each). The Company did not issue any new Shares during the Year.

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

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

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

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2020 nor were there other plans for material investments on capital assets as at the date of this announcement.

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

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

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

	Planned use of net proceeds from the IPO (as stated in the prospectus)	**Actual use of net proceeds from the IPO up to 31 December 2020**	**Actual use of net proceeds from the IPO during the Year**	**Unused net proceeds from the IPO as at 31 December 2020**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Construction of new farms	1,923.0	1,923.0	–	–
Developing upstream operations	384.6	36.8	–	347.8
Working capital and general corporate purpose	256.4	256.4	–	–
Total	2,564.0	2,216.2	–	347.8

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

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

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

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

	Planned use of net proceeds from the Placing (as stated in the announcement of the Company dated 23 December 2016)	**Actual use of net proceeds from the Placing up to 31 December 2020**	**Actual use of net proceeds from the Placing during the Year**	**Unused net proceeds from the Placing as at 31 December 2020**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Importing heifers and calves from Australia and New Zealand and general working capital	384.6	98.7	–	285.9
Total	384.6	98.7	–	285.9

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

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

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

PLEDGE OF ASSETS

As at 31 December 2020, no assets of the Group were pledged as security for bank borrowings (2019: Nil).

FOREIGN EXCHANGE EXPOSURE

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

TREASURY POLICIES

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

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2020 and 2019 were RMB61.0 million and RMB13.3 million, respectively, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2020 (2019: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 1,552 employees (2019: 1,524 employees), of whom one was located in Hong Kong and all the others were located in the PRC.

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

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

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

EVENT AFTER REPORTING YEAR

Save as disclosed elsewhere in this announcement, the Group did not have any material subsequent event after the Year and up to the date of this announcement.

UPDATES IN RELATION TO THE NOVEL CORONAVIRUS DISEASE

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

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF ANNUAL RESULTS AND PRELIMINARY RESULTS ANNOUNCEMENT

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

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

PUBLICATION OF INFORMATION ON DESIGNATED WEBSITES

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

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

Hong Kong, 18 March 2021

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