



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

(Incorporated in Bermuda with limited liability)
Stock Code: 1431



2021 INTERIM REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INDEPENDENT AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton 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
www.ystdairyfarm.com

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The consumption market was gradually improving in the first half of 2021, the first year of the 14th Five-Year Plan Period* (五年計劃) of the People's Republic of China (the "PRC" or "China"). In the first half of 2021, total retail sales of consumer goods amounted to RMB21,190.4 billion, representing a year-on-year increase of 23.0%. A number of sectors that were badly hit by the epidemic gradually returned to normal levels. For per capita consumption expenditure, the national per capita consumption expenditure increased by 17.4% in the first half of 2021 as compared to the same period of last year. As the epidemic prevention and control became a norm, people have improved their health awareness and their consumption patterns. As a result, consumers' demand for high-quality milk products grew rapidly. At the same time, benefiting from the strong policy support of the government, the whole raw milk industry has been recovering, and the excessive demand for high-end raw milk products is expected to continue. In the first half of 2021, the demand for fresh milk increased, driving the price of raw milk upward, and the dairy industry entered a new stage of large-scale, standardized, and high-quality development.

In the first quarter of 2021, operation and sales substantially returned to normal, and the production and transportation were less affected by the epidemic, due to less disruption caused by the epidemic on the sector. The production cost of raw milk rose primarily due to increasing prices of major hay and protein feeds and other factors. On the other hand, the "Action Plan for Improving the Quality and Safety of Dairy Products" also encourages enterprises to use fresh milk to produce dairy products, which will promote the increase in the proportion of raw milk directly used in raw materials. According to the monitoring data of certain designated places issued by the Ministry of Agriculture and Rural Affairs, the average price of raw milk increased by 12.1% in the first quarter of 2021 as compared with the same period of 2020, and by 5.43% as compared with the previous quarter. At the same time, the Ministry of Ecology and Environment issued the "Guiding Opinions on Coordinating and Strengthening Responses to Climate Change and Ecological Environment Protection", which proposed to support large-scale farms to explore ways to achieve sustainable development. In the long run, animal husbandry on large-scale farms will become a trend, and China's raw milk supply market will become more concentrated in the future.

In the second quarter of 2021, thanks to the effective implementation of relevant national support policies, dairy production expanded while keeping stability, resulting in steady growth of milk output. As compared with the first quarter of 2021, reference price for trading raw milk was stabilized. In addition, the "Guiding Opinions on the Strategic Development of China's Dairy Industry during the 14th Five-Year Plan Period" also proposed that China should accelerate the modernization of the dairy industry and promote the general revitalization of the dairy industry among others. We expect a general boom for the dairy industry within 2021.

As a leading dairy farming company in the PRC, YuanShengTai Dairy Farm Limited ("**YuanShengTai**" or the "**Company**") and its subsidiaries (collectively, the "**Group**") will continue to maintain its diversified and intensive development strategy. By adjusting the size of the herd and improving the breeding and production technology, the Group strives to achieve better economies of scale. By adjusting the herb mix and further strengthening standardized production of milk sources, the Group will implement rigorous quality control, and strive to provide the highest quality raw milk to customers and satisfy society's increasingly diversified needs for dairy products.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. During the six months ended 30 June 2021 (the “Period”), the total sales volume of raw milk of the Group increased to 179,824 tonnes from 175,469 tonnes in the same period of 2020. Total sales of fresh milk amounted to RMB837.4 million during the Period, representing an increase of 11.5% as compared with the six months ended 30 June 2020. The gross profit amounted to RMB229.0 million during the Period, representing an increase of 5.4% as compared with the same period of 2020. During the Period, the Group recorded a net profit of RMB98.0 million, representing a decrease of 20.9% as compared with RMB123.9 million in the same period of 2020. The decrease in the net profit was mainly attributable to the exchange losses. The feed cost increased by approximately 13.9% during the Period due to the increase in the price of imported hay feed amidst the epidemic. However, the Group effectively controlled certain production costs, improved sales performance and overall profitability by adjusting the feeding formula to partially offset the cost pressure caused by the increase in feed prices.

Since its early business development, the Group has built long-term and stable relationships with China's leading dairy manufacturers. During the Period, the three major customers of the Company continued to be Feihe Group, Mengniu Group and Bright Dairy Group. The revenue from these three major customers accounted for approximately 99.22% of the Group's total revenue during the Period. In the future, the three major customers will continue to expand their product portfolio and put down roots in the international market with the support of preferential policies from the government, which will definitely continue to benefit the development of the Group's business. The Group is expected to continue to supply raw milk products to its three major customers in the long term and secure the future demand for raw milk products of the Group.

Construction of Farms

As of 30 June 2021, the Group had six farms in Heilongjiang Province, the PRC and one farm in Jilin Province, the PRC, respectively. Each farm has an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 m².

	Actual Designed Capacity (Number of Cows/Head)	Actual Inventory Number	Area (m²)
Gannan Farm	12,000	11,523	986,333
Kedong Heping Farm	6,000	5,765	384,000
Kedong Ruixinda Farm	18,000	10,614	784,000
Zhenlai Farm	15,000	15,404	1,066,667
Kedong Yongjin Farm	12,000	8,606	714,000
Baiquan Ruixincheng Farm	15,000	10,519	994,000
Keshan Farm	12,000	9,890	980,000
Total	90,000	72,321	5,909,000

MANAGEMENT DISCUSSION AND ANALYSIS

Milk Yield

During the Period, the average annual milk yield per cow was 10.80 tonnes, representing an increase of 1.4% as compared with 10.65 tonnes in the first half of 2020. As the operation of farms becomes more mature and stable and the general and age mix of cattle are upgraded and optimized, the Group expects that the average milk yield of herds will continue to increase. In the future, the Group target to achieve scientific, standardized and quality management, and thus improve its profitability by adjusting the cattle mix and improving the feeding formula.

Size of Our Herds

Driven by the advanced management model of our farms, the number of dairy cows of the Group's dairy farms increased from 65,886 heads as of 30 June 2020 to 72,321 heads as of 30 June 2021. Among them, the total number of our matured milkable cows steadily increased from 34,757 heads as of 30 June 2020 to 35,057 heads as of 30 June 2021. The increase in the number of our matured milkable cows further contributed to the steady supply of quality raw milk by the Group.

	<u>30 June 2021</u>	<u>30 June 2020</u>
Number of matured milkable cows	35,057	34,757
Number of heifers and calves	37,264	31,129
Total number of dairy cows	<u>72,321</u>	<u>65,886</u>

Price of Raw Milk

During the Period, the overall domestic demand for dairy products increased, and the supply and demand relationship became balanced again but remained tight. During the Period, benefiting from the increase in the sales of dairy products from downstream customers, demand for the Group's raw milk increased, which drove the increase in milk prices. During the Period, the average selling price of the Group's raw milk was RMB4,657 per tonne, representing an increase of 8.8% as compared with RMB4,281 per tonne during same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

With the steady recovery of the economy together with the support of a series of policies adopted by the government, the business environment of the dairy products industry has been improving. After years of development in China's dairy product market, the industry's competitive landscape has been constantly changing. The high-quality milk sources at the upstream provide guarantees for the long-term and stable development of milk manufacturing enterprises. In the future, high-quality raw milk will be produced and provided mainly by large-scale dairy farms. The proportion of large-scale farming in the raw milk industry will increase, leading to greater industry concentration and higher barriers of entry to the upstream milk source business. The Company is expected to benefit from the industry's upward cycle and further leverage its industry leader's advantages.

Looking forward to the second half of the year, with the increasing awareness of milk consumption in the post-epidemic era, it is expected that the public's demand for high-quality dairy products will continue to increase. At the same time, given the gradual diversification of dairy product sales channels, the continuous improvement of the quality control system of the domestic dairy industry, and the sustained increase of domestic dairy product brands, the increase in demand will be driven more by domestic production. At the same time, the Group will seize market opportunities and devote more money on building new farms to further expand the Company's production and overall scale of operation, thereby continuing to enhance the Company's competitiveness in the industry. While striving to expand the scale of operation, we will continue to develop high-standard large-scale farms and build a carbon-neutral and sustainable farming model. YuanShengTai will continue to provide high-quality milk sources for the society and contribute to the modernization of China's dairy industry.

OUR REVENUE

During the Period, our total sales of milk produced increased by 11.5% to RMB837.4 million as compared with RMB751.3 million in the six months ended 30 June 2020. The increase of the total sales mainly benefited from an increase in the demand of raw milk. The average selling price of our raw milk reached RMB4,657 per tonne compared with RMB4,281 per tonne in the six months ended 30 June 2020, representing an increase of 8.8%. The sales volume reached 179,824 tonnes, representing an increase of 4,355 tonnes as compared with 175,469 tonnes in the six months ended 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

COST OF SALES

Our cost of sales for the Period was RMB608.5 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2021 and 2020:

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Cost of sales		
Feed	436,084	377,541
Salary, welfare and social insurance	42,308	33,553
Depreciation	39,709	38,005
Veterinary cost	26,066	30,820
Utility	31,864	31,758
Transportation expenses	13,154	11,060
Other cost	19,291	11,360
Cost of sales, total	608,476	534,097

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB436.1 million and RMB377.5 million for the six months ended 30 June 2021 and 2020, respectively, representing 71.7% and 70.7% of the cost of sales for the respective six months ended 30 June 2021 and 2020. The increase in our feed costs was attributable to the increases in (i) number of milkable cows; and (ii) the proportion of concentrated feed in the adjusted feeding formula.

GROSS PROFIT

Resulted from the factors discussed above, the gross profit increased to RMB229.0 million for the Period (six months ended 30 June 2020: RMB217.2 million), representing an increase of 5.4%. Our gross profit margin decreased from 28.9% for the six months ended 30 June 2020 to 27.3% for the Period.

OTHER INCOME

Other income for the six months ended 30 June 2021 and 2020 amounted to RMB20.3 million and RMB45.0 million, respectively, representing a decrease of 54.9%. The decrease in other income was mainly attributable to the decrease in exchange gains, which was due to the fluctuation of exchange rate.

ADMINISTRATIVE EXPENSES

We incurred administrative expenses of RMB49.8 million for the Period, representing an increase of approximately 33.9% as compared to RMB37.2 million for the six months ended 30 June 2020. The increase was attributable to the increases in wages and salaries and exchange losses caused by the depreciation of the United States dollars (“US Dollars”).

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER EXPENSES

We incurred other expenses of RMB18.5 million for the Period from RMB9.7 million for the six months ended 30 June 2020, representing an increase of approximately 91.6%. The increase was attributable to the increase in the cost of sublease and the cost on disposal of cow-waste.

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 RMB81.1 million was recorded in the Period (six months ended 30 June 2020: loss of RMB91.3 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 RMB98.0 million for the Period, as compared to a net profit of RMB123.9 million for the six months ended 30 June 2020. Basic earnings per share was approximately RMB2.1 cents for the Period (six months ended 30 June 2020: RMB2.6 cents).

INTERIM DIVIDEND

The board of directors of the Company (the “**Directors**” and the “**Board**”, respectively) has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2020: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group’s net cash inflow from operating activities amounted to RMB315.8 million, as compared to RMB561.8 million for the six months ended 30 June 2020. As at 30 June 2021, the Group had cash and cash equivalents of RMB1,057.6 million (31 December 2020: RMB1,029.6 million), which were denominated in Renminbi.

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

CAPITAL STRUCTURE

As at 30 June 2021, the Company’s issued share capital was HK\$46,904,964 divided into 4,690,496,400 ordinary shares of HK\$0.01 each (the “**Shares**”). The Company did not issue any new Shares during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Save as disclosed above and in the Prospectus, there were no significant investments held as at 30 June 2021 nor were there other plans for material investments on capital assets as at the date of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE "IPO") 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.

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) HK\$ million	Actual use of net proceeds from the IPO up to 30 June 2021 HK\$ million	Actual use of net proceeds from the IPO during the Period HK\$ million	Unused net proceeds from the IPO as at 30 June 2021 HK\$ million
Construction of new farms	1,923.0	1,923.0	–	–
Develop upstream operations	384.6	36.8	–	347.8
Working capital and general corporate purpose	256.4	256.4	–	–
Total	2,564.0	2,216.2	–	347.8

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

	Planned use of net proceeds from the Placing (as stated in the announcement of the Company dated 23 December 2016) HK\$ million	Actual use of net proceeds from the Placing up to 30 June 2021 HK\$ million	Actual use of net proceeds from the Placing during the Period HK\$ million	Unused net proceeds from the Placing as at 30 June 2021 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 end of 2021 subject to 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.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 30 June 2021, no assets of the Group were pledged as security for bank borrowings (31 December 2020: Nil).

FOREIGN EXCHANGE EXPOSURE

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

TREASURY POLICIES

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

CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitments of the Group as at 30 June 2021 were RMB104.4 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 2021.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had 1,689 employees (31 December 2020: 1,552 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 RMB79.6 million (six months ended 30 June 2020: RMB61.8 million).

The salaries of the Group's employees largely depend on their type and level of work as well as their length of service with the Group. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Company participates in the social insurance schemes operated by the relevant local government authorities, which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started 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

SHARE OPTION SCHEME

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

Under the Share Option Scheme, the Directors may grant share options (the “**Options**”) to subscribe for ordinary Shares to eligible participants, including without limitation employees of the Group as well as directors of the Company and its subsidiaries.

Following the close of conditional voluntary general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by China Feihe Limited (“**Feihe**”) and its concert parties and to make comparable offers to the option holders for all Options (which confer rights on the option holders to subscribe for new Shares) by way of cancellation of the Options on 2 December 2020, all of the Options outstanding as at the date of the composite document which was issued on 30 October 2020 were cancelled. Accordingly, no Option was outstanding as at 1 January 2021 under the Share Option Scheme.

During the Period, no Option was granted, exercised, cancelled or lapsed under the Share Option Scheme and no Option was outstanding under the Share Option Scheme as at 30 June 2021.

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH MODEL CODE

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

REVIEW BY AUDIT COMMITTEE

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

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

As at 30 June 2021, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the “**SFO**”), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(i) Long Positions in the Shares

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

Note: 3,342,320,920 Shares were beneficially owned by Feihe which is owned as to 49.9% by Mr. Leng, a non-executive Director. Therefore, Mr. Leng is deemed or taken to be interested in 3,342,320,920 Shares beneficially owned by Feihe by virtue of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

<u>Name of Directors</u>	<u>Capacity/Nature of interests</u>	<u>Number of Shares held</u>	<u>Approximate percentage of issued Shares</u>
Mr. Leng <i>(Note 1)</i>	Interest in a controlled corporation and founder of a discretionary trust/corporate and other interest	4,457,428,339	49.90%
Mr. Liu Hua (" Mr. Liu ") <i>(Note 2)</i>	Interest in a controlled corporation and founder of a discretionary trust/corporate and other interest	933,198,378	10.45%

Notes:

- 587,516,458 shares were held by Mr. Leng through his controlled corporation – Dasheng Limited ("**Dasheng**"). 33.33% of the equity interests in Dasheng were held directly by Mr. Leng. 3,869,911,881 shares were held by Harneys Trustees Limited ("**Harneys**") as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited ("**LYB**"), which in turn holds the entire issued share capital of Garland Glory Holdings Limited ("**Garland Glory**"). Leng Family Trust was established by Mr. Leng as the settlor and the only discretionary object.
- 587,516,458 shares were held by Mr. Liu through his controlled corporation – Dasheng. 33.33% of the equity interests in Dasheng were held directly by Mr. Liu. 345,681,920 shares were held by Harneys as the trustee of LH Family Trust, which in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited, LH Family Trust was established by Mr. Liu as the settlor and the only discretionary object.

Save as disclosed above and so far as is known to the Directors, as at 30 June 2021, none of the Directors and the chief executive of the Company had or was deemed to have any other interests or short positions in the shares, underlying shares and debentures of the Company or any of 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

As at 30 June 2021, as far as known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interests in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

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

Notes:

1. 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.
2. 3,342,320,920 Shares were held by Harneys as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB, which in turn holds the entire issued share capital of Garland Glory, which in turn holds 43.32% of Feihe. Leng Family Trust is a discretionary trust established by Mr. Leng as the settlor and the only discretionary object. Accordingly, each of Harneys, LYB and Garland Glory was deemed or taken to be interest in 3,342,320,920 Shares directly held by Feihe.

Save as disclosed above, as at 30 June 2021, so far as it was known by or otherwise notified to the Directors or the chief executive of the Company, no other corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interest in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the board of directors of YuanShengTai Dairy Farm Limited

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 17 to 32, which comprises the condensed consolidated statement of financial position of YuanShengTai Dairy Farm Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 June 2021 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. 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

18 August 2021

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

For the six months ended 30 June 2021

	Notes	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
REVENUE	4	837,439	751,258
Cost of sales		(608,476)	(534,097)
Gross profit		228,963	217,161
Other income		20,257	44,980
Administrative expenses		(49,846)	(37,221)
Other expenses		(18,498)	(9,657)
Finance costs		(1,767)	–
Changes in fair value less costs to sell of biological assets	10	(81,077)	(91,293)
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Dairy Farming Co., Ltd.		–	(51)
PROFIT BEFORE TAX	5	98,032	123,919
Income tax expense		–	–
PROFIT FOR THE PERIOD		98,032	123,919
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(97)	316
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		97,935	124,235
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		98,032	123,919
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		97,935	124,235
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (expressed in RMB per share)	8	0.021	0.026
Diluted (expressed in RMB per share)	8	0.021	0.026

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	Notes	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,702,453	2,632,948
Investment properties		83,925	78,134
Right-of-use assets		80,536	82,271
Prepayments and other receivables		60,747	64,482
Biological assets	10	1,539,100	1,441,940
Total non-current assets		4,466,761	4,299,775
CURRENT ASSETS			
Inventories		172,642	316,608
Trade receivables	11	147,907	131,084
Prepayments and other receivables		7,049	6,287
Cash and cash equivalents	12	1,057,615	1,029,583
Total current assets		1,385,213	1,483,562
CURRENT LIABILITIES			
Trade payables	13	172,797	194,751
Other payables and accruals	14	342,874	426,224
Lease liabilities		11,301	9,466
Total current liabilities		526,972	630,441
NET CURRENT ASSETS		858,241	853,121
TOTAL ASSETS LESS CURRENT LIABILITIES		5,325,002	5,152,896
NON-CURRENT LIABILITIES			
Other payables and accruals	14	265,036	188,752
Lease liabilities		65,535	67,648
Total non-current liabilities		330,571	256,400
NET ASSETS		4,994,431	4,896,496
EQUITY			
Share capital	15	37,674	37,674
Reserves		4,956,757	4,858,822
Total equity		4,994,431	4,896,496

Director
Zhao Hongliang

Director
Chen Xiangqing

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	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 2021 (audited)	37,674	186,000	2,977,020	455,505	-	10,031	1,230,266	4,896,496
Profit for the period	-	-	-	-	-	-	98,032	98,032
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	(97)	-	(97)
Total comprehensive (loss)/income for the period	-	-	-	-	-	(97)	98,032	97,935
At 30 June 2021 (unaudited)	37,674	186,000	2,977,020	455,505	-	9,934	1,328,298	4,994,431
At 1 January 2020 (audited)	37,674	186,000	2,956,372	455,505	20,733	9,958	652,230	4,318,472
Profit for the period	-	-	-	-	-	-	123,919	123,919
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	316	-	316
Total comprehensive income for the period	-	-	-	-	-	316	123,919	124,235
Equity-settled share option arrangements	-	-	-	-	(85)	-	85	-
At 30 June 2020 (unaudited)	37,674	186,000	2,956,372	455,505	20,648	10,274	776,234	4,442,707

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	315,778	561,830
Purchases of items of property, plant and equipment	(140,900)	(100,625)
Additions to biological assets	(235,190)	(173,985)
Proceeds from disposal of biological assets	88,664	76,885
Proceeds from disposal of items of property, plant and equipment	70	–
Receipt of government grants for property, plant and equipment	25,000	–
Decrease/(increase) in time deposits	137,023	(213,801)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(125,333)	(411,526)
Interest paid	(3,508)	–
Principal portion of lease payments	(11,166)	(12,648)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(14,674)	(12,648)
NET INCREASE IN CASH AND CASH EQUIVALENTS	175,771	137,656
Cash and cash equivalents at beginning of period	892,560	1,009,782
Effect of foreign exchange rate changes, net	(10,716)	20,337
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,057,615	1,167,775
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	702,086	558,334
Time deposits	355,529	609,441
Cash and cash equivalents as stated in the statement of financial position	1,057,615	1,167,775
Less: Non-pledged time deposits with original maturity of more than three months when acquired	–	213,801
Cash and cash equivalents as stated in the statement of cash flows	1,057,615	953,974

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period's financial information.

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2

Amendment to IFRS 16

*Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)*

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

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) Amendment to IFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment did not have any impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB'000 (Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of raw milk	837,439	751,258

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2021 Sale of raw milk RMB' 000	2020 Sale of raw milk RMB'000
Segments		
Type of goods		
Sale of raw milk	837,439	751,258
Total revenue from contracts with customers	837,439	751,258
Geographical market		
Mainland China	837,439	751,258
Total revenue from contracts with customers	837,439	751,258
Timing of revenue recognition		
Goods transferred at a point in time	837,439	751,258
Total revenue from contracts with customers	837,439	751,258

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Breeding costs to produce	436,084	377,541
Production costs for raw milk	172,392	156,556
Cost of sales	608,476	534,097
Depreciation in property, plant and equipment	72,006	59,431
Less: Capitalised in biological assets	(31,711)	(18,344)
Depreciation recognised in the statement of profit or loss and other comprehensive income*	40,295	41,087
Depreciation in right-of-use assets	2,554	2,598
Depreciation of investment properties	6,018	2,790
Auditors' remuneration	1,600	1,500
Changes in fair value less costs to sell of biological assets	81,077	91,293
Lease payments for short-term leases	44	45
Employee benefit expenses excluding directors' and chief executive's remuneration		
Wages and salaries	63,926	50,461
Pension scheme contributions	13,483	5,737
Less: Capitalised in biological assets	(25,681)	(18,498)
Employee benefit expenses excluding directors' and chief executive's remuneration recognized in the statement of profit or loss and other comprehensive income**	51,728	37,700
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Dairy Farming Co., Ltd.	—	51
Loss on disposal of items of property, plant and equipment	1,232	399
Foreign exchange differences, net	10,716	(29,703)

5. PROFIT BEFORE TAX (continued)

- * Depreciation of approximately RMB39,708,000 (six months ended 30 June 2020: RMB38,005,000) is included in the cost of sales on the face of the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2021.
- ** Employee benefit expenses of approximately RMB42,308,000 (six months ended 30 June 2020: RMB33,553,000) is included in the cost of sales on the face of the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2021.

6. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2021 as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

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

7. DIVIDENDS

No dividend was paid or proposed by the Company during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2021 attributable to ordinary equity holders of the Company of RMB98,032,000 (unaudited) (2020: RMB123,919,000 (unaudited)) and the weighted average number of ordinary is 4,690,496,400 (unaudited) (2020: 4,690,496,400 (unaudited)) shares in issue during the six months ended 30 June 2021.

The calculation of the diluted earnings per share amount is based on the profit for the six months ended 30 June 2021 attributable to ordinary equity holders of the Company of RMB98,032,000 (unaudited) (2020: RMB123,919,000 (unaudited)). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 4,690,496,400 (unaudited) (2020: 4,729,961,767 (unaudited)) in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of nil (unaudited) (2020: 39,465,367 (unaudited)) assumed to have been issued at no consideration on the deem conversion of all dilutive potential ordinary shares into ordinary shares.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

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

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

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic/diluted earnings per share calculation	98,032	123,919

	Number of shares For the six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	4,690,496,400	4,690,496,400
Effect of dilution – weighted average number of ordinary shares: Share options	–	39,465,367
	4,690,496,400	4,729,961,767

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired assets with a cost of RMB142,818,000 (unaudited) (30 June 2020: RMB102,059,000 (unaudited)).

Assets with a net book value of RMB1,302,000 (unaudited) were disposed by the Group during the six months ended 30 June 2021 (30 June 2020: RMB399,000 (unaudited)), resulting in a net loss on disposal of RMB1,232,000 (unaudited) (30 June 2020: RMB399,000 (unaudited)).

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 as at 30 June 2021 and 31 December 2020 is shown below. The Group’s dairy cows contain heifers and calves and milkable cows. Heifers and calves held as at 30 June 2021 and 31 December 2020 were dairy cows that have not had their first calves.

	30 June 2021 (Unaudited) Heads	31 December 2020 (Audited) Heads
Dairy cows		
Milkable cows	35,057	35,128
Heifers and calves	37,264	34,270
Total dairy cows	<u>72,321</u>	<u>69,398</u>

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 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

30 June 2021

10. BIOLOGICAL ASSETS (continued)

B – Value of dairy cows

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)	
Dairy cows	1,539,100	1,441,940	
	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2020	489,543	843,895	1,333,438
Increase due to raising (feeding costs and others)	421,667	–	421,667
Transfer (out)/in	(346,204)	346,204	–
Decrease due to sales	(54,098)	(87,768)	(141,866)
Gain/(loss) arising from changes in fair value less costs to sell	32,049	(203,348)	(171,299)
Balance as at 31 December 2020 and 1 January 2021 (audited)	542,957	898,983	1,441,940
Increase due to raising (feeding costs and others)	266,901	–	266,901
Transfer (out)/in	(196,513)	196,513	–
Decrease due to sales	(25,519)	(63,145)	(88,664)
Gain/(loss) arising from changes in fair value less costs to sell	18,914	(99,991)	(81,077)
Balance as at 30 June 2021 (unaudited)	606,740	932,360	1,539,100

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

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 2021 (unaudited)	1,539,100
As at 31 December 2020 (audited)	1,441,940

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 2021 RMB' 000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	147,907	131,084

12. CASH AND CASH EQUIVALENTS

	30 June 2021 RMB' 000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Cash and bank balances	702,086	673,845
Time deposits	355,529	355,738
Cash and cash equivalents	1,057,615	1,029,583

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

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:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 2 months	135,714	162,035
2 to 6 months	25,498	24,049
6 to 12 months	7,182	4,068
Over 1 year	4,403	4,599
	<u>172,797</u>	<u>194,751</u>

14. OTHER PAYABLES AND ACCRUALS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Deferred income	282,970	202,142
Other payables – construction	124,208	129,251
Other payables – equipment and materials	26,029	23,591
Others	174,703	259,992
	<u>607,910</u>	<u>614,976</u>
Non-Current Portion		
Deferred income	<u>(265,036)</u>	<u>(188,752)</u>
	<u>342,874</u>	<u>426,224</u>

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

30 June 2021

15. SHARE CAPITAL

	30 June 2021 RMB' 000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Authorised: 50,000,000,000 ordinary shares of HK\$0.01 each	<u>406,897</u>	<u>406,897</u>
Issued and fully paid: 4,690,496,400 ordinary shares of HK\$0.01 each	<u>37,674</u>	<u>37,674</u>

16. COMMITMENTS

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

	30 June 2021 RMB' 000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for: Plant and machinery	<u>104,403</u>	<u>61,030</u>

17. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in this financial information, the Group had the following transactions with related parties during the period:

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB'000 (Unaudited)
Sale of raw milk	<u>815,281</u>	<u>–</u>

The Group had an outstanding balance due from China Feihe Limited (included in trade receivables) amounting to RMB138,983,000 (unaudited) as at 30 June 2021 (31 December 2020: RMB119,219,000 (audited)).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

17. RELATED PARTY TRANSACTIONS (continued)

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

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Short term employee benefits	1,880	2,099
Post-employment benefits	261	158
Total compensation paid to key management personnel	2,141	2,257

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.