

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) take no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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 2021**

**FINANCIAL RESULTS**

The board (the “**Board**”) of directors (the “**Directors**”) 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 2021 (the “**Year**”) together with the comparative figures for the year ended 31 December 2020.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>REVENUE</b>	3	<b>1,776,538</b>	1,554,012
Cost of sales		<u>(1,297,213)</u>	<u>(1,090,732)</u>
Gross profit		<b>479,325</b>	463,280
Other income and gains	3	<b>73,126</b>	43,860
Administrative expenses		<b>(116,234)</b>	(140,100)
Other expenses		<b>(37,954)</b>	(28,026)
Finance costs		<b>(3,532)</b>	(2,653)
Changes in fair value less costs to sell of biological assets		<b>(237,741)</b>	(171,299)
Reversal of impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Dairy Farming Co., Ltd.		<u>—</u>	<u>412,889</u>
<b>PROFIT BEFORE TAX</b>	4	<b>156,990</b>	577,951
Income tax expense	5	<u>—</u>	<u>—</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>156,990</u></b>	<b><u>577,951</u></b>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(688)</u>	<u>73</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>156,302</u></b>	<b><u>578,024</u></b>
Attributable to:			
Owners of the Company		<b><u>156,302</u></b>	<b><u>578,024</u></b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic and diluted	7	<b><u>RMB3.35 cents</u></b>	<b><u>RMB12.32 cents</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	<i>Notes</i>	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		3,206,392	2,632,948
Investment properties		77,469	78,134
Right-of-use assets		78,117	82,271
Prepayments, other receivables and other assets		58,124	64,482
Biological assets		<u>1,707,317</u>	<u>1,441,940</u>
Total non-current assets		<u>5,127,419</u>	<u>4,299,775</u>
<b>CURRENT ASSETS</b>			
Inventories		543,306	316,608
Trade receivables	8	52,874	131,084
Prepayments, other receivables and other assets		5,305	6,287
Cash and cash equivalents		<u>959,411</u>	<u>1,029,583</u>
Total current assets		<u>1,560,896</u>	<u>1,483,562</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	9	282,252	194,751
Other payables and accruals		682,244	426,224
Lease liabilities		<u>11,563</u>	<u>9,466</u>
Total current liabilities		<u>976,059</u>	<u>630,441</u>
<b>NET CURRENT ASSETS</b>		<u>584,837</u>	<u>853,121</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>5,712,256</u>	<u>5,152,896</u>
<b>NON-CURRENT LIABILITIES</b>			
Other payables and accruals		402,411	188,752
Interest-bearing other borrowing	10	190,000	–
Lease liabilities		<u>67,047</u>	<u>67,648</u>
Total non-current liabilities		<u>659,458</u>	<u>256,400</u>
Net assets		<u>5,052,798</u>	<u>4,896,496</u>
<b>EQUITY</b>			
Issued capital		37,674	37,674
Reserves		<u>5,015,124</u>	<u>4,858,822</u>
Total equity		<u>5,052,798</u>	<u>4,896,496</u>

## NOTES TO FINANCIAL STATEMENTS

### 1.1 BASIS OF PREPARATION

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 following revised IFRSs for the first time for the current year’s financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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 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 Group had certain interest-bearing bank borrowings denominated in RMB based on the Loan Prime Rate (“LPR”) as at 31 December 2021. The Group expects that LPR will continue to exist and there was no impact on the Group’s LPR-based borrowings.
- (b) Amendment to IFRS 16 issued in March 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 Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

## 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 further 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 2021 and 2020 is as follows:

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Customer A	<b>1,545,277</b>	1,299,369
Customer B	<b>162,349</b>	196,902
Others	<b>68,912</b>	57,741
	<b><u>1,776,538</u></b>	<b><u>1,554,012</u></b>

### 3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sale of raw milk	<u>1,776,538</u>	<u>1,554,012</u>

#### Revenue from contracts with customers

##### (a) *Disaggregated revenue information*

For the year ended 31 December

Segments	2021 Sale of raw milk <i>RMB'000</i>	2020 Sale of raw milk <i>RMB'000</i>
<b>Types of goods</b>		
Sale of raw milk	<u>1,776,538</u>	<u>1,554,012</u>
Total revenue from contracts with customers	<u>1,776,538</u>	<u>1,554,012</u>
<b>Geographical market</b>		
Mainland China	<u>1,776,538</u>	<u>1,554,012</u>
Total revenue from contracts with customers	<u>1,776,538</u>	<u>1,554,012</u>
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	<u>1,776,538</u>	<u>1,554,012</u>
Total revenue from contracts with customers	<u>1,776,538</u>	<u>1,554,012</u>

##### (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.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<i>Other income and gains</i>		
Government subsidies	45,741	19,899
Bank interest income	13,027	13,676
Gross rental income from investment property operating leases	13,926	9,486
Others	<u>432</u>	<u>799</u>
	<u>73,126</u>	<u>43,860</u>

#### 4. PROFIT BEFORE TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Breeding costs to produce	927,758	776,108
Production costs for raw milk	<u>369,455</u>	<u>314,624</u>
Cost of sales	<u><b>1,297,213</b></u>	<u>1,090,732</u>
Depreciation of property, plant and equipment	154,993	116,192
Less: Capitalised in biological assets	<u>(64,893)</u>	<u>(39,638)</u>
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income*	<u><b>90,100</b></u>	<u>76,554</u>
Depreciation of right-of-use assets	5,141	5,137
Depreciation of investment properties	12,474	8,371
Lease payments for short-term leases	87	91
Auditors' remuneration	3,300	3,200
Changes in fair value less costs to sell of biological assets	237,741	171,299
Employee benefit expenses excluding directors' and chief executive's remuneration:		
Wages and salaries	137,679	96,532
Pension scheme contributions	29,220	11,425
Less: Capitalised in biological assets	<u>(54,466)</u>	<u>(36,002)</u>
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the consolidated statement of profit or loss and other comprehensive income**	<u><b>112,433</b></u>	<u>71,955</u>
Reversal of impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm	-	(412,889)
Loss on disposal of items of property, plant and equipment	1,790	2,930
Foreign exchange differences, net	<u><b>12,695</b></u>	<u>61,936</u>

\* Depreciation of approximately RMB88,843,000 (2020: RMB75,004,000) 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 RMB91,859,000 (2020: RMB65,291,000) 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.

## 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 (2020: 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 (2020: Nil).

## 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 RMB156,990,000 (2020: RMB577,951,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2020: 4,690,496,400).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

## 8. TRADE RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	<u>52,874</u>	<u>131,084</u>

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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 1 month	<u>52,874</u>	<u>131,084</u>

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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 2 months	230,298	162,035
2 to 6 months	35,874	24,049
6 to 12 months	9,787	4,068
Over 1 year	6,293	4,599
	<u>282,252</u>	<u>194,751</u>

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

## 10. INTEREST-BEARING OTHER BORROWING

	Effective interest rate (%)	2021 Maturity	2021 <i>RMB'000</i>
<b>Non-current</b>			
Other loan – unsecured	<u>5.22</u>	<u>2024 – 2025</u>	<u>190,000</u>

Analysed into:

Other borrowing repayable:

In the third to fifth years, inclusive

2021  
*RMB'000*

190,000

Other borrowing represents a loan due to an independent third party. During the year, Heilongjiang Jinyuan Dairy Farming Co., Ltd \* (黑龍江金源牧業有限公司) (“**Heilongjiang Jinyuan**”), a wholly-owned subsidiary of the Company, acquired certain assets and liabilities from this independent third party. According to the asset transfer agreement, the bank loan borrowed by this independent third party shall be transferred to Heilongjiang Jinyuan together with certain assets. As at 31 December 2021, the novation agreement with the bank has not been signed. The other borrowing would be classified as a loan once the novation agreement is signed.

\* For identification purposes

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

Looking back to 2021, China's economy saw steady recovery. The combination of increase in demand, and stable employment rate and price level points to a steady growth of the economy despite the outbreak of the COVID-19 pandemic (the “**Pandemic**”). According to the preliminary calculation of China's economic data in 2021 released by the National Bureau of Statistics, the annual gross domestic product exceeded RMB114 trillion, representing a year-on-year increase of 8.1%, and a two-year average growth of 5.1%, which provides a good start to the “14th Five-Year Plan”. China recorded a quarterly year-on-year growth rate of 18.3% for the first quarter, 7.9% for the second quarter, 4.9% for the third quarter and 4.0% for the fourth quarter of 2021. China has maintained a leading position in terms of economic development and epidemic prevention and control in the world, which is beneficial to the overall consumer market.

With respect to the dairy industry, the demand for dairy products continued to grow, thanks to the continuous upgrade of the national consumption pattern and the increasing health awareness of Chinese consumers. The retail sales of dairy products in China is expected to increase from 31.1 million tonnes in 2020 to 33.3 million tonnes in 2021, and further increase to 41.0 million tonnes by 2025, representing a compound annual growth rate of 5.7% from 2020 to 2025. The raw milk industry has recovered in general and the excess demand for high-quality raw milk products is expected to continue. According to the 2021 China Dairy Quality Report and the Group Standard For Raw Milk (生牛乳團體標準) released by the 2021 China Dairy Top 20 Summit, which stressed that the construction of high-quality milk source bases will be continuously strengthened, the genetic improvement for dairy cows will be promoted, the supply of high-quality forage will be increased and the milk supply capacity will be improved consistently. China's dairy industry is expected to maintain a sound growth momentum.

With respect to feeds, the price of hay feed increased due to the general rise in global commodity prices in 2021 and the tight supply of feed ingredients. According to statistics released by China Customs, a total of 1,596,100 tonnes of alfalfa hay were imported by China from January through November 2021, representing a year-on-year increase of 28.8%. The import value was US\$602,455,300, representing a year-on-year increase of 34.4%, and the average cost, insurance and freight price was US\$377.46 per tonne, representing a year-on-year increase of 4.3%. As a result of the rising price of imported hay feed, the business cost of the farming companies increased as well.

In recent years, China introduced a series of initiatives which facilitated the sustainable revitalization of the dairy industry. In February 2021, the No. 1 document of the Central Committee of the Chinese Communist Party (the “**CCP**”) points out that the construction of a high-quality milk source base will be fundamental for revitalizing the dairy industry. In May 2021, the three-child policy was officially implemented, which is expected to boost the demand for dairy products in the future. In July 2021, the “Decision of the CCP and the State Council on Optimizing Fertility Policies to Promote Long-term and Balanced Population Development (《中共中央國務院關於優化生育政策促進人口長期均衡發展的決定》)” was promulgated, which introduced a blanket of measures in respect of prenatal and postnatal care, inclusive childcare, and reducing the cost of “birth, nurture and education”. Benefiting from the abovementioned favorable policies of China, large-scale dairy enterprises and dairy farming enterprises will have greater development opportunities in the future.

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 and improving the breeding and production technology. In order to pursue its goal of producing high-quality raw milk, YuanShengTai will continue to strengthen standardized production of milk source and implement rigorous quality supervision so as to satisfy 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 4.6% to 372,089 tonnes from 355,599 tonnes in 2020. The total revenue for the Year amounted to RMB1,776.5 million, representing an increase of 14.3% as compared with the same period of 2020. During the Year, the Group recorded net profits of RMB157.0 million (2020: RMB578.0 million), representing a decrease of 72.8% as compared with the same period of 2020.

Since its establishment, the Group has built long-term and stable relationships with leading dairy manufacturers in China. In 2021, the Company’s two major customers were China Feihe Limited (“**Feihe**”), together with its subsidiaries and Mengniu Group. Both major customers continued to expand their product portfolio and develop the international market with the support of preferential policies from the PRC government, which will definitely continue to benefit the development of the Group’s business. The revenue from these two major customers accounted for approximately 96% of the Group’s revenue. In the future, the Group expects to continue to supply raw milk products to these two major customers on a long-term basis, and committed to providing raw milk according to the highest safety and nutritional standards in China. In line with the increasing demand for high-quality raw milk, the Group has been planning to construct two new farms in Heilongjiang Province, the PRC to increase its production capacity.

## **Construction of Farms**

As of 31 December 2021, the Group had eight farms in Heilongjiang Province and one farm in Jilin Province, respectively. Each farm had an actual designed capacity ranging from 1,960 to 30,000 dairy cows, and the total site area of the nine farms amounted to approximately 7,791,700 square metres.

	<b>Actual Designed Capacity</b> <i>(Number of Cows/Head)</i>	<b>Actual Headcounts</b>	<b>Area</b> <i>(m<sup>2</sup>)</i>
Gannan Farm	12,000	11,847	986,333
Kedong Heping Farm	6,000	5,544	384,000
Kedong Ruixinda Farm	18,000	10,973	784,000
Kedong Yongjin Farm	12,000	8,542	714,000
Zhenlai Farm	30,000	18,650	2,066,667
Baiquan Farm	15,000	9,141	994,000
Keshan Farm	12,000	10,318	980,000
Longjiang Ruixincheng Farm	1,960	1,584	84,300
Longjiang Jinyuan Farm	12,000	2,967	798,400
	<hr/>	<hr/>	<hr/>
Total	<u>118,960</u>	<u>79,566</u>	<u>7,791,700</u>

### ***Milk Yield***

During the Year, the average annual milk yield per cow was 10.91 tonnes, representing an increase of 2.8% as compared with 10.61 tonnes in 2020. As operation of farms become more mature and stable, and the age mix of cattle and the cattle mix are upgraded and optimized, the Group expects that the average milk yield of herds will continue to increase. In the future, the Group will improve its profitability by adjusting and optimizing the cattle mix, improving the feeding formula and upgrading intelligent high-quality management.

### ***Size of Our Herds***

Benefiting from the advanced and modern management model of our farms, the number of dairy cows of the Group's dairy farms increased by 14.7% from 69,398 heads as of 31 December 2020 to 79,566 heads as of 31 December 2021. Among them, the total number of our matured milkable cows increased from 35,128 heads as of 31 December 2020 to 36,290 heads as of 31 December 2021. The increase in number of our matured milkable cows contributed to the constant supply of quality raw milk of the Group. In addition, the number of heifers and calves increased to 43,276 heads, representing an increase of 26.3% as compared with the same period of last year.

	<b>31 December 2021</b>	31 December 2020
Number of matured milkable cows	<b>36,290</b>	35,128
Number of heifers and calves	<b>43,276</b>	34,270
Total number of dairy cows	<b><u>79,566</u></b>	<b><u>69,398</u></b>

### ***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 market and as a result, the domestic raw milk prices continued to rise. During the Year, the average selling price of the Group's raw milk was RMB4,774 per tonne, representing an increase of 9.2% as compared with the same period of last year.

## **Outlook**

As the per capita disposable income of residents across the country continues to grow and the Pandemic has led customers to pay more attention to their health, the demand for high-quality products has increased, boosting the further development of various industries. On the other hand, there is a decrease in the number of newly born infants and young children in recent years. The changing trend of newborn population is conducive to improvement in the quality of the industry. Consumers' demand for high-quality dairy products in China has fueled development of various sectors in the industry, such as goat milk. The existing small and medium-sized brands in the market, however, find it difficult to survive in the market. Brands of inferior and obsolete products are gradually eliminated, while new entrants are experiencing higher barriers to entry. The advantage of an influential brand is further highlighted. In the future, high-quality raw milk will be produced and provided mainly by large-scale dairy farms. The market share of large-scale farming in the raw milk industry will increase, with less chance for new entrants to the market to gain a competitive advantage, leading to greater industry concentration and higher barriers to milk industry. Thus, the market will usher in a new period of competition between existing players. The Company is expected to benefit from the industry's upward cycle and its own first-mover advantage and further leverage on its industry leader's advantage.

In the future, the Group will seize market opportunities and continue to upgrade its structure by relying on its technological advantages and resource endowments in line with the innovation and consumption upgrading trend. In addition to growing, improving and strengthening its main business of raw milk, YuanShengTai will also explore the possibility of developing new businesses as drivers of profit growth. It will make best use of its own milk resource to develop featured goat milk business; improve the quality of dairy cows to provide the Group with high-quality dairy cows; realize digital breeding leveraging on modern technologies; plan the production in line with the needs of dairy enterprises, and achieve rational expansion to increase the Company's overall gross profit margin. The Group believes that YuanShengTai will continue to maintain its leading position in China's dairy farming and contribute to the revitalization of China's dairy industry while providing high-quality dairy products to the society,

## **Our Revenue**

During the Year, our total sales of milk produced increased by 14.3% from RMB1,554.0 million for the year ended 31 December 2020 to RMB1,776.5 million. The sales volume for the Year reached 372,089 tonnes, representing an increase of 16,490 tonnes or 4.6% as compared with 355,599 tonnes in 2020. 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 RMB4,774 per tonne for the Year, representing an increase of 9.2% as compared with RMB4,370 per tonne in 2020.

## Cost of Sales

Our cost of sales for the Year was RMB1,297.2 million. The table below summarizes the components of our cost of sales by nature:

	<b>2021</b> <b>RMB'000</b>	2020 RMB'000
Cost of sales		
Feed	<b>927,756</b>	776,108
Salary, welfare and social insurance	<b>91,859</b>	65,291
Depreciation	<b>88,843</b>	75,004
Veterinary cost	<b>49,912</b>	47,447
Utility	<b>68,459</b>	64,835
Transportation expenses	<b>28,116</b>	23,309
Other costs	<b>42,268</b>	38,738
	<hr/> <b>1,297,213</b> <hr/>	<hr/> 1,090,732 <hr/>
Cost of sales, total	<b>1,297,213</b>	1,090,732

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB927.8 million and RMB776.1 million for the years ended 31 December 2021 and 2020, respectively, representing 71.5% and 71.2% of the cost of sales for the respective financial years. The increase in our feed costs was attributable to the increases in (i) the number of milkable cows; (ii) the proportion of concentrated feed in the adjusted feeding formula; and (iii) the price of hay feed.

## Gross Profit

Given the above factors, the gross profit increased to RMB479.3 million for the Year (2020: RMB463.3 million), representing an increase of 3.5% as compared with that for 2020. Our gross profit margin decreased from 29.8% in 2020 to 27.0% in 2021.

## Other Income and Gains

Other income and gains for the Year amounted to RMB73.1 million (2020: RMB43.9 million), representing an increase of 66.5%. The increase in other income and gains was attributable to: (i) increase in government subsidies, including subsidies for infrastructure upgrades, subsidies for replacement of grains with feed and subsidies for the construction of Bei'an Farm; (ii) increase in income from land sublease generated by Zhenlai Farm. 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.

## Administrative Expenses

We incurred administrative expenses of RMB116.2 million for the Year (2020: RMB140.1 million), representing a decrease of approximately 17.1% as compared with 2020. The decrease in administrative expenses was attributable to the decreases in: (i) exchange losses caused by the depreciation of the United States dollars ("USD"); and (ii) professional fees related to the relocation of Baiquan Ruixincheng Farm and the acquisition of the Company's shares by Feihe last year.

## **Other Expenses**

Other expenses for the Year amounted to RMB38.0 million (2020: RMB28.0 million). The increase in other expenses was attributable to the increases in: (i) expense on land sub-lease incurred by Zhenlai Farm; and (ii) expense related to the disposal of cow waste.

## **Changes in Fair Value Less Costs to Sell of Biological Assets**

Changes in fair value less costs to sell of biological assets was a loss of RMB237.7 million for the Year as compared with a loss of RMB171.3 million for 2020. The increase was attributable to the increase of the feeding cost.

## **Particulars of Important Event**

On 19 November 2021, Shaanxi Ruixiang Chengda Dairy Farming Co., Ltd.\* (陝西瑞祥誠達牧業有限公司) (the “**Purchaser**”), an indirect wholly-owned subsidiary of the Company, entered into an asset transfer agreement with Shaanxi Lvngeng Shengtai Dairy Farming Co., Ltd.\* (陝西綠能生態牧業有限公司) (the “**Vendor**”), pursuant to which the Vendor conditionally agreed to sell and the Purchaser agreed to purchase the assets which include, inter alia, the breeding facilities for milk goats and production lines for goat milk and the land use rights of certain breeding farms at a consideration of RMB131,388,221. For details, please refer to the Company’s announcements dated 19 November 2021 and 29 November 2021.

## **Profit for the Year of the Group**

Taking into account all of the above factors, the Group’s net profit was RMB157.0 million for the Year, as compared with a net profit of RMB578.0 million for the year ended 31 December 2020. The decrease in net profit was mainly attributable to the reversal of impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Dairy Farming Co., Ltd. during the year ended 31 December 2020. Basic earnings per share was approximately RMB3.35 cents for the Year (2020: RMB12.32 cents).

## **FINAL DIVIDEND**

The Board has resolved not to recommend the payment of a final dividend for the Year (2020: Nil).

\* For identification purposes

## **LIQUIDITY AND FINANCIAL RESOURCES**

For the Year, the Group's net cash inflow from operating activities amounted to RMB720.1 million, as compared with RMB581.1 million in 2020. As at 31 December 2021, the Group had cash and cash equivalents of RMB959.4 million (2020: RMB1,029.6 million). Except cash and cash equivalents equivalent to RMB439.5 million which were denominated in USD, RMB39.3 million which were denominated in Hong Kong dollars (“**HKD**”), the Group's remaining cash and cash equivalents were denominated in RMB.

The Group had interest-bearing other borrowing of RMB190.0 million as at 31 December 2021 (2020: Nil).

The borrowing was denominated in RMB. Details of the borrowing of the Group are set out in note 10 to the financial statements.

## **CAPITAL STRUCTURE**

As at 31 December 2021, 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**”) (2020: 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 2021 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 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:

	<b>Planned use of net proceeds from the IPO (as stated in the prospectus) HK\$ million</b>	<b>Actual use of net proceeds from the IPO up to 31 December 2021 HK\$ million</b>	<b>Actual use of net proceeds from the IPO during the Year HK\$ million</b>	<b>Unused net proceeds from the IPO as at 31 December 2021 HK\$ million</b>
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	<u>256.4</u>	<u>256.4</u>	<u>–</u>	<u>–</u>
Total	<u><u>2,564.0</u></u>	<u><u>2,216.2</u></u>	<u><u>–</u></u>	<u><u>347.8</u></u>

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 2023. The original expected timeline for unused net proceeds in respect of developing upstream operations was 31 December 2021. The delay in the use of net proceeds arose due to the suspension of upstream operations development over the Pandemic. 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:

	<b>Planned use of net proceeds from the Placing (as stated in the announcement of the Company dated 23 December 2016) HK\$ million</b>	<b>Actual use of net proceeds from the Placing up to 31 December 2021 HK\$ million</b>	<b>Actual use of net proceeds from the Placing during the Year HK\$ million</b>	<b>Unused net proceeds from the Placing as at 31 December 2021 HK\$ million</b>
Importing heifers and calves from Australia and New Zealand and general working capital	384.6	177.9	79.2	206.7
Total	<u>384.6</u>	<u>177.9</u>	<u>79.2</u>	<u>206.7</u>

The unused net proceeds, being approximately HK\$206.7 million, are expected to be used as intended by 2023. The original expected timeline for unused net proceeds from the Placing was 31 December 2021. The delay in the use of net proceeds arose as the progress of importing heifers and calves from Australia and New Zealand was slowed down due to the Pandemic. 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 2021, no assets of the Group were pledged as security for bank borrowings (2020: Nil).

## **FOREIGN EXCHANGE EXPOSURE**

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

## **TREASURY POLICIES**

The Group adopts a conservative approach 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 2021 and 2020 were RMB79.0 million and RMB61.0 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 2021 (2020: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2021, the Group had 1,903 employees (2020: 1,552 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**

On 1 January 2022, the Group completed acquisition of certain assets which include, inter alia, breeding facilities for milk goats and production lines for goat milk and the land use rights of certain breeding farms from a third party. The acquisition was made as part of the Group's strategy to further expand its business in the fast-growing goat milk market and diversify and expand new product lines to meet customers' need for goat milk powder products. As the Group is still in the process of allocating the purchase price to the assets acquired to complete the initial accounting for this business combination, it is not practicable to disclose further details about the acquisition. Details of the acquisition are set out in the announcements of the Company dated on 19 November 2021 and 29 November 2021, respectively. Save as disclosed above, 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 on 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 as set out in Part 2 of the Corporate Governance Code (the "**CG Code**") except for those CG Code applicable for the financial year commencing on or after 1 January 2022 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](http://www.hkexnews.hk)) and the Company ([www.ystdfarm.com](http://www.ystdfarm.com) and [www.ystdairyfarm.com](http://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, 28 March 2022

*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.*