



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

(Incorporated in Bermuda with limited liability)

Stock Code : 1431



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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" OR "CHINA")

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS

As to Hong Kong Laws
Loeb & Loeb LLP

As to PRC Laws

Jingtian & Gongcheng (北京市競天公誠律師事務所)

STOCK CODE

1431

BOARD LOTS

1,000 shares

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2022, the international situation was complex and critical. The black swan events, such as the Ukraine crisis and the Federal Reserve's continuous interest rate hikes, caused turbulence in the international economic and financial situation. The world experienced a marked slowdown in economic growth. The repeated outbreak of the COVID-19 pandemic (the "**Pandemic**") in several key cities across the country had a certain impact on the national economic stability. According to the data released by the National Bureau of Statistics, the total gross domestic product (GDP) of the Peoples' Republic of China (the "**PRC**" or "**China**") in the first half of 2022 amounted to RMB56.26 trillion, representing a year-on-year increase of 2.5% and the per capita disposable income in China in the first half of 2022 amounted to RMB18,463, representing a year-on-year increase of 4.7%. With the gradual economic revival and the growth in national income in China, the consumer market gradually improved, and a number of sectors that were badly hit by the Pandemic gradually recovered. Meanwhile, the development of the dairy industry is also full of new drivers. The sustained consumption upgrade of the Chinese market and the post-Pandemic era have raised the Chinese consumers' awareness about health and food. With the increasing awareness of the health benefits of dairy products, consumers have stronger demand for raw milk. In 2021, China's per capita consumption of dairy products was equivalent to 38.3 kilograms of fresh milk, representing approximately one third of the world's average. According to the Chinese Dietary Guidelines (2022), the Chinese Nutrition Society encourages intake of milk and dairy products by increasing the recommended daily consumption of milk and dairy products from 300 grams in 2016 to 500 grams in 2022. With the continuous increase in the penetration rate of dairy products and the intergenerational changes, there is still much room for improvement in the per capita consumption of dairy products in China.

According to the data released by the National Bureau of Statistics, the national dairy product output from January through May 2022 was 12.427 million tonnes, representing a year-on-year increase of 0.9%. The growth in dairy product output still outpaced that of raw milk supply, and there still remains a tight balance between the demand and supply. In addition, due to the tightening environmental standards in China, the rising prices of bulk raw materials brought about by trade frictions and the impact of the Pandemic, the barriers to the dairy farming industry became higher and higher, and large-scale animal farming groups were encouraged to pursue large-scale operation. On 16 February 2022, the Ministry of Agriculture and Rural Affairs of the People's Republic of China issued the Action Plan for Improving the Competitiveness of Dairy Industry in the 14th Five-Year Plan (《“十四五”奶業競爭力提升行動方案》), which provides an outline of the ministry's goal: by 2025, the national milk output will reach approximately 41 million tonnes. In the long run, high-quality raw milk will be mainly produced and supplied by large-scale farms, and the upstream high-quality milk sources would be the cornerstones for the steady development of the industry. With the effective implementation of relevant national policies, animal husbandry on large-scale farms will become a norm, and China's raw milk supply market will be further concentrated. Meanwhile, the expansion of the herd will promote the improvement of breeding standards of farms, and the established production enterprises with outstanding technical capabilities will prosper. We are expected to benefit from the industry's upward cycle and further leverage on its advantages as the industry leader.

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 diversification and modernization development strategy. By adjusting the size of the herd and improving the breeding and production technology, the Group strives to achieve better production and operation results. YuanShengTai will implement rigorous quality supervision by adjusting the herb mix and further strengthening standardized production of milk sources, and provide the highest quality raw milk to consumers.

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 2022 (the “**Period**”), the total sales volume of raw milk of the Group increased to 193,180 tonnes from 179,824 tonnes in the same period of 2021. Total sales of fresh milk amounted to RMB1,009.0 million during the Period, representing an increase of 20.5% as compared with the first half of 2021. The Group’s gross profit amounted to RMB272.1 million for the Period, representing an increase of 18.9% as compared with the same period of last year. The Group’s net profit for the Period decreased by 46.3% to RMB52.7 million from RMB98.0 million for the same period in 2021. The feed cost increased by approximately 22.5% as compared with the same period of last year due to the increase in the price of imported hay feed amidst the Pandemic during the Period. However, the Group effectively controlled certain production costs, and 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 establishment, the Group has built long-term and stable relationship with leading dairy manufacturers in China. In the first half of 2022, the Company’s two major customers were China Feihe Limited (“**Feihe**”) and China Mengniu Dairy Company Limited, together with their subsidiaries. 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. Revenue from these two major customers accounted for nearly 98% 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 is committed to providing raw milk with the highest safety and nutritional standards in China.

Construction of Farms

As of 30 June 2022, we had eight dairy cow farms in Heilongjiang Province, one dairy cow farm in Jilin Province, and one dairy goat farm in Shaanxi Province, respectively. Each dairy cow farm had an actual designed capacity ranging from 1,960 to 30,000 dairy cows, and the total site area of the nine dairy cow farms amounted to approximately 7,791,700 square metres. The dairy goat farm had an actual designed capacity of 20,000 dairy goats, and the site area of the dairy goat farm amounted to 429,133 square metres. The new farms of the Group under construction are Yi’an Farm and Bei’an Farm, respectively which are expected to start raising heifers by the end of 2022.

	Actual Designed Capacity (Number of Cows or Goats)	Actual Inventory Number	Area (m²)
Gannan Farm	12,000	11,795	986,333
Kedong Heping Farm	6,000	5,364	384,000
Kedong Ruixinda Farm	18,000	9,820	784,000
Kedong Yongjin Farm	12,000	8,686	714,000
Zhenlai Farm	30,000	20,194	2,066,667
Baiquan Farm	15,000	8,566	994,000
Keshan Farm	12,000	10,329	980,000
Longjiang Ruixincheng Farm	1,960	1,676	84,300
Longjiang Jinyuan Farm	12,000	8,189	798,400
Ruixiangchengda Farm	20,000	6,669	429,133
Total	138,960	91,288	8,220,833

MANAGEMENT DISCUSSION AND ANALYSIS

Milk Yield

During the Period, the average annual milk yield per cow was 10.9 tonnes, representing an increase of 0.9% as compared with 10.8 tonnes in the first half of 2021, and the average annual milk yield per goat was 0.7 tonnes during the Period. 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 achieve scientific, standardized and quality farming by expanding production and operation and improving the feeding formula.

Size of Our Herds

Benefiting from the advanced management system of our farms, the number of dairy cows of the Group's dairy farms increased from 72,321 heads as of 30 June 2021 to 84,619 heads as of 30 June 2022. In particular, the total number of our matured milkable cows steadily increased from 35,057 heads as of 30 June 2021 to 38,180 heads as of 30 June 2022. The number of dairy goats was 6,669 heads as of 30 June 2022, including 5,064 matured milkable goats and 1,605 lambs and young goats. The increase in the number of our matured milkable cows and goats further contributed to the constant supply of quality raw milk of the Group.

	<u>30 June 2022</u>	<u>30 June 2021</u>
Number of matured milkable cows	38,180	35,057
Number of heifers and calves	46,439	37,264
Total number of dairy cows	84,619	72,321
		<u>30 June 2022</u>
Number of matured milkable goats		5,064
Number of lambs and young goats		1,605
Total number of dairy goats		6,669

Price of Raw Milk

In the first half of 2022, the overall domestic demand for dairy products increased, and the supply and demand 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 was strong, leading to rises of milk prices. During the Period, the average selling price of the Group's raw cow milk was RMB5,223 per tonne (six months ended 30 June 2021: RMB4,657 per tonne for the Group), representing an increase of 12.2% as compared with the same period of last year. The average selling price of the Group's raw goat milk was RMB7,324 per tonne during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

After years of healthy development of China's dairy product market, the quality and safety of raw milk have been continuously improved, and the development of dairy farming has grown on a larger scale. China's dairy industry has made a good start in the first year of the "14th Five-Year Plan". As the Pandemic is gradually alleviated and brought under control in China, work and production have resumed in key cities and China's economy continues to recover steadily. Production and demand continues to pick up, and the dairy industry is stable while improving. We believe that the dairy industry is expected to prosper in an all-round way.

On the other hand, on 8 June 2022, five departments of the PRC, including the Ministry of Industry and Information Technology, jointly issued the "Guiding Opinions on Promoting the High-Quality Development of Light Industry", proposing that efforts should be made to accelerate the process of completing and strengthening the supply chain of the dairy industry, and support the construction of high-quality raw material bases in dairy products, grains and oils and other industries. At the same time, efforts should be made to improve branding services so as to form a number of internationally renowned brands in dairy products and other fields. With the continuous concentration of the downstream dairy sectors, dairy enterprises across the country are competing for product innovation and opening up new market segments on the basis of improving their own brand advantages. The Group will also continue to develop high-standard large-scale farming and provide high-quality milk sources to meet the growing and diversified demands for domestic dairy product brands.

In recent years, the PRC government advocates increasing the self-sufficiency rate of raw milk, and the supply of high-quality raw milk will reduce China's dependence on imports. According to Frost & Sullivan, as of 2020, the market share of large-scale farms in China has reached 67%, which is expected to increase to 75% by 2025. The raw milk to be consumed by Chinese dairy manufacturers for manufacturing dairy products is expected to reach 36.4 million tonnes in 2025, accounting for 58.3% of the total raw milk required for manufacturing dairy products in China. The Group will seize the market opportunities to improve its operational effectiveness and increase the average annual yield of dairy cows, while striving to expand its operational scale. We will continue to improve its production and management level, achieve sustainable comprehensive profitability, and contribute to the high-standard modernization of China's dairy industry.

OUR REVENUE

During the Period, our total sales of raw milk increased by 20.5% to RMB1,009.0 million as compared with RMB837.4 million for the six months ended 30 June 2021. The increase of the total sales was primarily attributable to an increase in the demand for raw milk. The average selling price of our raw milk reached RMB5,223 per tonne compared with RMB4,657 per tonne for the six months ended 30 June 2021, representing an increase of 12.2%. The sales volume reached 193,180 tonnes, representing an increase of 7.4% as compared with 179,824 tonnes for the six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

COST OF SALES

Our cost of sales for the Period was RMB736.9 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2022 and 2021:

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Cost of sales		
Feed	533,995	436,084
Salary, welfare and social insurance	50,390	42,308
Depreciation	45,673	39,709
Veterinary cost	26,567	26,066
Utility	43,496	31,864
Transportation expenses	14,308	13,154
Other cost	22,478	19,291
Cost of sales, total	736,907	608,476

Feed costs represent the feed consumed by our milkable cows and goats. The feed costs for milkable cows and milkable goats were RMB534.0 million and RMB436.1 million for the six months ended 30 June 2022 and 2021, respectively, representing 72.5% and 71.7% of the cost of sales for the respective six months ended 30 June 2022 and 2021. The increase in our feed costs was attributable to the increases in (i) the number of milkable cows and goats; and (ii) the price of hay feed.

GROSS PROFIT

Resulted from the factors discussed above, the gross profit increased to RMB272.1 million for the Period (six months ended 30 June 2021: RMB229.0 million), representing an increase of 18.9%. Our gross profit margin decreased from 27.3% for the six months ended 30 June 2021 to 27.0% for the Period.

OTHER INCOME AND GAINS

Other income and gains for the six months ended 30 June 2022 and 2021 amounted to RMB56.3 million and RMB20.3 million, respectively, representing an increase of 178.0%. The increase in other income and gains was attributable to the increases in (i) subsidies for the construction of Yi'an Farm; and (ii) income from land subleases generated by Zhenlai Farm and Yi'an Farm. In order to ensure the stable supply of feeds, Zhenlai Farm and Yi'an Farm leased several parcels of land which were sublet afterwards for growing feeds. 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 RMB67.6 million for the Period, representing an increase of approximately 35.7% as compared to RMB49.8 million for the six months ended 30 June 2021. The increase was attributable to the increases in wages, salaries and taxation.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER EXPENSES

We incurred other expenses of RMB20.2 million for the Period from RMB18.5 million for the six months ended 30 June 2021, representing an increase of approximately 9.3%. The increase in other expenses was attributable to the increases in expenses on land sub-lease incurred by Zhenlai Farm and Yi'an Farm.

CHANGES IN FAIR VALUE LESS COSTS TO SELL OF BIOLOGICAL ASSETS

Loss on changes in fair value less costs to sell of biological assets was RMB185.4 million for the Period as compared with a loss of RMB81.1 million for the six months ended 30 June 2021. The increase was attributable to the increase in feeding costs.

PROFIT OF THE GROUP FOR THE PERIOD

As a result of all the above factors, the Group recorded a net profit of RMB52.7 million for the Period, as compared with a net profit of RMB98.0 million for the six months ended 30 June 2021. The decrease in net profit was mainly attributable to the increases in (i) price of hay feed; and (ii) loss on changes in fair value less cost to the sale of biological assets. Basic earnings per share was approximately RMB1.1 cents for the Period (six months ended 30 June 2021: RMB2.1 cents).

INTERIM DIVIDEND

The board of directors of the Company (the “**Director**” and the “**Board**”, respectively) has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2021: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group's net cash inflow from operating activities amounted to RMB668.8 million, as compared to RMB315.8 million for the six months ended 30 June 2021. As at 30 June 2022, the Group had cash and cash equivalents of RMB893.5 million (31 December 2021: RMB959.4 million). Except for cash and cash equivalents equivalent to RMB19.2 million which were denominated in United States dollars (“**USD**”) and RMB36.5 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 bank and other borrowings of RMB341.6 million as at 30 June 2022 (31 December 2021: RMB190.0 million) which was denominated in RMB. The annual interest rate of the bank and other borrowings as at 30 June 2022 ranged from 3.00% to 3.85% (31 December 2021: 5.22%). The gearing ratio (calculated by dividing net debt by the equity attributable to owners of the parent plus net debt) was not applicable as the Group maintained at a net cash position as at 30 June 2022 (as at 31 December 2021: N/A). Net debt includes interest-bearing bank and other borrowings, trade payables, and certain other payables and accruals, less cash and cash equivalents.

CAPITAL STRUCTURE

As at 30 June 2022, 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 construction of new farms and major maintenance and acquisition of additional equipment and cows for its existing dairy farms.

As part of the Group's future strategies, planned capital expenditures of the Group for its business operations will primarily be related to the construction and commencement of operations of its new dairy farms. The Group anticipates that its capital expenditures will be financed by cash generated from its operations, debt financing or bank loans, 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 2022 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 2022 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 2022 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 fully utilised by end of 2023 and in accordance with the Company's plan as disclosed in the Prospectus (i.e. to develop upstream operations). The original expected timeline for the 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 caused by the Pandemic. A detailed schedule depends on 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 2022 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 2022 HK\$ million
Importing heifers and calves from Australia and New Zealand and general working capital	384.6	298.5	120.6	86.1
Total	384.6	298.5	120.6	86.1

The unused net proceeds, being approximately HK\$86.1 million, are expected to be fully utilised as intended by end of 2023. The original expected timeline for the 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 in response to 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.



MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Period, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures save for below acquisition of certain assets.

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. Details of the acquisition are set out in the announcements of the Company dated 19 November 2021 and 29 November 2021, respectively.

PLEDGE OF ASSETS

As at 30 June 2022, no assets of the Group were pledged as security for bank borrowings (31 December 2021: Nil).

FOREIGN EXCHANGE EXPOSURE

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

TREASURY POLICIES

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

CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitments of the Group as at 30 June 2022 were RMB343.2 million (31 December 2021: RMB79.0 million), which were for construction of our new farms, renewal of existing facilities and purchase of dairy cows. The Group did not have any significant contingent liabilities as at 30 June 2022 (31 December 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group had 2,092 employees (31 December 2021: 1,903 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 RMB113.3 million (six months ended 30 June 2021: RMB79.6 million).

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

The Directors and senior management of the Company receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Company or executing their functions in relation to its operations. The 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 Feihe and its concert parties and to make comparable offers to the option holders for all Options (which confer rights on the option holders to subscribe for new Shares) by way of cancellation of the Options on 2 December 2020, all of the Options outstanding as at the date of the composite document which was issued on 30 October 2020 were cancelled. Accordingly, no Option was outstanding as at 1 January 2022 under the Share Option Scheme.

During the Period, no Option was granted, exercised, cancelled or lapsed under the Share Option Scheme and no Option was outstanding under the Share Option Scheme as at 30 June 2022.

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

The Company did not redeem any of its Shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares during the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and the Company’s management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group’s business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of the Shareholders. The Board considers that the Company has complied with all the code provisions as set out in the Corporate Governance Code as contained in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**” and the “**CG Code**”, respectively) during the Period and up to the date of this report.

COMPLIANCE WITH MODEL CODE

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2022, 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 Directors</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%
Mr. Chen Xiangqing (“ Mr. Chen ”)	Beneficial owner/Personal interest	3,500,000	0.04%

Note: 3,342,320,920 Shares were beneficially owned by Feihe which is owned as to 50.21% 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>Number of underlying shares held</u>	<u>Approximate percentage of issued shares</u>
Mr. Leng ^(Note 1)	Interest in a controlled corporation and founder of a discretionary trust/corporate and other interest	4,477,428,339	–	50.21%
Mr. Liu Hua ("Mr. Liu") ^(Note 2)	Interest in a controlled corporation and founder of a discretionary trust/corporate and other interest	933,198,378	–	10.45%
Mr. Cai Fangliang ("Mr. Cai") ^(Note 3)	Interest in a controlled corporation/corporate interest	101,647,734	–	1.14%
Mr. Chen ^(Note 4)	Beneficial owner/Personal interest	–	189,000	0.00%
Mr. Fu Wenguo ("Mr. Fu") ^(Note 5)	Beneficial owner/Personal interest	–	1,549,200	0.02%
Mr. Zhao Hongliang ("Mr. Zhao") ^(Note 6)	Beneficial owner/Personal interest	–	1,549,200	0.02%
Mr. Liu Gang	Beneficial owner/Personal interest	464,000	–	0.01%

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.
- 101,647,734 shares were held by Mr. Cai through his controlled corporation – Adroit Shipping Limited. Adroit Shipping Limited is directly wholly owned by Mr. Cai.
- Share options were granted to Mr. Chen on 15 July 2021 pursuant to a share option scheme adopted by Feihe on 22 June 2020 (the "**2020 Share Option Scheme**"), which entitles him to subscribe for a total of 189,000 shares upon his exercise of such options.
- Share options were granted to Mr. Fu on 15 July 2021 and 24 January 2022 pursuant to the 2020 Share Option Scheme, which entitles him to subscribe for a total of 1,549,200 shares upon his exercise of such options.
- Share options were granted to Mr. Zhao on 15 July 2021 and 24 January 2022 pursuant to the 2020 Share Option Scheme, which entitles him to subscribe for a total of 1,549,200 shares upon his exercise of such options.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above and so far as is known to the Directors, as at 30 June 2022, 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) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2022, 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:

<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 ^(Note 1)	Beneficial owner/Personal Interest	3,342,320,920	71.26%
Garland Glory ^(Note 2)	Interest in a controlled corporation/ Corporate Interest	3,342,320,920	71.26%
LYB ^(Note 2)	Interest in a controlled corporations/ Corporate Interest	3,342,320,920	71.26%
Harneys ^(Note 2)	Trustee of a trust/Other interest	3,342,320,920	71.26%

Notes:

1. Please refer to note 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 2022, so far as it was known by or otherwise notified to the Directors or the chief executive of the Company, no other corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interest in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



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To the board of directors of YuanShengTai Dairy Farm Limited

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 18 to 36, which comprises the condensed consolidated statement of financial position of YuanShengTai Dairy Farm Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 June 2022 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

29 August 2022

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

For the six months ended 30 June 2022

	Notes	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
REVENUE	4	1,009,035	837,439
Cost of sales		(736,907)	(608,476)
Gross profit		272,128	228,963
Other income and gains		56,317	20,257
Administrative expenses		(67,623)	(49,846)
Other expenses		(20,223)	(18,498)
Finance costs		(2,559)	(1,767)
Changes in fair value less costs to sell of biological assets	10	(185,380)	(81,077)
PROFIT BEFORE TAX	5	52,660	98,032
Income tax expense		—	—
PROFIT FOR THE PERIOD		52,660	98,032
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(2,421)	(97)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		50,239	97,935
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		52,660	98,032
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		50,239	97,935
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (expressed in RMB per share)	8	0.011	0.021

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,487,596	3,206,392
Investment properties		120,793	77,469
Right-of-use assets		75,602	78,117
Prepayments and other receivables		279,243	58,124
Biological assets	10	1,872,000	1,707,317
Total non-current assets		5,835,234	5,127,419
CURRENT ASSETS			
Inventories		311,507	543,306
Trade receivables	11	75,712	52,874
Prepayments and other receivables		8,604	5,305
Cash and cash equivalents	12	893,452	959,411
Total current assets		1,289,275	1,560,896
CURRENT LIABILITIES			
Trade payables	13	230,415	282,252
Other payables and accruals	14	942,631	682,244
Interest-bearing bank and other borrowings		75,200	–
Lease liabilities		19,798	11,563
Total current liabilities		1,268,044	976,059
NET CURRENT ASSETS		21,231	584,837
TOTAL ASSETS LESS CURRENT LIABILITIES		5,856,465	5,712,256
NON-CURRENT LIABILITIES			
Other payables and accruals	14	392,408	402,411
Interest-bearing bank and other borrowings		266,400	190,000
Lease liabilities		88,820	67,047
Total non-current liabilities		747,628	659,458
NET ASSETS		5,108,837	5,052,798
EQUITY			
Share capital	15	37,674	37,674
Reserves		5,071,163	5,015,124
Total equity		5,108,837	5,052,798

Director
Zhao Hongliang

Director
Chen Xiangqing

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company							
	Issued capital	Merger reserve	Share premium	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022 (audited)	37,674	186,000	2,977,020	455,505	-	9,343	1,387,256	5,052,798
Profit for the period	-	-	-	-	-	-	52,660	52,660
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	(2,421)	-	(2,421)
Total comprehensive (loss)/income for the period	-	-	-	-	-	(2,421)	52,660	50,239
Equity-settled share option arrangements	-	-	-	-	5,800	-	-	5,800
At 30 June 2022 (unaudited)	37,674	186,000	2,977,020	455,505	5,800	6,922	1,439,916	5,108,837
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 loss 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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	2022 (Unaudited) RMB' 000	2021 (Unaudited) RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	668,805	315,778
Purchases of items of property, plant and equipment	(375,654)	(140,900)
Additions to biological assets	(436,237)	(235,190)
Proceeds from disposal of biological assets	82,271	88,664
Proceeds from disposal of items of property, plant and equipment	2,786	70
Receipt of government grants for property, plant and equipment	–	25,000
(Increase)/decrease in time deposits	(14,832)	137,023
Acquisition of a business	(135,883)	–
	(877,549)	(125,333)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		
New bank loans	341,600	–
Repayment of other borrowing	(190,000)	–
Interest paid	(3,981)	(3,508)
Principal portion of lease payments	(20,706)	(11,166)
NET CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES	126,913	(14,674)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(81,831)	175,771
Cash and cash equivalents at beginning of period	959,411	892,560
Effect of foreign exchange rate changes, net	1,040	(10,716)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	878,620	1,057,615
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	297,604	702,086
Non-pledged time deposits	595,848	355,529
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	893,452	1,057,615
Non-pledged time deposits with maturity of more than three months when acquired	(14,832)	–
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	878,620	1,057,615

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the Period has been prepared in accordance with International Accounting Standards (“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 2021.

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 2021, 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 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or International Financial Reporting Interpretations Committee (“IFRIC”) Interpretation 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC Interpretation 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the Period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to IFRSs 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:
- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the Period, the amendment did not have any impact on the financial position or performance of the Group.
 - IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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 2022

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of raw milk	1,009,035	837,439

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Segments		
Sale of raw milk	1,009,035	837,439
Total revenue from contracts with customers	1,009,035	837,439
Type of goods		
Sale of raw milk	1,009,035	837,439
Total revenue from contracts with customers	1,009,035	837,439
Geographical market		
Mainland China	1,009,035	837,439
Total revenue from contracts with customers	1,009,035	837,439
Timing of revenue recognition		
Goods transferred at a point in time	1,009,035	837,439
Total revenue from contracts with customers	1,009,035	837,439

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB'000 (Unaudited)
Breeding costs to produce	533,997	436,084
Production costs for raw milk	202,910	172,392
Cost of sales	736,907	608,476
Depreciation in property, plant and equipment	97,596	72,006
Less: Capitalised in biological assets	(51,162)	(31,711)
Depreciation recognised in the statement of profit or loss and other comprehensive income*	46,434	40,295
Depreciation in right-of-use assets	2,626	2,554
Depreciation of investment properties	8,718	6,018
Auditors' remuneration	1,650	1,600
Changes in fair value less costs to sell of biological assets	185,380	81,077
Lease payments for short-term leases	35	44
Employee benefit expenses excluding directors' and chief executive's remuneration		
Wages and salaries	85,510	63,926
Pension scheme contributions	25,231	13,483
Equity-settled share option expense	2,926	–
Less: Capitalised in biological assets	(40,321)	(25,681)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the statement of profit or loss and other comprehensive income**	73,346	51,728
Loss on disposal of items of property, plant and equipment	658	1,232
Foreign exchange differences, net	(1,040)	10,716

* Depreciation of approximately RMB45,673,000 (six months ended 30 June 2021: RMB39,708,000) is included in the cost of sales on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

** Employee benefit expenses of approximately RMB50,711,000 (six months ended 30 June 2021: RMB42,308,000) is included in the cost of sales on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired assets with a cost of RMB291,148,000 (unaudited) (30 June 2021: RMB142,818,000 (unaudited)), excluding property, plant and equipment acquired through a business combination disclosed in note 16 to the interim condensed consolidated financial information.

Assets with a net book value of RMB3,444,000 (unaudited) were disposed by the Group during the Period (30 June 2021: RMB1,302,000 (unaudited)), resulting in a net loss on disposal of RMB658,000 (unaudited) (30 June 2021: RMB1,232,000 (unaudited)).

10. BIOLOGICAL ASSETS

A – Nature of activities

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

The quantity of dairy cows owned by the Group as at 30 June 2022 and 31 December 2021 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held as at 30 June 2022 and 31 December 2021 were dairy cows that have not had their first calves.

	30 June 2022 (Unaudited) Heads	31 December 2021 (Audited) Heads
Dairy cows		
Milkable cows	38,180	36,290
Heifers and calves	46,439	43,276
Total dairy cows	84,619	79,566

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

10. BIOLOGICAL ASSETS (continued)

A – Nature of activities (continued)

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

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

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

The quantity of dairy goats owned by the Group as at 30 June 2022 is shown below. The Group's dairy goats contain lambs, young goats and milkable goats. Lambs and young goats held at 30 June 2022 were dairy goats that have not had their first lambs.

	30 June 2022 (Unaudited) Heads
Dairy goats	
Milkable goats	5,064
Lambs and young goats	1,605
Total dairy goats	6,669

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

10. BIOLOGICAL ASSETS (continued)

B – Value of dairy cows and goats

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)	
Dairy cows	1,833,300	1,707,317	
	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2021	542,957	898,983	1,441,940
Increase due to raising (feeding costs and others)	565,802	–	565,802
Increase due to purchase	65,707	–	65,707
Increase due to acquisition of a business	12,710	17,820	30,530
Transfer (out)/in	(376,341)	376,341	–
Decrease due to sales	(50,478)	(108,443)	(158,921)
Gain/(loss) arising from changes in fair value less costs to sell	1,746	(239,487)	(237,741)
Balance as at 31 December 2021 and 1 January 2022 (audited)	762,103	945,214	1,707,317
Increase due to raising (feeding costs and others)	382,462	–	382,462
Transfer (out)/in	(258,809)	258,809	–
Decrease due to sales	(17,270)	(64,320)	(81,590)
Loss arising from changes in fair value less costs to sell	(24,147)	(150,742)	(174,889)
Balance as at 30 June 2022 (unaudited)	844,339	988,961	1,833,300

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

10. BIOLOGICAL ASSETS (continued)

B – Value of dairy cows and goats (continued)

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

	30 June 2022 RMB'000 (Unaudited)		
	Lambs and young goats	Milkable goats	Total
	RMB'000	RMB'000	RMB'000
Dairy goats			38,700
Balance as at 1 January 2022	–	–	–
Increase due to acquisition of a business	24,263	20,524	44,787
Increase due to raising (feeding costs and others)	4,688	–	4,688
Transfer (out)/in	(15,046)	15,046	–
Decrease due to sales	(110)	(174)	(284)
Loss arising from changes in fair value less costs to sell	(5,403)	(5,088)	(10,491)
Balance as at 30 June 2022 (unaudited)	8,392	30,308	38,700

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 2022 (unaudited)	1,872,000
As at 31 December 2021 (audited)	1,707,317

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

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 2022 RMB' 000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 1 month	75,712	52,874

12. CASH AND CASH EQUIVALENTS

	30 June 2022 RMB' 000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Cash and bank balances	297,604	521,736
Time deposits	595,848	437,675
Cash and cash equivalents	893,452	959,411

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 2022 RMB' 000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 2 months	160,561	230,298
2 to 6 months	48,208	35,874
6 to 12 months	15,168	9,787
Over 1 year	6,478	6,293
	230,415	282,252

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

14. OTHER PAYABLES AND ACCRUALS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Deferred income	410,125	419,995
Contract liabilities	562,344	347,519
Other payables – construction	168,423	150,121
Other payables – equipment and materials	39,235	24,852
Others	154,912	142,168
	1,335,039	1,084,655
Non-current portion		
Deferred income	(392,408)	(402,411)
	942,631	682,244

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.

15. SHARE CAPITAL

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	406,897	406,897
Issued and fully paid:		
4,690,496,400 ordinary shares of HK\$0.01 each	37,674	37,674

16. BUSINESS COMBINATION

On 1 January 2022, the Group acquired certain assets from an unaffiliated party engaged in the production and sale of raw goat milk. The acquisition was made as part of the Group's strategy to expand its business in the fast-growing goat milk market in the Mainland China and diversify and expand new product lines to meet the customer's need for goat milk powder products in the Mainland China. The purchase consideration for the acquisition was in the form of cash in the amount of RMB135,883,000.

As acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs, which meets the definition of a business outlined in IFRS 3, the Group determines the acquisition as business combination.

The fair values of the identifiable assets and liabilities acquired as at the date of acquisition were as follows:

	<i>Note</i>	Fair value recognised on acquisition RMB'000
Property, plant and equipment		91,096
Biological assets	10	44,787
Total identifiable net assets at fair value		<u>135,883</u>
Satisfied by cash		<u>135,883</u>

The Group incurred transaction costs of RMB75,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the interim condensed consolidated statement of profit or loss and other comprehensive income.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

16. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisition is as follows:

	<u>RMB'000</u>
Cash consideration	<u>135,883</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(135,883)
Transaction costs of the acquisition included in cash flows from operating activities	<u>(75)</u>
	<u>(135,958)</u>

Since the acquisition, the acquired business contributed RMB5,628,000 to the Group's revenue and resulted in a loss of RMB17,829,000 to the consolidated profit for the Period.

17. COMMITMENTS

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	185,968	79,032
Dairy cows	157,250	–
	<u>343,218</u>	<u>79,032</u>

18. 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	
	2022	2021
	RMB' 000	RMB'000
	(Unaudited)	(Unaudited)
Sale of raw milk	858,216	815,281

The Group had an outstanding balance of contract liabilities due to China Feihe Limited (included in other payables and accruals) amounting to RMB562,344,000 (unaudited) as at 30 June 2022 (31 December 2021: RMB347,519,000 (audited)). This balance is unsecured, interest-free and has no fixed terms of repayment.

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

	For the six months ended 30 June	
	2022	2021
	RMB' 000	RMB'000
	(Unaudited)	(Unaudited)
Short term employee benefits	2,199	1,880
Post-employment benefits	332	261
Equity-settled share option expense	2,874	–
Total compensation paid to key management personnel	5,405	2,141

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2022 RMB' 000 (Unaudited)	31 December 2021 RMB'000 (Audited)	30 June 2022 RMB' 000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Financial liabilities				
Interest-bearing bank and other borrowings	341,600	190,000	341,526	190,180

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

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for other borrowing as at 30 June 2022 were assessed to be insignificant.

Fair value hierarchy

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

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2022 (unaudited)				
Interest-bearing bank and other borrowings	-	341,526	-	341,526
At 31 December 2021 (audited)				
Interest-bearing bank and other borrowings	-	190,180	-	190,180

The Group did not have any financial liabilities measured at fair value as at 30 June 2022 (31 December 2021: Nil).

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets and financial liabilities (year ended 31 December 2021: Nil).