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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of YuanShengTai Dairy Farm Limited (the “**Company**” or “**YuanShengTai**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2023 (the “**Period**”) together with selected explanatory notes and the relevant comparative figures.

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

For the six months ended 30 June 2023

		2023	2022
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
REVENUE	4	1,081,881	1,009,035
Cost of sales		<u>(824,785)</u>	<u>(736,907)</u>
Gross profit		257,096	272,128
Other income and gains		58,323	56,317
Administrative expenses		(53,580)	(67,623)
Other expenses		(16,805)	(20,223)
Finance costs		(12,857)	(2,559)
Impairment losses on property, plant and equipment and right-of-use assets	5	(85,925)	–
Changes in fair value less costs to sell of biological assets	10	<u>(410,329)</u>	<u>(185,380)</u>
(LOSS)/PROFIT BEFORE TAX	5	(264,077)	52,660
Income tax expense		<u>–</u>	<u>–</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(264,077)</u>	<u>52,660</u>
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(5,959)</u>	<u>(2,421)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		<u>(270,036)</u>	<u>50,239</u>
(LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		<u>(264,077)</u>	<u>52,660</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		<u>(270,036)</u>	<u>50,239</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (expressed in RMB per share)	8	<u>(0.056)</u>	<u>0.011</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

		30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,784,186	3,831,079
Investment properties		89,416	109,812
Right-of-use assets		77,115	74,776
Prepayments and other receivables		75,542	271,571
Biological assets	10	<u>2,200,092</u>	<u>2,025,292</u>
Total non-current assets		<u>6,226,351</u>	<u>6,312,530</u>
CURRENT ASSETS			
Inventories		481,095	787,544
Trade receivables	11	838	26,017
Prepayments and other receivables		48,792	6,578
Structured deposit		50,595	–
Restricted cash		2,865	–
Time deposits	12	187,293	232,332
Cash and cash equivalents	12	<u>745,544</u>	<u>576,309</u>
Total current assets		<u>1,517,022</u>	<u>1,628,780</u>
CURRENT LIABILITIES			
Trade and bills payables	13	399,125	388,667
Other payables and accruals	14	1,069,199	1,132,462
Interest-bearing bank and other borrowings		117,998	120,000
Lease liabilities		<u>11,958</u>	<u>20,293</u>
Total current liabilities		<u>1,598,280</u>	<u>1,661,422</u>
NET CURRENT LIABILITIES		<u>(81,258)</u>	<u>(32,642)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,145,093</u>	<u>6,279,888</u>
NON-CURRENT LIABILITIES			
Other payables and accruals	14	379,083	383,134
Interest-bearing bank and other borrowings		885,784	716,534
Lease liabilities		<u>59,904</u>	<u>92,082</u>
Total non-current liabilities		<u>1,324,771</u>	<u>1,191,750</u>
NET ASSETS		<u>4,820,322</u>	<u>5,088,138</u>
EQUITY			
Share capital	15	37,674	37,674
Reserves		<u>4,782,648</u>	<u>5,050,464</u>
Total equity		<u>4,820,322</u>	<u>5,088,138</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the Period has been prepared in accordance with International Accounting Standard (“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 2022.

Going concern

In preparation of the interim condensed consolidated financial information for the Period, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s total current liabilities exceeded its total current assets by RMB81,258,000 (31 December 2022: RMB32,642,000). Taking into account (i) the available credit facilities of approximately RMB348,138,000 which remain unutilised as at 30 June 2023 obtained from licensed banks; (ii) the expected net cash inflows generated from the Group’s operations for the next twelve months, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future. Accordingly, the interim condensed consolidated financial information has been prepared on a going concern basis.

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 2022, except for the adoption of the following new and revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group’s interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group’s annual consolidated financial statements.
- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group’s policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw cow milk and goat milk. The two businesses are regarded as separate operating segments by the chief operating decision maker. As the operating segments have similar economic characteristics and both operating segments are similar in respect of the nature of products and service, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the service, and the nature of the regulatory environment, both operating segments are aggregated for financial reporting purposes. Accordingly, no operating segment information is presented.

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of raw milk	<u>1,081,881</u>	<u>1,009,035</u>

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Segments		
Type of goods		
Sale of raw milk	<u>1,081,881</u>	<u>1,009,035</u>
Total revenue from contracts with customers	<u>1,081,881</u>	<u>1,009,035</u>
Geographical market		
Mainland China	<u>1,081,881</u>	<u>1,009,035</u>
Total revenue from contracts with customers	<u>1,081,881</u>	<u>1,009,035</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>1,081,881</u>	<u>1,009,035</u>
Total revenue from contracts with customers	<u>1,081,881</u>	<u>1,009,035</u>

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Breeding costs to produce	618,343	533,997
Production costs for raw milk	<u>206,442</u>	<u>202,910</u>
Cost of sales	<u><u>824,785</u></u>	<u><u>736,907</u></u>
Depreciation of property, plant and equipment	100,306	97,596
Less: Capitalised in biological assets	<u>(49,858)</u>	<u>(51,162)</u>
Depreciation recognised in the statement of profit or loss and other comprehensive income*	<u><u>50,448</u></u>	<u><u>46,434</u></u>
Depreciation of right-of-use assets	4,102	2,626
Depreciation of investment properties	10,511	8,718
Auditors' remuneration	1,650	1,650
Changes in fair value less costs to sell of biological assets	410,329	185,380
Lease payments for short-term leases	47	35
Employee benefit expenses excluding directors' and chief executive's remuneration		
Wages and salaries	96,413	85,510
Pension scheme contributions	29,813	25,231
Equity-settled share option expense	920	2,926
Less: Capitalised in biological assets	<u>(48,265)</u>	<u>(40,321)</u>
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the statement of profit or loss and other comprehensive income**	<u><u>78,881</u></u>	<u><u>73,346</u></u>
Impairment losses on property, plant and equipment and right-of-use assets***	85,925	–
Loss on disposal of items of property, plant and equipment	127	658
Foreign exchange differences, net	<u><u>(16,323)</u></u>	<u><u>(1,040)</u></u>

* Depreciation of approximately RMB49,831,000 (six months ended 30 June 2022: RMB45,673,000) 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 RMB54,068,000 (six months ended 30 June 2022: RMB50,711,000) 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.

*** Impairment loss of RMB85,575,000 (six months ended 30 June 2022: Nil) for property, plant and equipment and impairment loss of RMB350,000 (six months ended 30 June 2022: Nil) for right-of-use assets of an indirect wholly-owned subsidiary of the Company are charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

6. INCOME TAX

No provision for Hong Kong profits tax has been made for the Period as the Group did not generate any assessable profits arising in Hong Kong during the Period (six months ended 30 June 2022: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

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

7. DIVIDENDS

No dividend was paid or proposed by the Company during the Period (six months ended 30 June 2022: Nil).

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

The calculation of the basic and diluted loss per share amounts is based on the loss for the Period attributable to ordinary equity holders of the Company of RMB264,077,000 (unaudited) (2022: profit of RMB52,660,000 (unaudited)) and the weighted average number of ordinary shares is 4,690,496,400 (unaudited) (2022: 4,690,496,400 (unaudited)) in issue during the Period. The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 and 30 June 2022.

The calculations of basic and diluted (loss)/earnings per share are based on:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic/diluted (loss)/earnings per share calculation	<u>(264,077)</u>	<u>52,660</u>
	Number of shares	
	For the six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic/diluted (loss)/earnings per share calculation	<u>4,690,496,400</u>	<u>4,690,496,400</u>

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired assets with a cost of RMB118,695,000 (unaudited) (six months ended 30 June 2022: RMB291,148,000 (unaudited)).

Assets with a net book value of RMB127,000 (unaudited) were disposed of by the Group during the Period (six months ended 30 June 2022: RMB3,444,000 (unaudited)), resulting in a net loss on disposal of RMB127,000 (unaudited) (six months ended 30 June 2022: RMB658,000 (unaudited)).

During the Period, an impairment loss of RMB85,575,000 (six months ended 30 June 2022: Nil) was recognised for property, plant and equipment of an indirect wholly-owned subsidiary of the Company as a result of the significant loss incurred during the Period. The recoverable amount was nil which has been determined at the level of the cash-generating unit based on a value-in-use calculation using cash flow projections. The recoverable amount was based on valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional qualified valuer. The cash-generating unit mainly consisted of property, plant and equipment allocated to a subsidiary. The discount rate applied to the cash flow projections is 14%.

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 2023 and 31 December 2022 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held as at 30 June 2023 and 31 December 2022 were dairy cows that have not had their first calves.

	30 June 2023 (Unaudited) <i>Heads</i>	31 December 2022 (Audited) <i>Heads</i>
Dairy cows		
Milkable cows	41,682	40,235
Heifers and calves	59,631	49,202
	<hr/>	<hr/>
Total dairy cows	101,313	89,437
	<hr/> <hr/>	<hr/> <hr/>

The Group is exposed to fair value risks arising from changes in the prices 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 2023 is shown below. The Group's dairy goats contain lambs, young goats and milkable goats. Lambs and young goats held as at 30 June 2023 were dairy goats that have not had their first lambs.

	30 June 2023 (Unaudited) <i>Heads</i>	31 December 2022 (Audited) <i>Heads</i>
Dairy goats		
Milkable goats	3,604	4,482
Lambs and young goats	1,613	1,491
	<hr/>	<hr/>
Total dairy goats	5,217	5,973
	<hr/> <hr/>	<hr/> <hr/>

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.

B – Value of dairy cows and goats

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)	
Dairy cows	2,177,100	1,996,691	
	<hr/> <hr/>	<hr/> <hr/>	
	Heifers and calves <i>RMB'000</i>	Milkable cows <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at 1 January 2022 (audited)	762,103	945,214	1,707,317
Increase due to raising (feeding costs and others)	810,324	–	810,324
Transfer (out)/in	(558,130)	558,130	–
Decrease due to sales	(34,993)	(119,994)	(154,987)
Loss arising from changes in fair value less costs to sell	(47,995)	(317,968)	(365,963)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2022 and 1 January 2023 (audited)	931,309	1,065,382	1,996,691
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Increase due to raising (feeding costs and others)	448,498	–	448,498
Increase due to purchase	242,220	–	242,220
Transfer (out)/in	(366,810)	366,810	–
Decrease due to sales	(27,243)	(83,279)	(110,522)
Loss arising from changes in fair value less costs to sell	(69,624)	(330,163)	(399,787)
	<hr/>	<hr/>	<hr/>
Balance as at 30 June 2023 (unaudited)	1,158,350	1,018,750	2,177,100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2023	31 December 2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Dairy goats	22,992	28,601
	Lambs and	Milkable
	young goats	goats
	RMB'000	RMB'000
	Total	Total
	RMB'000	RMB'000
Balance as at 1 January 2022 (audited)	–	–
Increase due to acquisition of a business	24,263	20,524
Increase due to raising (feeding costs and others)	7,845	–
Transfer (out)/in	(15,199)	15,199
Decrease due to sales	(217)	(174)
Loss arising from changes in fair value less costs to sell	(10,852)	(12,788)
Balance as at 31 December 2022 and 1 January 2023 (audited)	5,840	22,761
Increase due to raising (feeding costs and others)	5,430	–
Transfer (out)/in	(365)	365
Decrease due to sales	(227)	(270)
Loss arising from changes in fair value less costs to sell	(4,628)	(5,914)
Balance as at 30 June 2023 (unaudited)	6,050	16,942

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 2023 (unaudited)	2,200,092
As at 31 December 2022 (audited)	2,025,292

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 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Within 1 month	<u>838</u>	<u>26,017</u>

12. CASH AND CASH EQUIVALENTS

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Cash and bank balances	449,359	280,174
Time deposits	<u>483,478</u>	<u>528,467</u>
	932,837	808,641
Less: Non-pledged time deposits with maturity of more than three months when acquired	<u>(187,293)</u>	<u>(232,332)</u>
Cash and cash equivalents	<u>745,544</u>	<u>576,309</u>

13. TRADE AND BILLS PAYABLES

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

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Within 2 months	289,471	317,841
2 to 6 months	68,025	52,231
6 to 12 months	23,619	10,962
Over 1 year	<u>18,010</u>	<u>7,633</u>
	<u>399,125</u>	<u>388,667</u>

14. OTHER PAYABLES AND ACCRUALS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Deferred income	399,520	402,300
Contract liabilities	671,977	694,692
Other payables – construction	195,335	225,960
Other payables – equipment and materials	49,613	39,093
Others	131,837	153,551
	1,448,282	1,515,596
Non-current portion		
Deferred income	(379,083)	(383,134)
	1,069,199	1,132,462

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 for which they are intended to compensate over the weighted average of the expected useful life of the relevant property, plant and equipment.

15. SHARE CAPITAL

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 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. COMMITMENTS

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Contracted, but not provided for:		
Plant and machinery	146,848	193,590
Dairy cows	7,172	46,724
	154,020	240,314

17. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the period:

	For the six months ended 30 June	
	2023	2022
	RMB'000 (Unaudited)	<i>RMB'000</i> (Unaudited)
Sale of raw milk to the ultimate holding company	1,058,572	858,216
Purchase of milk powder from an associate of the ultimate holding company	600	–

(b) Other transaction with related parties:

As at 30 June 2023, the Group's Chief Executive Officer and his wife have provided guarantees for certain of the Group's bank loan facilities up to RMB875,000,000 (31 December 2022: RMB875,000,000), of which an amount of RMB565,784,000 (31 December 2022: RMB434,582,000) has been utilised.

(c) Outstanding balances with related parties:

The Group had an outstanding balance of contract liabilities due to China Feihe Limited ("China Feihe") (included in other payables and accruals) amounting to RMB671,977,000 (unaudited) as at 30 June 2023 (31 December 2022: RMB694,692,000 (audited)). This balance is unsecured, interest-free and has no fixed terms of repayment.

The Group had an outstanding balance of amounts due from an associate of China Feihe (included in prepayments and other receivables) amounting to RMB34,400,000 as at 30 June 2023 (31 December 2022: Nil (audited)), of which an amount of RMB4,400,000 is the prepaid consideration for purchasing milk powder and the remaining balance of RMB30,000,000 is unsecured and interest-free, and will be collected within one year.

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

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short term employee benefits	2,492	2,199
Post-employment benefits	276	332
Equity-settled share option expense	1,381	2,874
	<u>4,149</u>	<u>5,405</u>
Total compensation paid to key management personnel	<u>4,149</u>	<u>5,405</u>

18. 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	31 December	30 June	31 December
	2023	2022	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Financial asset				
Structured deposit	<u>50,595</u>	<u>–</u>	<u>50,595</u>	<u>–</u>
Financial liabilities				
Interest-bearing bank and other borrowings	<u>1,003,782</u>	<u>836,534</u>	<u>1,002,897</u>	<u>836,177</u>

Management has assessed that the fair values of cash and cash equivalents, time deposits, restricted cash, trade receivables, financial assets included in prepayments and other receivables, 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 interest-bearing bank and other borrowings as at 30 June 2023 were assessed to be insignificant.

The fair value of the structured deposit is determined in accordance with discounted cash flow analysis.

Fair value hierarchy

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

Asset measured at fair value:

	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 2023 (unaudited)				
Structured deposit	–	50,595	–	50,595

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 2023 (unaudited)				
Interest-bearing bank and other borrowings	–	1,002,897	–	1,002,897
At 31 December 2022 (audited)				
Interest-bearing bank and other borrowings	–	836,177	–	836,177

The Group did not have any financial liabilities measured at fair value as at 30 June 2023 (31 December 2022: 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 (31 December 2022: Nil).

19. EVENTS AFTER THE REPORTING PERIOD

On 2 August 2023, the Company entered into a processing framework agreement with Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司) (“**Feihe Dairy HLJ**”), a wholly-owned subsidiary of China Feihe, pursuant to which, the Company agreed to engage Feihe Dairy HLJ and its subsidiaries to provide service of processing raw milk into full cream milk powder and for a term commencing from 2 August 2023 and ending on 31 December 2023 subject to the terms and conditions contained therein. The annual cap in connection with the processing service for the period from 2 August 2023 to 31 December 2023 is RMB29,000,000. Details of the agreement are set out in the announcement of the Company dated 2 August 2023.

* for identification purpose

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Looking back to the first half of 2023, the slow recovery in the global economy due to the persistent geopolitical conflicts, aggravated inflation and increasing uncertainties, cast a shadow over the prospect. According to the Global Economic Outlook published by the World Bank in June 2023, due to the high inflation, tightening monetary policies and more exacting credit terms, the global annual economic growth rate is projected to slow down to 2.1% in 2023, 1 percentage point down from the same period of 2022. The global economic growth rate is projected to slow down to 2.7% in 2023 in the economic outlook report released by the Organization for Economic Cooperation and Development (OECD).

Despite the struggle for economic recovery, China's economy and society fully resumed to normal operation in the first half of 2023. By relieving various pressures under the guidance of macro policies, China registered a better-than-expected national economic growth and gradual improvement in market demand, implying a healthy economy on the whole. According to the statistics released by the National Bureau of Statistics, the gross domestic product (GDP) of the People's Republic of China (the "PRC" or "China") for the first half of 2023 amounted to RMB59.3034 trillion, representing a year-on-year increase of 5.5%. China was recovering from the negative effect brought about by the COVID-19 pandemic (the "Pandemic"), which has provided an important impetus for the Asian economy and even the economic activities around the globe.

The size of the global dairy market in 2022 amounted to US\$944.39 billion, and is estimated to grow to US\$1,329.15 billion by 2027. According to a report published by the Ministry of Agriculture and Rural Affairs in June 2023, the global food supply were still exposed to uncertainties caused by the tension between Russia and Ukraine. Oversupply emerged since the beginning of this year when the global milk production was increased, while the milk consumption was lower than anticipated. According to the forecast of the Food and Agriculture Organization of the United Nations, in 2023, the global milk production is expected to increase by 0.9% to 940 million tonnes, and the trade volume is expected to reach 85 million tonnes, representing a year-on-year increase of 0.5%. In addition, international prices of dairy products continued to decline. The international dairy price index for May 2023 was at 118.7 points, down by 17.7% year-on-year, falling for 11 consecutive months.

In recent years, major manufacturers of dairy products strengthened the construction of milk sources, leading to steady growth of the inventory of dairy cows on the farms in China. In the first half of 2023, production of dairy products in China tended to grow. According to the statistics released by the National Bureau of Statistics, the national milk output was 17.94 million tonnes, representing a year-on-year increase of 7.5%. However, the consumption demand for dairy products has declined due to the cyclical adjustment and the weak post-Pandemic consumption. The temporary oversupply on the raw milk market caused a decline in prices of raw milk. According to the statistics monitored by the Ministry of Agriculture and Rural Affairs, the average monthly price of raw milk in May 2023 was RMB3.88 per kilogram, representing a month-on-month decrease of 1.53%, falling for seven consecutive months, and translating into a year-on-year decrease of 6.7%. With respect to feed cost, the tight supply of hay feed fueled across-the-board rise in feed prices in the first half of 2023. According to the statistics released by China Customs, China's import of hay feed from January through May 2023 decreased by 25.6% as compared with the same period of last year, and the average cost, insurance and freight price was US\$572.55 per tonne, representing a year-on-year increase of 26.8%. China's total import of alfalfa hay from January through May 2023 decreased by 23.3% as compared with the same period of last year, and the average cost, insurance and freight price was US\$580.64 per tonne, representing a year-on-year increase of 27.4%.

Currently, China is leading in terms of production, processing and consumption of dairy products in the world. The scale of its dairy sector has been expanded significantly, and its position in the field has been further enhanced. The Ministry of Agriculture and Rural Affairs pointed out that, the milk output in China maintained a growing momentum, and the self-sufficiency ratio of milk sources continued to rise. The national milk output is expected to reach 42.27 million tonnes in 2023, up by 5% over last year.

As one of the leading dairy farming companies in 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 raw milk and implement rigorous quality supervision so as to satisfy the society's increasingly diversified needs for dairy products and offer the best quality raw milk to customers.

Business Review

YuanShengTai is a company that focuses on producing high-quality raw milk. In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. The sales volume of raw milk of the Group for the Period was 222,236 tonnes, representing an increase of 15.0% as compared with the same period of last year. The total revenue from sales of raw milk of the Group amounted to RMB1,081.9 million, representing an increase of 7.2% as compared with the same period of last year. The Group's net loss for the Period amounted to RMB264 million, as compared to a net profit of RMB52.7 million for the same period of last year. The increase in net loss was attributable to the year-on-year decrease in unit selling price of raw milk as a result of the increasing cost and expenses per kilogram, which were caused by rises in prices of certain feeds and the increase in indirect operating expenses from January to June this year. The Group will offset the cost increase caused by the rises in prices of certain feeds by adjusting the feeding formula and optimizing the feeding methods.

The Group continued to build long-term and stable relationship with leading manufacturers of dairy products in China. In the first half of 2023, the Group's three major customers were Feihe Dairy Group, Mengniu Group and Yili Group, which in aggregate accounted for approximately 99.6% of the Group's total revenue. All the three major customers are leading manufacturers of dairy products in China. They contribute to the high quality development of China's dairy industry via continuous expansion of their product portfolios, and pioneering the technology innovation in the industry, which will definitely continue to benefit the long-term development of the Group's business. In the future, the Group expects to continue to supply raw milk products to these three major customers on a long-term basis, for the purpose of providing raw milk with the highest safety and nutritional standards in China, in line with China's rising demand for high-end raw milk, and further consolidating the Group's customer base.

Construction of Farms

As of 30 June 2023, the Group had ten dairy cow farms in Heilongjiang Province, one dairy cow farm in Jilin Province, and one dairy goat farm in Shaanxi Province, respectively. Each cow farm had an actual capacity ranging from 1,960 to 30,000 heads of dairy cows. The total site area of the eleven farms amounts to approximately 9,694,458 square metres. The dairy goat farm occupies a site area of 429,133 square metres, with an actual designed capacity of 20,000 heads of dairy goats. Yi'an Farm and Bei'an Farm of the Group in Heilongjiang Province have just commenced operation and started raising heifers since early 2023. As of 30 June 2023, 9,390 heads of imported dairy cows have arrived at these farms.

	Actual Designed Capacity (Number of Cows/Head)	Actual Inventory Number	Area (m²)
Gannan Farm	12,000	10,596	986,333
Kedong Heping Farm	6,000	6,021	384,000
Kedong Ruixinda Farm	18,000	10,798	784,000
Kedong Yongjin Farm	12,000	8,112	714,000
Zhenlai Farm	30,000	24,318	2,066,667
Baiquan Farm	15,000	8,631	994,000
Keshan Farm	12,000	8,257	980,000
Longjiang Ruixincheng Farm	1,960	1,781	84,300
Longjiang Jinyuan Farm	12,000	11,851	798,400
Yi'an Farm	10,000	5,727	857,713
Bei'an Farm	30,000	5,221	1,045,045
	<u>158,960</u>	<u>101,313</u>	<u>9,694,458</u>
Total	<u>158,960</u>	<u>101,313</u>	<u>9,694,458</u>

	Actual Designed Capacity (Number of Goats/Head)	Actual Inventory Number	Area (m²)
Shaanxi Ruixiang Chengda Farm	<u>20,000</u>	<u>5,217</u>	<u>429,133</u>
Total	<u>20,000</u>	<u>5,217</u>	<u>429,133</u>

Milk Yield

During the Period, the average annual milk yield per matured milkable cow was 11.33 tonnes, representing an increase of 3.7% as compared with 10.93 tonnes in the first half of 2022. As operation of farms becomes more mature and stable, and the age mix of cows and the herd 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

The Group has established a perfect and high-quality farm management system, with the continuous expansion of herd size and a reasonable herd structure. As of 30 June 2023, the total number of inventory dairy cows on the farms operated by the Group increased to 101,313 heads, up by 19.7% as compared with 84,619 heads in the same period of 2022. The total number of inventory dairy cows has increased for four consecutive years since the second half of 2019, and has exceeded 100,000 heads. Among them, the total number of our matured milkable cows steadily increased from 38,180 heads as of 30 June 2022 to 41,682 heads as of 30 June 2023, representing a year-on-year increase of 9.2%. The total number of matured milkable cows accounts for 41.1% of the total number of inventory dairy cows. The increase in the number of our matured milkable cows further contributed to the constant supply of quality raw milk of the Group. During the Period, the Group imported heifers and calves through newly-built Yi'an Farm and Bei'an Farm, bringing the total number of heifers and calves up to 59,631 heads, representing a year-on-year increase of 28.4%. As of 30 June 2023, the number of dairy goats was 5,217 heads, including 3,604 matured milkable goats and 1,613 lambs and young goats.

	30 June 2023	30 June 2022
Number of matured milkable cows	41,682	38,180
Number of heifers and calves	59,631	46,439
Total number of dairy cows	101,313	84,619

	30 June 2023	30 June 2022
Number of matured milkable goats	3,604	5,064
Number of lambs and young goats	1,613	1,605
Total number of dairy goats	5,217	6,669

Price of Raw Milk

In the first half of 2023, raw milk was in a downward cycle. During the Period, the domestic price of raw milk was under pressure as the weak consumption of domestic dairy products led to oversupply of raw milk, and price of the Group's raw milk dropped accordingly. During the Period, the average selling price of the Group's raw cow milk was RMB4,863 per tonne, representing a decrease of 6.7% as compared with the same period of last year. The average selling price of the Group's raw goat milk was RMB7,031 per tonne during the Period, representing a decrease of 4.0% as compared with the same period of last year.

Outlook

In recent years, the development of the dairy industry in China has accelerated. Thanks to a number of strategic policies issued by the Chinese Government, significant milestone achievements have been made in the revitalization of the dairy industry. It was proposed in The Opinions on the Strategic Development of Dairy Cow Seed Industry in China* (《中國奶牛種業戰略發展意見》) that by 2030, there shall be an effective modern independent dairy cow breeding system, the basic dairy cow breeding shall be carried out in an all-round way, breakthroughs shall be made in independent development and application of new breeding technologies, there shall be a general improvement in the efficiency of efficient propagation, the system of population genetic technical improvement shall reach the international advanced level, and the biosafety level of the national dairy cow core breeding farm and bull breeding station shall be significantly improved. The unit yield of dairy cows shall increase continuously, and the core competitiveness of seed industry shall be significantly improved.

The Ministry of Agriculture and Rural Affairs forecasts that, from 2023 to 2032, China's dairy industry will be fully revitalized and the mechanism for ensuring the supply of important agricultural products will be further improved, and the scale of dairy farming and the production technical efficiency will be steadily improved, further consolidating the growth foundation of domestic milk production.

Dairy industry is an important basic industry in China. With growing income of urban and rural residents and the upgrading of consumption pattern in China, the food consumption demand in China is being upgraded at a faster pace and is being diversified. The Group believes that urban and rural residents in China will pay increasing attention to healthy diets in the future, and the consumption demand for dairy products in China will continue to grow, suggesting huge consumption potential, which will simultaneously drive up the total demand for raw milk. This is conducive to the long-term stable development of upstream farming enterprises.

The Group will seize the market opportunities and follow the strategic development policies of dairy industry and dairy seed industry in China, to continuously improve the operating performance, expand the herd size, increase the average annual output of dairy cows and increase the sales of raw milk. YuanShengTai will continue to improve its production and management level, achieve sustainable comprehensive profitability of the Group, and contribute to the high-quality development and accelerating the modern industrial system of China's dairy industry.

Our Revenue

During the Period, our total sales of raw milk increased by 7.2% to RMB1,081.9 million as compared with RMB1,009.0 million for the six months ended 30 June 2022. The sales volume of raw cow milk reached 221,707 tonnes for the Period, representing an increase of 15.2% as compared with 192,412 tonnes for the six months ended 30 June 2022. The sales volume of raw goat milk reached 529 tonnes for the Period, representing a decrease of 31.1% as compared with 768 tonnes for the six months ended 30 June 2022.

Cost of Sales

Our cost of sales for the Period was RMB824.8 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2023 and 2022:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales		
Feed	618,343	533,995
Salary, welfare and social insurance	54,068	50,390
Depreciation	49,831	45,673
Veterinary cost	30,190	26,567
Utility	46,592	43,496
Transportation expenses	409	14,308
Other cost	25,352	22,478
	<hr/>	<hr/>
Cost of sales, total	824,785	736,907
	<hr/> <hr/>	<hr/> <hr/>

Feed costs represent the feed consumed by our milkable cows and goats. The feed costs for milkable cows and milkable goats were RMB618.3 million and RMB534.0 million for the six months ended 30 June 2023 and 2022, respectively, representing 75.0% and 72.5% of the cost of sales for the respective six months ended 30 June 2023 and 2022. The increase in our feed costs was attributable to the increases in (i) the number of milkable cows; and (ii) the price of hay feed.

Gross Profit

Resulted from the factors discussed above, the gross profit decreased to RMB257.1 million for the Period (six months ended 30 June 2022: RMB272.1 million), representing a decrease of 5.5%. Our gross profit margin decreased from 27.0% for the six months ended 30 June 2022 to 23.8% for the Period.

Other Income and Gains

Other income and gains for the six months ended 30 June 2023 and 2022 amounted to RMB58.3 million and RMB56.3 million, respectively, representing an increase of 3.6%. The increase in other income and gains was attributable to the increase in exchange gain.

Administrative Expenses

We incurred administrative expenses of RMB53.6 million for the Period, representing a decrease of approximately 20.7% as compared to RMB67.6 million for the six months ended 30 June 2022. The decrease was attributable to the decreases in (i) one-off tax expenses; and (ii) share option expense recognised for the Period. Share options were granted to Directors and employees of the Company pursuant to a share option scheme adopted by China Feihe on 22 June 2020.

Other Expenses

Other expenses for the Period amounted to RMB16.8 million (six months ended 30 June 2022: RMB20.2 million), representing a decrease of approximately 16.8%. The decrease in other expenses was attributable to the decrease in 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 RMB410.3 million for the Period as compared with a loss of RMB185.4 million for the six months ended 30 June 2022. The increase in loss was attributable to the increase in feeding costs and the decrease in the price of raw milk.

Impairment Loss on Property, Plant and Equipment and Right-of-use Assets

During the Period, an impairment loss of RMB85,925,000 (six months ended 30 June 2022: Nil) was recognised for property, plant and equipment and right-of-use assets of an indirect wholly-owned subsidiary of the Company. The operating loss of such subsidiary was much greater than expected due to the decrease in the price of raw milk and the increase in feeding costs. The management considered that it is unlikely that such subsidiary could make a profit in near future, as such, full impairment loss was provided for its property, plant and equipment and right-of-use assets. The recoverable amount was based on valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional qualified valuer.

Loss of the Group for the Period

As a result of all the above factors, the Group recorded a net loss of RMB264.1 million for the Period, as compared with a net profit of RMB52.7 million for the six months ended 30 June 2022. Basic loss per share was approximately RMB5.6 cents for the Period, as compared with basic earnings per share amounted RMB1.1 cents for the six months ended 30 June 2022.

Interim Dividend

The Board has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2022: Nil).

Liquidity and Financial Resources

For the Period, the Group's net cash inflow from operating activities amounted to RMB531.7 million, as compared with RMB668.8 million for the six months ended 30 June 2022. As at 30 June 2023, the Group had cash and cash equivalents of RMB745.5 million (31 December 2022: RMB576.3 million). Save for cash and cash equivalents equivalent to RMB582.7 million which were denominated in the United States dollars ("USD"), and RMB4.3 million which were denominated in Hong Kong dollars ("HKD"), the Group's remaining cash and cash equivalents were denominated in renminbi ("RMB").

The Group had interest-bearing bank and other borrowings of RMB1,003.8 million as at 30 June 2023 (31 December 2022: RMB836.5 million) which was denominated in RMB. The annual interest rate of the bank and other borrowings as at 30 June 2023 ranged from 2.90% to 3.85% (31 December 2022: ranged from 2.95% to 3.85%). The gearing ratio (calculated by dividing net debt by the equity attributable to owners of the parent plus net debt) was 13.9% (31 December 2022: 13.2%). Net debt includes interest-bearing bank and other borrowings, trade payables, and certain other payables and accruals, less cash and cash equivalents and time deposits.

Capital Structure

As at 30 June 2023, 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.

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 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").

Save as disclosed above and in the Prospectus, there were no significant investments held as at 30 June 2023 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”)

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\$3,298.0 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders of the Company (the “Shareholders”) (i.e. not receivable by the Company)) amounted to approximately HK\$2,564.0 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) <i>HK\$ million</i>	Actual use of net proceeds from the IPO up to 30 June 2023 <i>HK\$ million</i>	Actual use of net proceeds from the IPO during the Period <i>HK\$ million</i>	Unused net proceeds from the IPO as at 30 June 2023 <i>HK\$ million</i>
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	<u>2,564.0</u>	<u>2,216.2</u>	<u>–</u>	<u>347.8</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 end of 2023. As the Board is still observing the market conditions which are slowly recovering after the Pandemic, the expected timeline for unused net proceeds in respect of developing upstream operations will be further delayed to the end of 2024. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

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

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

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

Pledge of Assets

As at 30 June 2023, no assets of the Group were pledged as security for bank borrowings (31 December 2022: 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 2023 were RMB154.0 million (31 December 2022: RMB240.3 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 2023 (31 December 2022: Nil).

Employees and Remuneration Policies

As at 30 June 2023, the Group had 2,319 employees (31 December 2022: 2,241 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 RMB134.8 million (six months ended 30 June 2022: RMB116.8 million).

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

Events After Reporting Period

On 2 August 2023, the Company entered into a processing framework agreement with Feihe Dairy HLJ, a wholly-owned subsidiary of China Feihe (for itself and on behalf of its subsidiaries), pursuant to which the Company agreed to engage Feihe Dairy HLJ and its subsidiaries to provide processing services for processing raw milk into full cream milk powder for a term commencing from 2 August 2023 and ending on 31 December 2023 subject to the terms and conditions contained therein. Details of which are set out in the announcement of the Company dated 2 August 2023.

Save as disclosed, the Group does not have any material subsequent event after the Period and up to the date of this announcement.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

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

Compliance with the Corporate Governance Code

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of the Shareholders. The Board considers that the Company has complied with all the code provisions as set out in the Corporate Governance Code as contained in 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 announcement.

Compliance with Model Code

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

Review by Audit Committee

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

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

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

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

Hong Kong, 28 August 2023

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, namely 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.