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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)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of YuanShengTai Dairy Farm Limited (the “**Company**” or “**YuanShengTai**”) announces the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2023 (the “**Year**”) together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
REVENUE	3	2,208,581	2,090,343
Cost of sales		(1,617,842)	(1,568,628)
Gross profit		590,739	521,715
Other income and gains	3	144,008	90,999
Administrative expenses		(139,314)	(135,112)
Other expenses		(57,114)	(54,962)
Finance costs		(35,486)	(10,196)
Impairment losses on property, plant and equipment and right-of-use assets		(89,812)	–
Changes in fair value less costs to sell of biological assets		(750,262)	(389,603)
(LOSS)/PROFIT BEFORE TAX	4	(337,241)	22,841
Income tax expense	5	(2,458)	–
(LOSS)/PROFIT FOR THE YEAR		<u>(339,699)</u>	<u>22,841</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		694	2,839
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(339,005)</u>	<u>25,680</u>
Attributable to:			
Owners of the Company		<u>(339,005)</u>	<u>25,680</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (expressed in RMB per share)	7	<u>(7.24)</u>	<u>0.49</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,782,284	3,831,079
Investment properties		211,741	109,812
Right-of-use assets		73,436	74,776
Prepayments, other receivables and other assets		73,083	271,571
Biological assets		2,252,706	2,025,292
		<u>6,393,250</u>	<u>6,312,530</u>
Total non-current assets		<u>6,393,250</u>	<u>6,312,530</u>
CURRENT ASSETS			
Inventories		794,466	787,544
Trade receivables	8	82,593	26,017
Prepayments, other receivables and other assets		9,172	6,578
Time deposits		70,882	232,332
Restricted cash		37,547	–
Cash and cash equivalents		959,068	576,309
		<u>1,953,728</u>	<u>1,628,780</u>
Total current assets		<u>1,953,728</u>	<u>1,628,780</u>
CURRENT LIABILITIES			
Trade and bills payables	9	476,602	388,667
Other payables and accruals		1,164,811	1,132,462
Interest-bearing bank and other borrowings	10	474,840	120,000
Lease liabilities		49,341	20,293
Tax payable		638	–
		<u>2,166,232</u>	<u>1,661,422</u>
Total current liabilities		<u>2,166,232</u>	<u>1,661,422</u>
NET CURRENT LIABILITIES		<u>(212,504)</u>	<u>(32,642)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,180,746</u>	<u>6,279,888</u>
NON-CURRENT LIABILITIES			
Other payables and accruals		384,028	383,134
Interest-bearing bank and other borrowings	10	872,836	716,534
Lease liabilities		157,221	92,082
Deferred tax liabilities		1,820	–
		<u>1,415,905</u>	<u>1,191,750</u>
Total non-current liabilities		<u>1,415,905</u>	<u>1,191,750</u>
Net assets		<u>4,764,841</u>	<u>5,088,138</u>
EQUITY			
Issued capital		37,674	37,674
Reserves		4,727,167	5,050,464
		<u>4,764,841</u>	<u>5,088,138</u>
Total equity		<u>4,764,841</u>	<u>5,088,138</u>

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

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

In preparation of the consolidated financial statements for the Year, 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 RMB212,504,000 (2022: RMB32,642,000). Taking into account, (i) the available credit facilities of approximately RMB321,814,000, which remain unutilised as at 31 December 2023, obtained from licensed banks; and (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 consolidated financial statements have been prepared on a going concern basis.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year’s financial statements.

IFRS 17	<i>Insurance Contracts</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 the 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 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group’s 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. Since the Group’s approach and policy align with the amendments, the amendments had no impact on the Group’s financial statements.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets, investment properties and lease liabilities separately. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under IAS 12.

- (d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Cooperation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Pillar Two model rules did not apply to the Group but have applied to the ultimate parent entity of the Company, the Group falls within the scope of the Pillar Two model rules. Pillar Two income taxes recognised by the ultimate parent entity of the Company were nil for the years ended 31 December 2023 and 2022. The amendments did not have any impact on the Group's financial statements.

2. 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.

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

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

All non-current assets were located in Chinese Mainland.

During the Year, the Group made sales to major customers, the revenue from which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2023 and 2022 is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Customer A	1,974,521	1,741,264
Customer B	204,716	311,180
Others	29,344	37,899
	<u>2,208,581</u>	<u>2,090,343</u>

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sale of raw milk	<u>2,208,581</u>	<u>2,090,343</u>

Revenue from contracts with customers

(a) *Disaggregated revenue information*

For the year ended 31 December

Segments	2023 Sale of raw milk <i>RMB'000</i>	2022 Sale of raw milk <i>RMB'000</i>
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Types of goods

Sale of raw milk	<u>2,208,581</u>	<u>2,090,343</u>
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Total revenue from contracts with customers	<u>2,208,581</u>	<u>2,090,343</u>
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Geographical market

Chinese Mainland	<u>2,208,581</u>	<u>2,090,343</u>
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Total revenue from contracts with customers	<u>2,208,581</u>	<u>2,090,343</u>
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Timing of revenue recognition

Goods transferred at a point in time	<u>2,208,581</u>	<u>2,090,343</u>
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Total revenue from contracts with customers	<u>2,208,581</u>	<u>2,090,343</u>
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The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of raw milk	<u>694,692</u>	<u>347,519</u>

(b) **Performance obligation**

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

Sale of raw milk

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

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2023 RMB'000	2022 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	<u>764,825</u>	<u>694,692</u>

An analysis of other income and gains is as follows:

	2023 RMB'000	2022 RMB'000
Other income and gains		
Government subsidies	50,751	47,793
Bank interest income	27,774	19,553
Other interest income	1,622	–
Gross rental income from investment property operating leases	52,196	21,026
Others	<u>11,665</u>	<u>2,627</u>
Total other income and gains	<u>144,008</u>	<u>90,999</u>

4. (LOSS)/PROFIT BEFORE TAX

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

	2023	2022
	RMB'000	RMB'000
Breeding costs to produce	1,195,214	1,148,864
Production costs for raw milk	422,628	419,764
	<u>1,617,842</u>	<u>1,568,628</u>
Cost of sales	1,617,842	1,568,628
Depreciation of property, plant and equipment	192,931	195,449
Less: Capitalised in biological assets	(96,652)	(98,809)
	<u>96,279</u>	<u>96,640</u>
Depreciation recognised in the consolidated statement of profit or loss *	96,279	96,640
Depreciation of right-of-use assets	7,757	5,385
Depreciation of investment properties	45,192	19,700
Lease payments for short-term leases	180	131
Auditors' remuneration	2,900	2,900
Changes in fair value less costs to sell of biological assets	750,262	389,603
Employee benefit expenses excluding directors' and chief executive's remuneration:		
Wages and salaries	206,723	180,499
Pension scheme contributions	60,727	52,462
Equity-settled share option expense	3,763	4,810
Less: Capitalised in biological assets	(96,125)	(78,529)
	<u>175,088</u>	<u>159,242</u>
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in profit or loss **	175,088	159,242
Impairment losses on property, plant and equipment and right-of-use assets***	89,812	–
Loss on disposal of items of property, plant and equipment	278	18,693
Foreign exchange differences, net	(8,735)	67
	<u>(8,735)</u>	<u>67</u>

* Depreciation of approximately RMB95,168,000 (2022: RMB95,016,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

** Employee benefit expenses of approximately RMB120,177,000 (2022: RMB113,689,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

*** Impairment loss of RMB89,497,000 (2022: Nil) for property, plant and equipment and RMB315,000 (2022: Nil) for right-of-use assets of the raw goat milk production and sale cash-generating unit (the "goat CGU") are charged to profit or loss for the Year.

5. INCOME TAX

No provision for Hong Kong profits tax has been made for the Year as the Group did not generate any assessable profits arising in Hong Kong during the Year (2022: Nil). Taxes on profits assessable in Chinese Mainland have been calculated at the applicable corporate income tax rate of 25% (2022: 25%) in the People's Republic of China (the "PRC" or "China"). Taxes on profits assessable elsewhere have been calculated at the rates 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.

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current – PRC		
Charge for the year	638	–
Deferred	1,820	–
	<hr/>	<hr/>
Total tax charge for the year	<u>2,458</u>	<u>–</u>

6. DIVIDENDS

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

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

The calculation of the basic loss per share amount is based on the loss for the Year attributable to ordinary equity holders of the Company of RMB339,699,000 (2022: profit of RMB22,841,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2022: 4,690,496,400).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

8. TRADE RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	<u>82,593</u>	<u>26,017</u>

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

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 1 month	82,563	25,828
1 to 2 months	30	147
2 to 3 months	–	42
	<hr/>	<hr/>
Total	<u>82,593</u>	<u>26,017</u>

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

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

9. TRADE 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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 2 months	345,871	317,841
2 to 6 months	97,912	52,231
6 to 12 months	12,499	10,962
Over 1 year	20,320	7,633
	<u>476,602</u>	<u>388,667</u>
Total	<u>476,602</u>	<u>388,667</u>

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

10. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2023			2022		
	Effective interest rate (%)	Maturity	<i>RMB'000</i>	Effective interest rate (%)	Maturity	<i>RMB'000</i>
Current						
Bank loans – secured	2.90-3.80	2024	224,840	–	–	–
Bank loans – unsecured	3.60-3.85	2024	250,000	2.95-3.00	2023	120,000
Total – current			<u>474,840</u>			<u>120,000</u>
Non-current						
Bank loans – secured	3.65-3.85	2027	872,836	3.80-3.85	2027	716,534
Total			<u>1,347,676</u>			<u>836,534</u>

	2023	2022
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	474,840	120,000
In the third to fifth years, inclusive	872,836	716,534
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Total	1,347,676	836,534
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- (a) As at 31 December 2023, all bank borrowings were denominated in RMB.
- (b) Certain of the Group's bank loan facilities up to RMB510,000,000 (2022: RMB510,000,000) as at 31 December 2023 were guaranteed by the then chief executive officer of the Company who resigned in February 2024 (the "Ex-CEO") and his wife, and a certain subsidiary of the Company, and were also secured by mortgages over the Group's dairy cows with an aggregate carrying value at the end of the reporting period of RMB159,616,000 (2022: Nil), of which RMB253,346,000 (2022: RMB213,582,000) have been utilised.
- (c) Certain of the Group's bank loan facilities up to RMB321,000,000 (2022: RMB365,000,000) as at 31 December 2023 were guaranteed by the Ex-CEO and his wife, and a certain subsidiary of the Company, and were also secured by mortgages over the Group's dairy cows with an aggregate carrying value at the end of the reporting period of RMB39,357,000 (2022: Nil), and mortgages over the Group's equipment with an aggregate carrying value at the end of the reporting period of RMB27,626,000 (2022: Nil), of which RMB321,000,000 (2022: RMB221,000,000) have been utilised.
- (d) Certain of the Group's bank loan facilities up to RMB510,000,000 (2022: RMB320,000,000) as at 31 December 2023 were guaranteed by certain subsidiaries of the Company, of which RMB507,300,000 (2022: RMB281,952,000) have been utilised.
- (e) Certain of the Group's bank loan facilities up to RMB100,000,000 (2022: Nil) as at 31 December 2023 were guaranteed by the legal representative of a certain subsidiary of the Company and his wife, and a certain subsidiary of the Company, and were also secured by mortgages over the Group's dairy cows with an aggregate carrying value at the end of the reporting period of RMB192,310,000 (2022: Nil), of which RMB37,540,000 (2022: Nil) have been utilised.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Looking back to 2023, global inflation remained high due to the complicated and ever-changing political and economic landscape in China and abroad. China's economy was slowly recovering from the impacts of COVID-19, geopolitical conflicts and high inflation. The national economy maintained stability while making progress, as evidenced by a 5.2% increase in gross domestic product (GDP) of 2023 compared to the previous year.

Despite the slow recovery of macro-economy, the dairy industry in China encountered challenges in 2023, such as weak growth of demand and the oversupply of raw milk resulting in downward price fluctuations. According to the Ministry of Agriculture and Rural Affairs, the monthly average price of raw milk in December 2023 was RMB3.67 kilogram, representing a month-to-month decrease of 0.8%, and representing an year-on-year decrease of 11.0%.

Due to extreme weather conditions, the COVID-19 and geopolitical tension, the global commodity market experienced mixed performance in 2023 and the price of feed ingredients continued to fall. In 2023, an initiative for reducing and substituting feed soybean meal was implemented throughout China. Every part of the country aggressively expanded production of high-quality forage, such as silage corn and alfalfa through Grain-to-Feed Program and Plan for Dairy Industry Revitalization and Alfalfa Development, so as to increase the proportion of high-quality forage in the feeds of cows and goats and promote conservation of grains by increasing use of grass. Prices of imported hay feed decreased due to increased supply of quality alfalfa forage produced locally. According to statistics from China Customs, a total of 999,500 tonnes of alfalfa hay were imported into China in 2023, representing a year-on-year decrease of 44.1%, with an import value of US\$510,646,000, representing a year-on-year decrease of 44.8%, at an average cost, insurance and freight price of US\$510.90 per tonne, representing a year-on-year decrease of 1.3%.

As a leading dairy farming company 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. YuanShengTai is committed to producing high-quality raw milk to fulfill the diverse needs of society for dairy products. In pursuit of this goal, we will focus on standardizing raw milk production and implementing rigorous quality supervision.

BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. During the Year, the sales volume of raw cow milk reached 459,950 tonnes for the Year, representing an increase of 12.2% as compared with 409,975 tonnes in 2022. The sales volume of raw goat milk reached 932 tonnes for the Year, representing a decrease of 36.3% as compared with 1,463 tonnes in 2022. The total revenue amounted to RMB2,208.6 million, representing an increase of 5.7% as compared with RMB2,090.3 million in 2022. During the Year, the average selling price of fresh milk decreased slightly due to the weak demand for raw milk, and the Group recorded a net loss of RMB339,699 million.

Since its early business development, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2023, the three major customers of the Group were Feihe Dairy Group, Yili Group and Mengniu Group. In 2023, the growth of the liquid milk industry slowed down, and the overall scale maintained a slight increase. The above three customers were leading dairy manufacturers in China, with a dominant market share and complete product lines, which has a positive impact on the sustainable development of the Group's business. In the future, the Group expects to continue to supply high quality raw milk products to these three major customers on a long-term basis, and is committed to providing raw milk with the highest safety and nutritional standards in China. We will further consolidate the Group's customer base in line with the rising demand for high-end raw milk in China.

Construction of Farms

As of 31 December 2023, we had ten dairy cow farms in Heilongjiang Province and one dairy cow farm in Jilin Province, and one dairy goat farm in Shaanxi Province, respectively. Each dairy cow farm had an actual capacity ranging from 1,960 to 30,000 dairy cows, and the total site area of the eleven dairy cow farms amounted 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 dairy goats.

	Actual Designed Capacity <i>(Number of Cows/Head)</i>	Actual Inventory Number	Area <i>(m²)</i>
Gannan Farm	12,000	10,961	986,333
Kedong Heping Farm	6,000	6,259	384,000
Kedong Ruixinda Farm	18,000	10,217	784,000
Kedong Yongjin Farm	12,000	8,449	714,000
Zhenlai Farm	30,000	23,353	2,066,667
Baiquan Farm	15,000	7,424	994,000
Keshan Farm	12,000	8,846	980,000
Longjiang Ruixincheng Farm	1,960	1,754	84,300
Longjiang Jinyuan Farm	12,000	10,594	798,400
Yi'an Farm	15,000	7,558	857,713
Bei'an Farm	10,000	7,082	1,045,045
	<hr/>	<hr/>	<hr/>
Total	<u>143,960</u>	<u>102,497</u>	<u>9,694,458</u>

	Actual Designed Capacity <i>(Number of Goats/Head)</i>	Actual Inventory Number	Area <i>(m²)</i>
Shaanxi Ruixiang Chengda Farm	<u>20,000</u>	<u>4,752</u>	<u>429,133</u>
Total	<u><u>20,000</u></u>	<u><u>4,752</u></u>	<u><u>429,133</u></u>

Milk Yield

During the Year, the average annual milk yield per cow was 11.6 tonnes, representing an increase of 3.6% as compared with 11.2 tonnes in 2022. As operation of farms becomes more mature and stable, and the age mix of cattle and the cattle mix have been upgraded and optimized, the Group expects that the average milk yield of herds will continue to increase. In the future, the Group will steadily improve its profitability by adjusting and optimizing the cattle mix and improving the feeding formula, and upgrading intelligent high-quality management practices.

Size of Our Herds

Driven by the advanced and modern management model of our farms, the number of cows of the Group's dairy farms increased from 89,437 heads as of 31 December 2022 to 102,497 heads as of 31 December 2023. The total number of inventory cows increased by 14.6% as compared with the same period of last year. Among them, the total number of matured milkable cows decreased from 40,235 heads as of 31 December 2022 to 39,861 heads as of 31 December 2023, representing a decrease of 0.9% as compared with the same period of last year. The number of heifers and calves increased to 62,636 heads, representing an increase of 27.3% as compared with the same period of last year. Although the number of milkable cows decreased due to the adjustment to the herd structure, the overall quality of the herd increased, so the milk yield has been steadily increased, and the supply of high-quality raw milk has been secured. As of 31 December 2023, the number of dairy goats was 4,752 heads, including 3,257 matured milkable goats and 1,495 lambs and young goats.

	31 December 2023	31 December 2022
Number of matured milkable cows	39,861	40,235
Number of heifers and calves	<u>62,636</u>	<u>49,202</u>
Total	<u><u>102,497</u></u>	<u><u>89,437</u></u>

	31 December 2023	31 December 2022
Number of matured milkable goats	3,257	4,482
Number of lambs and young goats	<u>1,495</u>	<u>1,491</u>
Total	<u><u>4,752</u></u>	<u><u>5,973</u></u>

Price of Raw Milk

In the past two years, growth in demand for dairy products in China softened due to decrease in demand from downstream dairy companies and end-users. Meanwhile, the upstream dairy companies suffered due to oversupply of raw milk. All these lead to continuous decline in the price of raw milk across the market. During the Year, the average selling price of the Group's raw milk was RMB4,787 per tonne, representing a decrease of 5.7% as compared with RMB5,074 per tonne in the same period of last year, at a slower pace compared with the market's decline. During the Year, the average selling price of the Group's raw goat milk was RMB7,149 per tonne, representing an increase of 2.2% as compared with RMB6,993 per tonne in the same period of last year.

OUTLOOK

Spring marks the beginning of a new year, and agricultural production is of paramount importance. On 3 February 2024, "Opinions of the Central Committee of the Communist Party of China (CCCPC) and the State Council on Learning and Applying the Program Experience of "Establishing A Thousand Demonstration Villages and Renovating Ten Thousand Villages" to Effectively Promote the Comprehensive Revitalization of Rural Areas" (《中共中央國務院關於學習運用“千村示範、萬村整治”工程經驗有力有效推進鄉村全面振興的意見》) was released, as scheduled in Spring. The No.1 Document of the CCCPC highlighted the task of "improving the standard of liquid milk, standardizing the identification marks of reconstituted milk and promoting the consumption of fresh milk". YuanShengTai will implement the important instructions of the No.1 Document of the CCCPC and devote itself to improving the production management standards, so as to provide consumers with raw milk that meets the highest safety and nutrition standards in China. The No.1 Document of the CCCPC stressed strengthening development of technology and reform. Recognizing the potential for industrial advancement presented by the growth of digital economy, YuanShengTai will seize the new opportunities to promote the digital integration across the industrial chain, pursue sustainable and environmentally-friendly development practice, serve as a model in the industry and push the Chinese dairy industry towards a development path of innovation, efficiency and long-term sustainability.

Chinese residents' perception of milk consumption has gradually shifted from "nutritional supplements" to "daily necessities. As such, it is believed that residents' milk consumption will continue to grow in the future. We believe that the dairy market in China still has great development potential. The growing interest in nutrition and healthy eating has led to an increased focus on high-quality dairy products that offer more nutritional value. This trend is beneficial for the development of the dairy industry as it encourages enhancement of industrial structure and offering a wider range of products.

Taking advantage of the favourable policies and incentives, the Group will strategically align with the industry trends to capitalize on the market opportunities by continuous strengthening technological innovation, research and development, leveraging on its strengths and resources to enhance operational performance and optimize its industrial structure. While actively seeking out high-quality farms and expanding the herd size, the Group plans to continuously improve the production management practices, utilize modern technology to enhance the price competitiveness of its products, explore the possibility of developing new businesses, promote the diversified development of dairy products, and inject new impetus into the vigorous development of dairy farming in China.

Dairy industry is an important industry in China. YuanShengTai will hold fast to the mission of producing high-quality raw milk, standardized production of raw milk, rigorous quality supervision, strive to provide the best quality nutrition sources for all walks of life, continue to maintain the leading position in dairy farming industry in China, and contribute to the high-quality development of the dairy industry in China and accelerating construction of a modern industrial system.

Our Revenue

During the Year, our total sales of milk produced increased by 5.7% from RMB2,090.3 million for the year ended 31 December 2022 to RMB2,208.6 million. The sales volume of raw cow milk reached 459,950 tonnes for the Year, representing an increase of 12.2% as compared with 409,975 tonnes in 2022. The sales volume of raw goat milk reached 932 tonnes for the Year, representing a decrease of 36.3% as compared with 1,463 tonnes in 2022. The growth in sales volume of raw cow milk was primarily attributable to the increases in (i) the average daily number of matured milkable cows; and (ii) average annual milk yield per cow. Our average selling price of raw cow milk was RMB4,787 per tonne for the Year, representing a decrease of 5.7% as compared with RMB5,074 per tonne in 2022 and our average selling price of raw goat milk was RMB7,149 per tonne for the Year, representing an increase of 2.2% as compared with RMB6,993 per tonne in 2022.

Cost of Sales

Our cost of sales for the Year was RMB1,617.8 million. The table below summarizes the components of our cost of sales by nature:

	2023	2022
	RMB'000	RMB'000
Cost of sales		
Feed	1,195,214	1,148,864
Salary, welfare and social insurance	120,177	113,689
Depreciation	95,168	95,016
Veterinary cost	59,669	55,889
Utility	97,146	87,409
Transportation expenses	5,351	23,530
Other costs	45,117	44,231
	<hr/>	<hr/>
Cost of sales, total	1,617,842	1,568,628
	<hr/> <hr/>	<hr/> <hr/>

Feed costs represent the cost of feed consumed by our milkable cows and goats. The feed costs for milkable cows and milkable goats were RMB1,195.2 million and RMB1,148.9 million for the years ended 31 December 2023 and 2022, respectively, representing 73.9% and 73.2% of the cost of sales for the respective financial years. The increase in our feed costs was primarily attributable to the increase in the average daily number of milkable cows.

Gross Profit

Given the above factors, the gross profit increased to RMB590.7 million for the Year (2022: RMB521.7 million), representing an increase of 13.2% as compared with that for 2022. Our gross profit margin increased from 25.0% in 2022 to 26.7% in 2023.

Other Income and Gains

Other income and gains for the Year amounted to RMB144.0 million (2022: RMB91.0 million), representing an increase of 58.2%. The increase in other income and gains was attributable to the increases in (i) interest income; (ii) exchange gain; and (iii) income from land subleases generated by Yi'an Farm. In order to ensure the stable supply of feeds, 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 RMB139.3 million for the Year (2022: RMB135.1 million), representing an increase of approximately 3.1% as compared with 2022. The increase was primarily attributable to the increase in employee benefit expenses related to certain employees of the Group for their services rendered to the Group pursuant to the share award plan adopted by China Feihe Limited on 25 May 2023.

Other Expenses

Other expenses for the Year amounted to RMB57.1 million (2022: RMB55.0 million), representing an increase of approximately 3.8%. The increase in other expenses was attributable to the increase in expenses on land sub-lease incurred by Yi'an Farm.

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 RMB750.3 million for the Year as compared with a loss of RMB389.6 million for 2022. The increase in loss was attributable to the decrease in the price of raw milk.

Impairment Losses on Property, Plant and Equipment and Right-of-Use Assets

During the Year, an impairment loss of RMB89.8 million (2022: Nil) was recognized for property, plant and equipment and right-of-use assets of the goat CGU of the Group. The operating loss of such CGU was much greater than expected mainly because the increase in the price of raw milk did not meet the expectation and that the number of goats was much less than expected due to the increase of death rate. The management considered that it is unlikely that such CGU 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 for the Year of the Group

Taking into account all of the above factors, the Group's net loss was RMB339.7 million for the Year, as compared with a net profit of RMB22.8 million for the year ended 31 December 2022. Basic loss per share was approximately RMB7.24 cents for the Year, as compared with basic earnings per share of RMB0.49 cent for the year 2022.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year (2022: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB707.8 million, as compared with RMB799.7 million in 2022. As at 31 December 2023, the Group had cash and cash equivalents of RMB959.1 million (31 December 2022: RMB576.3 million). Save for cash and cash equivalents equivalent to RMB344.5 million which were denominated in the United States dollars ("USD"), and RMB2.3 million which were denominated in Hong Kong dollars ("HKD"), the Group's remaining cash and cash equivalents were denominated in RMB.

The Group had interest-bearing bank and other borrowings of RMB1,347.7 million as at 31 December 2023 (31 December 2022: RMB836.5 million) which was denominated in RMB. The annual interest rate of the bank and other borrowings as at 31 December 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 18.7% (31 December 2022: 13.2%). Net debt includes interest-bearing bank and other borrowings, trade and bills payables, and certain other payables and accruals, less cash and cash equivalents and time deposits. Details of the borrowings of the Group are set out in note 10 to the financial statements.

CAPITAL STRUCTURE

As at 31 December 2023, the Company's issued share capital was HK\$46,904,964 divided into 4,690,496,400 shares of HK\$0.01 each (the "Shares") (31 December 2022: HK\$46,904,964 divided into 4,690,496,400 Shares of HK\$0.01 each). The Company did not issue any new Shares during the Year.

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

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

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

During the Year, the Group purchased a structured deposit product to enhance efficiency in the utilisation of idle funds and to bring returns to the Shareholders. For details, please refer to the announcement of the Company dated 11 September 2023.

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 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 (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) HK\$ million	Actual use of net proceeds from the IPO up to 31 December 2023 HK\$ million	Actual use of net proceeds from the IPO during the Year HK\$ million	Unused net proceeds from the IPO as at 31 December 2023 HK\$ million
Construction of new farms	1,923.0	1,923.0	–	–
Developing upstream operations	384.6	36.8	–	347.8
Working capital and general corporate purpose	256.4	256.4	–	–
Total	2,564.0	2,216.2	–	347.8

The unused net proceeds, being approximately HK\$347.8 million, are expected to be used in accordance with the Company’s plan as disclosed in the Prospectus (i.e. to develop upstream operations) by 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 Year, the Group did not have any material acquisitions and disposal of subsidiaries, associates or joint ventures.

PLEDGE OF ASSETS

As at 31 December 2023, certain of the Group's bank loans had been secured by the pledge of the Group's assets (2022: Nil). Details of the Group's pledged assets are set out in note 10 to the financial statements.

FOREIGN EXCHANGE EXPOSURE

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

TREASURY POLICIES

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

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2023 and 2022 were RMB75.5 million and RMB240.3 million, respectively, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2023 (2022: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group had 2,389 employees (2022: 2,241 employees), of whom one was located in Hong Kong and all the others were located in the PRC.

The salaries of the Group's employees largely depend on their type and level of work as well as length of service with the Group. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Group participates in the social insurance schemes operated by the relevant local government authorities, which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013. A share option scheme was adopted by the Board on 7 November 2013 (the "Scheme") for the purpose of providing incentives or rewards to selected participants for their contributions to the Group and the Scheme expired on 6 November 2023. The Group also provides and arranges on-the-job training for the employees.

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

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

EVENT AFTER REPORTING YEAR

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

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of the Shareholders. The Board considers that the Company complied with all the code provisions as set out in Part 2 of the Corporate Governance Code (the "CG Code") contained in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Year.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 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 a specific enquiry made by the Company, all Directors, except for Mr. Zhang Yongjiu who was appointed as an executive Director and the chief executive officer of the Company on 23 February 2024, confirmed that they had complied with the Model Code during the Year.

REVIEW OF ANNUAL RESULTS AND PRELIMINARY RESULTS ANNOUNCEMENT

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

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

PUBLICATION OF INFORMATION ON DESIGNATED WEBSITES

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

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

Hong Kong, 28 March 2024

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