

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



## **YuanShengTai Dairy Farm Limited**

**原生態牧業有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1431)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014**

#### **INTERIM RESULTS**

The board (“Board”) of directors (“Directors”) of YuanShengTai Dairy Farm Limited (the “Company”) 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 2014 (the “Period”) together with selected explanatory notes and the relevant comparative figures.

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

	<i>Notes</i>	<b>Six-month period ended 30 June</b>	
		<b>2014</b>	<b>2013</b>
		<b>(Unaudited) RMB'000</b>	<b>(Audited) RMB'000</b>
<b>REVENUE</b>		<b>556,006</b>	385,129
Cost of sales		<u>(295,365)</u>	<u>(234,667)</u>
Gross profit		<b>260,641</b>	150,462
Other income		<b>31,505</b>	10,018
Gain from a non-interest-bearing financial arrangement		<b>5,051</b>	49,195
Selling and distribution expenses		<b>(10,279)</b>	(9,248)
Administrative expenses		<b>(21,302)</b>	(26,191)
Finance costs		<b>(23,480)</b>	(58,180)
Changes in fair value less costs to sell of biological assets	8	<u><b>8,662</b></u>	<u>(16,462)</u>
<b>PROFIT BEFORE TAX</b>	3	<b>250,798</b>	99,594
Income tax expense	4	<u><b>(1,744)</b></u>	<u>—</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>249,054</b></u>	<u>99,594</u>
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u><b>17,944</b></u>	<u>(2,440)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u><b>266,998</b></u>	<u>97,154</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and diluted	6	<u><b>RMB6.8 cents</b></u>	<u>RMB4.2 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at <b>30 June 2014</b> (Unaudited) <i>RMB'000</i>	As at 31 December 2013 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	<b>1,348,998</b>	1,341,360
Prepaid land lease payments		<b>110,025</b>	112,599
Deposits for property, plant and equipment and biological assets		<b>167,043</b>	51,065
Biological assets	8	<b>1,188,643</b>	1,088,318
Amount due from a beneficial owner of a former shareholder	10	<u>—</u>	<u>55,618</u>
Total non-current assets		<u><b>2,814,709</b></u>	<u>2,648,960</u>
<b>CURRENT ASSETS</b>			
Inventories		<b>115,509</b>	200,877
Trade receivables	9	<b>143,004</b>	64,633
Prepayments and other receivables		<b>28,686</b>	22,295
Prepaid land lease payments		<b>4,546</b>	4,546
Cash and cash equivalents		<u><b>2,046,068</b></u>	<u>2,026,204</u>
Total current assets		<u><b>2,337,813</b></u>	<u>2,318,555</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>270,833</b>	212,091
Other payables and accruals	12	<b>333,313</b>	351,182
Amounts due to related companies		<b>16,175</b>	32,707
Interest-bearing bank borrowings	13	<u><b>260,000</b></u>	<u>220,000</u>
Total current liabilities		<u><b>880,321</b></u>	<u>815,980</u>
<b>NET CURRENT ASSETS</b>		<u><b>1,457,492</b></u>	<u>1,502,575</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>4,272,201</b></u>	<u>4,151,535</u>

		As at <b>30 June</b> <b>2014</b> <b>(Unaudited)</b> <b>RMB'000</b>	As at 31 December 2013 (Audited) RMB'000
	<i>Notes</i>		
<b>NON-CURRENT LIABILITIES</b>			
Other payables	12	<b>94,447</b>	185,829
Amount due to a beneficial owner of a former shareholder	10	<u>—</u>	<u>54,950</u>
Total non-current liabilities		<u><b>94,447</b></u>	<u>240,779</u>
Net assets		<u><b>4,177,754</b></u>	<u>3,910,756</u>
<b>EQUITY</b>			
Issued capital		<b>30,727</b>	30,727
Reserves		<u><b>4,147,027</b></u>	<u>3,880,029</u>
Total equity		<u><b>4,177,754</b></u>	<u>3,910,756</u>

## NOTES TO INTERIM FINANCIAL INFORMATION

### 1 BASIS OF PRESENTATION

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange” and “Listing Rules”, respectively) and with IAS 34 “Interim financial reporting” issued by the International Accounting Standards Board (the “IASB”).

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013, except for the adoption of the following new and revised International Financial Reporting Standards (“IFRSs”) issued by the IASB for the first time for the current period’s condensed consolidated financial statements.

IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) — Investment Entities
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities
IAS 36 Amendments	Amendments to IAS 36 Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting
IFRIC-Int 21	Levies

The adoption of these new and revised IFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

### 2. OPERATING SEGMENT INFORMATION

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

### 3. PROFIT BEFORE TAX

	Six-month period ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Audited) RMB'000
Breeding costs to produce	226,936	181,680
Production costs for raw milk	<u>68,429</u>	<u>52,987</u>
Cost of sales	<u>295,365</u>	<u>234,667</u>
Depreciation	28,259	24,877
Recognition of prepaid land lease payment	2,574	2,574
Foreign exchange differences, net	<u>(8,981)</u>	<u>647</u>

### 4. INCOME TAX

	Six-month period ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Audited) RMB'000
Tax charge for the period — Group:		
Current - Mainland China	<u>1,744</u>	<u>—</u>

### 5. INTERIM DIVIDEND

No dividend was paid or proposed by the Board during the Period (30 June 2013: nil).

### 6. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount for the Period is based on the profit for the period attributable to ordinary equity holders of the Company of RMB249,054,000 (30 June 2013: RMB99,594,000) and the weighted average number of ordinary shares in issue of 3,908,747,000 (30 June 2013: 2,320,000,000), on the assumption that the reorganisation and the capitalisation issue had been completed on 1 January 2013. The assumption adopted is same as the assumption in the Annual Report in note 12 dated 24 March 2014.

No adjustment has been made to the basic earnings per share amount for the Period (30 June 2013: nil) in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during that period.

## 7. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of RMB37,041,000. In addition, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB1,144,000 for cash proceeds of RMB1,323,000, resulting a gain on disposal of RMB179,000.

## 8. BIOLOGICAL ASSETS

### A Nature of activities

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

The quantity of dairy cows owned by the Group as at 30 June 2014 and 31 December 2013 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held as at 30 June 2014 and 31 December 2013 are dairy cows that have not had their first calves.

	<b>30 June 2014</b> <b>(Unaudited)</b> <i>Heads</i>	31 December 2013 <i>(Audited)</i> <i>Heads</i>
Dairy cows		
Milkable cows	<b>24,505</b>	21,544
Heifers and calves	<b>18,331</b>	18,852
	<hr/>	<hr/>
Total dairy cows	<b>42,836</b>	40,396
	<hr/> <hr/>	<hr/> <hr/>

In general, the heifers are inseminated with semen when they reached approximately 13 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 to 340 days before an approximately 55 day's resting 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 is not included as revenue.

### B Value of Dairy Cows

The value of dairy cows at the end of the period/year was:

	<b>30 June 2014</b> <b>(Unaudited)</b> <i>RMB'000</i>	31 December 2013 <i>(Audited)</i> <i>RMB'000</i>
Dairy cows	<b>1,188,643</b>	1,088,318
	<hr/> <hr/>	<hr/> <hr/>

	<b>Heifers and calves</b> <i>RMB'000</i>	<b>Milkable cows</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Balance as at 1 January 2013	325,713	615,907	941,620
Increase due to raising (feeding cost and others)	193,535	—	193,535
Transfer (out)/in	(131,032)	131,032	—
Decrease due to sales	(4,840)	(28,319)	(33,159)
Gain/(loss) arising from changes in fair value less costs to sell	<u>28,282</u>	<u>(41,960)</u>	<u>(13,678)</u>
Balance as at 31 December 2013 and 1 January 2014	411,658	676,660	1,088,318
Increase due to raising (feeding cost and others)	<b>111,574</b>	—	<b>111,574</b>
Transfer (out)/in	<b>(167,270)</b>	<b>167,270</b>	—
Decrease due to sales	<b>(3,044)</b>	<b>(16,867)</b>	<b>(19,911)</b>
Gain/(loss) arising from changes in fair value less costs to sell	<u><b>19,815</b></u>	<u><b>(11,153)</b></u>	<u><b>8,662</b></u>
<b>Balance as at 30 June 2014</b>	<u><b>372,733</b></u>	<u><b>815,910</b></u>	<u><b>1,188,643</b></u>

The fair values of the Group's dairy cows as at 30 June 2014 were estimated by using the same valuation techniques as adopted in the Annual Report in note 17 dated 24 March 2014.

### C Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's biological assets.

	<b>Fair value measurement using significant unobservable inputs (Level 3) <i>RMB'000</i></b>
As at 30 June 2014	<u><b>1,188,643</b></u>
As at 31 December 2013	<u><b>1,088,318</b></u>



Fair value of milk produced less costs to sell at the point of harvest is as follows:

	<b>Six-month period ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Audited)
	<b>RMB'000</b>	RMB'000
Fair value of milk produced less costs to sell	<u><b>545,727</b></u>	<u>375,881</u>

## **9. TRADE RECEIVABLES**

An aged analysis of the trade receivables as at the end of period/year, based on the invoice date and net of provisions, is as follows:

### **Group**

	<b>30 June 2014</b>	31 December 2013
	<b>(Unaudited)</b>	(Audited)
	<b>RMB'000</b>	RMB'000
Within one month	<b>95,844</b>	64,633
Over one month and within two months	<b>41,343</b>	—
Over two months	<u><b>5,817</b></u>	<u>—</u>
	<u><b>143,004</b></u>	<u>64,633</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. Trade receivables are non-interest-bearing.

## **10. AMOUNT DUE FROM/TO A BENEFICIAL OWNER OF A FORMER SHAREHOLDER**

During the Period, the amount due from/to a beneficial owner of a former shareholder was fully settled by cash.

## 11. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the period/year, based on the invoice date, is as follows:

### Group

	<b>30 June 2014</b> <b>(Unaudited)</b> <i>RMB'000</i>	31 December 2013 (Audited) <i>RMB'000</i>
Within 2 months	<b>161,571</b>	154,358
2 to 6 months	<b>72,286</b>	33,718
6 to 12 months	<b>33,132</b>	12,618
Over 1 year	<b>3,844</b>	11,397
	<b><u>270,833</u></b>	<b><u>212,091</u></b>

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

## 12. OTHER PAYABLES AND ACCRUALS

### Group

	<b>30 June 2014</b> <b>(Unaudited)</b> <i>RMB'000</i>	31 December 2013 (Audited) <i>RMB'000</i>
Deferred income	<b>12,160</b>	12,048
Other payables — construction	<b>43,143</b>	44,334
Other payables — equipment and materials	<b>12,836</b>	15,163
Amount due to Feihe Dairy Group ( <i>note a</i> )	<b>274,382</b>	379,852
Others	<b>85,239</b>	85,614
	<b>427,760</b>	537,011
Non-current portion ( <i>note a</i> )	<b><u>(94,447)</u></b>	<b><u>(185,829)</u></b>
Current portion	<b><u>333,313</u></b>	<b><u>351,182</u></b>

### Note:

- (a) On 28 and 29 September 2011, the Group acquired 100% interests in Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (“YST Heping”) and Ruixinda Gannan Ruixinda Dairy Farming Co. Ltd. (“Gannan Ruixinda”), respectively, from independent third parties, Heilongjiang Feihe Dairy Co., Ltd. (“Feihe Dairy HLJ”) and Mr. Ma Jinyan. YST Heping and Gannan Ruixinda are engaged in raw milk production. The acquisition was made as part of the Group’s strategy to expand its market share of dairy products in the PRC. The purchase consideration for the acquisition included a cash consideration of RMB114,520,000. The remaining purchase price of RMB691,244,000 is to be satisfied by the Group’s delivery to Feihe Dairy HLJ and its subsidiaries (collectively “Feihe Dairy Group”), in six quarterly instalments from 29 September 2011 to 29 March 2013, of raw milk with an aggregate value at amortised cost of RMB691,244,000 from YST Heping and Ruixinda Gannan to be settled by cash or delivery of milk at the option of the Group. On 25 April 2013, the Group further entered into a supplementary agreement with Feihe Dairy Group regarding the

repayment of the outstanding purchase consideration of RMB532,254,000. Pursuant to the supplementary agreement, the outstanding purchase consideration would be settled in eleven quarterly instalments of RMB48,387,000 per quarter from 1 April 2013 to 31 December 2015 by either cash or delivery of raw milk at the option of the Group. The extension of the repayment period gave rise to a gain of RMB48,786,000 in the profit or loss, being the adjustment in recalculating the carrying amount of the outstanding payable to Feihe Dairy Group by computing the present value of the re-estimated future cash flow at the original effective interest rate.

### 13. INTEREST-BEARING BANK BORROWINGS

During the Period, the Group obtained new bank borrowings amounting to RMB60,000,000. All borrowings are repayable within one year and carry fixed rates ranging from 6.0% to 7.2%. The proceeds were used for general working capital purposes.

### 14. CAPITAL COMMITMENTS

The Group had the following commitments at the end of the period/year:

	<b>30 June 2014</b> <b>(Unaudited)</b> <i>RMB'000</i>	31 December 2013 <b>(Audited)</b> <i>RMB'000</i>
Contracted but not provided for:		
— Construction in progress	<b>60,306</b>	54,316
— Property and equipment	<b>8,096</b>	8,096
	<b>68,402</b>	62,412

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Market Review**

In the first half of 2014, the PRC central government continued to promote a healthy and sustainable development of the milk industry and dairy products industry in the PRC through the implementation of a variety of policies. The accelerated urbanization, expansion of the middle class and easing measures on the “One Child Policy” are beneficial to the steady growth of consumption in dairy products in PRC. In addition, the Chinese government implemented a number of policies to support the development of large-scale farms at national and regional levels, including tax incentive and government subsidy for the reconstruction and expansion of standardized management of large-scale farms, which contributed to the transition from extensive farming to standardized large-scale farming.

### **Business Review**

In terms of herd size and production volume, the Group is one of the leading dairy farming companies in PRC. In the first half of 2014, benefited from the rising average price of high-quality raw milk and continuous expansion in overall herd size which led to the increase in production, the Group’s business recorded a significant growth. The total sales volume increased from 85,079 tons in the first half of 2013 to 105,640 tons, representing a strong growth of 24.2%, while total revenue rose to RMB556.0 million, an increase of 44.4% when compared with the corresponding period of last year (the first half of 2013: RMB385.1 million). As a result, the Group’s total gross profit increased by 73.2% from RMB150.5 million to RMB260.6 million in the first half of 2014.

We enjoy wide recognition for our large operating scale and the premium quality of raw milk. In May 2014, the Company was included in the MSCI China Index, indicating investors’ recognition of the Group as one of the leading suppliers of high-quality raw milk in PRC. Since the commencement of our business, we have established long-term relationships with PRC’s leading dairy manufacturers. In 2014, the Group’s top four customers were Feihe Dairy Group, Mengniu Group, Bright Dairy Group and Yili Group, of which two of the largest dairy products brands, Feihe Dairy Group and Mengniu Group, have been purchasing premium raw milk from the Group in producing high-end dairy products.

During the Period, we have been exploring the development of selenium-rich raw milk with certain research institutions in order to increase the value of our products and thus meet the users’ demand for raw milk with superior quality. We will further cooperate with the research institutions, and after satisfaction of relevant tests, the selenium-rich raw milk can be put into commercial production.

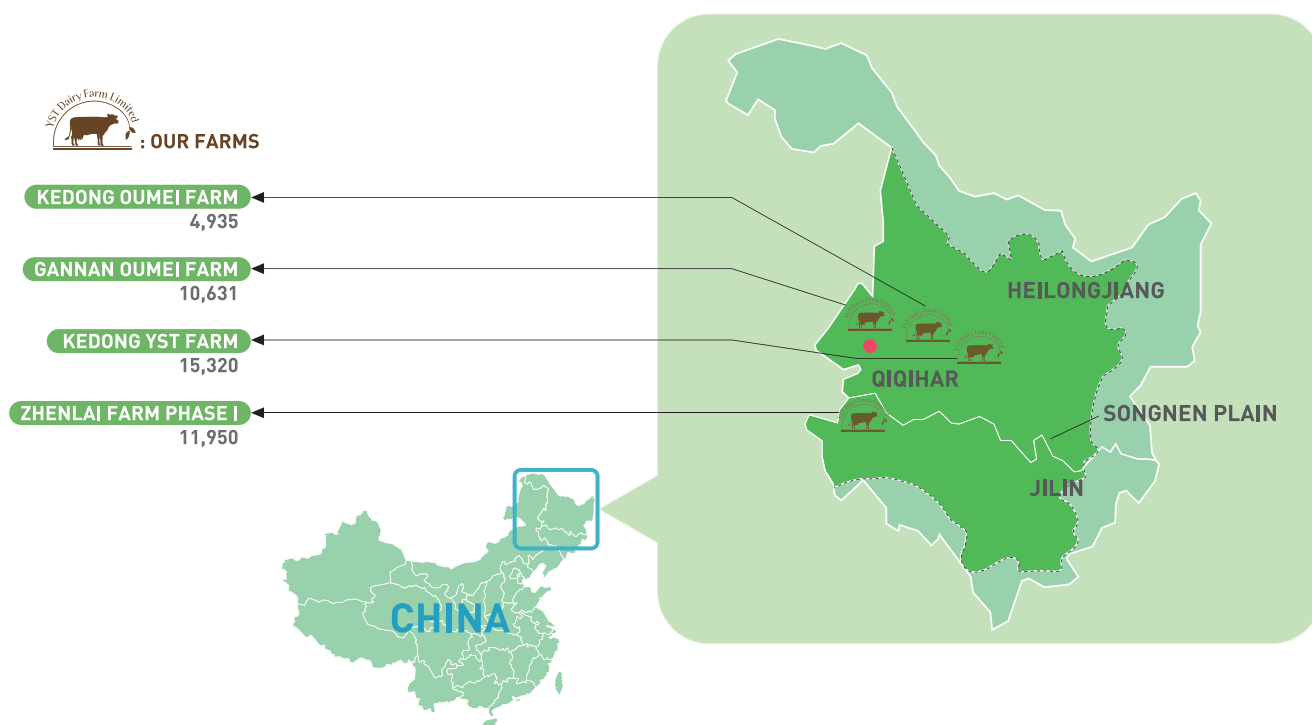
### *Construction of dairy farms*

As of 30 June 2014, we had three farms in Heilongjiang Province and one farm in Jilin Province, each having an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and total site area of the four farms amounted to 3,221,000 square meters. In addition, our Kedong Yongjin Farm, which will have an actual designed capacity of 12,000 dairy cows, is under construction and will be put into service in the fourth quarter of 2014. The construction of Baiquan Farm, which will have an actual designed capacity of 15,000 dairy cows, is scheduled to commence in the second half of 2014. It is expected to be in service in the fourth quarter of 2015.

It was disclosed in the annual report 2013 of the Company that the Group planned to construct two other farms (namely the Honghai Farm and Sifang Farm) in Heilongjiang province in 2014. After further research and studies on the geographical locations and soil quality of these proposed farms, the Directors consider that it will be more beneficial to the Group's production to construct two new farms in other locations which are in Heilongjiang province (and will not proceed with the establishment of the Honghai Farm and Sifang Farm). These two new farms will be named as the Keshan Farm and the Gannan Farm. The costs for constructing these two new farms are expected to be similar to those of the Honghai Farm and Sifang Farm.

Among these new farms under construction, we plan to establish some of them as organic dairy farms in the future.

	<b>Actual designed capacity (number of cows/head)</b>	<b>Site area (m<sup>2</sup>)</b>
Gannan Oumei Farm	12,000	986,333
Kedong Oumei Farm	6,000	384,000
Kedong YST Farm	18,000	784,000
Zhenlai Farm Phase I	<u>15,000</u>	<u>1,066,667</u>
Total	<u><u>51,000</u></u>	<u><u>3,221,000</u></u>



### *Milk yield*

During the Period, our average annual milk yield per cow was 9.38 tons, representing an increase of 4.2% when compared to 9.0 tons in 2013. We expect our average milk yield per cow will further increase with the maturity of our farms and a more balanced age group of herd.

### *Size of our herd*

Driven by the advanced management model of our farms, the number of dairy cows of our four dairy farms increased from 40,396 as of 31 December 2013 to 42,836 as of 30 June 2014. The total number of our milkable cows increased from 21,544 on 31 December 2013 to 24,505 on 30 June 2014. The increase of milkable cows enables the Group to produce more raw milk.

	<b>30 June 2014</b>	31 December 2013
Matured milkable cows	<b>24,505</b>	21,544
Heifers and calves	<b>18,331</b>	18,852
Total dairy cows	<b><u>42,836</u></b>	<u>40,396</u>

### *Price of raw milk*

Leveraging on our distinguished geographical advantage, we are capable of producing premium raw milk. The indicators of microbes, somatic cell, fat and protein contained in our raw milk stay ahead of the levels of the European Union and the Chinese industry. Due to the rising demand for high quality raw milk, as well as the superior quality of our raw milk, we are able to sell our raw milk at a price higher than the average sales price in the market. During the Period, our average sales price was RMB5,263 per ton, representing an increase of 16.2% comparing to the corresponding period of last year. In the past, we would consult with our customers about price increases to adjust the price of our raw milk in order to reflect the increase in feed costs, and we are able to pass part of the increased cost to our customers.

### **Outlook**

Looking ahead, the continuous rise in per capita income and consumption levels of residents in the PRC and their growing concerns about health will continue to increase demand for high quality raw milk. The strengthened regulations enforced by relevant regulatory authorities help to promote integration of the industry, and will also be beneficial to the growth of market share for enterprises producing high quality raw milk. Besides, with the Chinese government's easing measures on the "One Child Policy", the space for the development of dairy products industry will be further expanded, creating favorable opportunities for continuous growth of the Group.

With advanced herd management techniques, a large scale of herd, privileged geographic environment and favorable government support policies, the Group will further expand the business scale of its super large dairy farms. In addition to Kedong Yongjin Farm and Baiquan Farm, which are expected to be completed in the fourth quarter of 2014 and in the fourth quarter of 2015 respectively, we plan to build another three farms in the Songnen Plain in the next three years, with a view to replicating our business model of operating mega scale dairy farm. As scheduled, the Group will increase its total herd size to 100,000 by 2017. Fueled by the expansion of the Group's business scale, our milk production and sales volume are anticipated to experience further increase, while our operational efficiency will be improved and our management of dairy farms will be optimized. The Group's advantage in terms of economies of scale is expected to be consolidated as a result of these favourable developments.

We will explore opportunities to cooperate with overseas suppliers of dairy feed. We will continue to enhance our technologies of feeding, breeding and producing to improve production efficiency, and meanwhile, we will take efforts to expand our business to upstream business through long-term cooperation with local agricultural companies to diversify revenue sources, so as to further strengthen our position as China's leading dairy farming company. The Group will capture the opportunities in developing China's dairy products industry, especially the high-end raw milk industry, to maintain a stable long-term business growth. We are dedicated to becoming a national leading supplier of premium raw milk.

## Our Revenue

During the Period, our total sales of milk produced increased by 44.4% to RMB556.0 million as compared with RMB385.1 million in the first half year of 2013. The increase of the total sales was benefit from the increase in production of raw milk. The sales volume reached 105,640 tons, representing an increase of 20,561 tons or 24.2% as compared with 85,079 tons in the first half year of 2013. Our ability to raise the raw milk price also helped to further enhance our gross profit margin. The average selling price of raw milk price had grown from RMB4,527 per ton in the first half year of 2013 to RMB5,263 per ton in the Period. The increase in selling price reflected the high demand for premium milk from our customers.

## Cost of sales

Our cost of sales for the Period was RMB295.4 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2014 and 2013:

	<b>Six months ended 30 June 2014 RMB'000</b>	Six months ended 30 June 2013 RMB'000
Cost of sales		
Feed	<b>226,936</b>	181,680
Salary, welfare and social insurance	<b>13,637</b>	10,310
Depreciation	<b>18,708</b>	16,332
Veterinary cost	<b>10,203</b>	7,149
Utility	<b>10,891</b>	10,855
Other costs	<b>14,990</b>	8,341
	<b><u>295,365</u></b>	<u>234,667</u>
Cost of sales, total		

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB226.9 million and RMB181.7 million for the six months ended 30 June 2014 and 2013, respectively, representing 76.8% and 77.4% of the cost of sales for the respective six months ended 30 June 2014 and 2013. The increase in our feed costs was attributable to the increase in feed consumption for the Period as the number of our milkable cows grew.

## Gross Profit

Resulted from the factors discussed above, the gross profit increased to RMB260.6 million for the Period, (the same period in 2013: RMB150.5 million), representing an increase of 73.2%. Our gross profit margin also increased from 39.1% for the six months ended 30 June 2013 to 46.9% in the first half year of 2014.



## Other income

	<b>Six months ended 30 June 2014 RMB'000</b>	Six months ended 30 June 2013 RMB'000
Other income		
Government subsidies	7,936	7,565
Interest income from bank deposits	8,774	64
Sales of male calves	4,105	2,311
Foreign exchange differences, net	8,981	—
Others	1,709	78
	<u>31,505</u>	<u>10,018</u>
Other income, total	<u>31,505</u>	<u>10,018</u>

Other income for the six months ended 30 June 2014 and 2013 amounted to RMB31.5 million and RMB10.0 million, representing an increase of 214.5%, which was mainly attributable to the interest income from bank deposits and the foreign exchange differences.

## Selling and distribution expenses

All of the Group's selling and distribution expenses were transportation expenses of the Group's raw milk. Our selling and distribution costs was RMB10.3 million (the same period in 2013: RMB9.2 million), in line with the increase in sales volume in the first six months in 2014.

## Administrative expenses

The table below summarizes the components of our administrative expenses:

	<b>Six months ended 30 June 2014 RMB'000</b>	Six months ended 30 June 2013 RMB'000
Administrative expenses		
Salary and welfare	6,199	3,471
Amortization	2,604	2,563
Travel, meal and entertainment	2,798	1,565
Professional fee	3,486	—
Depreciation	159	239
Insurance	2,693	1,736
Listing expenses	—	14,364
Others	3,363	2,253
	<u>21,302</u>	<u>26,191</u>
Administrative expenses, total	<u>21,302</u>	<u>26,191</u>

We incurred administrative expenses of RMB21.3 million for the Period (for the first half of 2013: RMB26.2 million), representing a decrease of approximately 18.7% as compared to the same period of 2013.

### **Finance costs**

Our finance costs was RMB23.5 million for the Period (for the first half of 2013: RMB58.2 million).

### **Changes in fair value less cost to sell of biological assets**

Changes in fair value less cost to sell of biological assets recorded a gain of RMB8.7 million in the Period as compared to a loss of RMB16.5 million in the six months ended 30 June 2013. The difference was due to parameter changes.

### **Profit of the Group for the Period**

Taking into account all of the above factors and another factor that listing expenses were not incurred during the Period (while RMB14.4 million of listing expenses was recorded during the same period of last year), the Group's profit for the Period was RMB249.1 million, representing an increase of 150.1% as compared to RMB99.6 million for the period ended 30 June 2013. Basic earnings per share was approximately RMB6.8 cents for the Period (for the same period of 2013: RMB4.2 cents).

## LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group's net cash inflow from operating activities amounted to RMB236.0 million, as compared to RMB23.0 million in the first half of 2013.

	<b>Six months ended 30 June 2014 RMB'000</b>	Six months ended 30 June 2013 RMB'000
Bank borrowings	<b>260,000</b>	448,983
Other borrowings	—	—
Unsecured borrowings	—	—
Secured borrowings	<b>200,000</b>	21,803
Guaranteed borrowings	<b>60,000</b>	427,180
Carrying amount repayable		
Within one year	<b>260,000</b>	186,755
Between one to two years	—	106,238
Between two to five years	—	135,990
Over five years	—	20,000
Less: amount due within one year under current liability	<b><u>260,000</u></b>	<b><u>186,755</u></b>

As at 30 June 2014, the gearing ratio, being the ratio of total bank borrowings divided by total equity was 6.2% (30 June 2013: 39.3%).

The annual interest rate of the bank and other borrowings during the Period varied from 6.0% to 7.2% (for the same period in 2013: 6.0% to 7.2%). As at 30 June 2014, all borrowings were denominated in RMB.

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Period.

## SHARE OPTIONS

A share option scheme ("Scheme") was conditionally adopted by a resolution in writing passed by the then shareholders of the Company on 7 November 2013. Under the Scheme, the Directors may grant options to subscribe for shares of the Company to eligible participants, including without limitation employees of the Group, directors of the Company and its subsidiaries.

No share option was granted, exercised, cancelled or had lapsed under the Scheme during the Period. No share option was outstanding under the Scheme as at 30 June 2014.

## **CAPITAL STRUCTURE**

As at 30 June 2014, the Company's issued share capital was HK\$39,087,470 divided into 3,908,747,000 ordinary shares of HK\$0.01 each (30 June 2013: HK\$732.89 divided into 73,289 ordinary shares of HK\$0.01 each).

## **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 major maintenance and addition of equipment at its existing dairy farms.

As part of the Group's future strategies, the Group's planned capital expenditures 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 of the Company under the global offering as set out in the prospectus of the Company dated 14 November 2013 ("Prospectus").

There were no significant investments held as at 30 June 2014 nor there are other plans for material investments on capital assets as at the date of this announcement.

## **USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING**

The shares of the Company first became listed on the Main Board of the Stock Exchange on 26 November 2013. Gross proceeds raised from the global offering in such connection amounted to about HK\$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company) amounted to about HK\$2,564 million. As of 30 June 2014, such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which an aggregate of HK\$147.8 million on construction of new farms, and an aggregate of HK\$42.6 million on working capital and general corporate purpose. The remaining balance was kept in banks and approved financial institutions in Hong Kong and the PRC.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

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

## **PLEDGE OF ASSETS**

As at 30 June 2014, 40% of carrying value of buildings and equipment with carrying value of RMB533.5 million (30 June 2013: RMB13.3 million) were pledged as security for bank borrowings.

## **FOREIGN EXCHANGE EXPOSURE**

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

## **TREASURY POLICIES**

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients. To manage 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 30 June 2014 and 2013 were RMB68.4 million and RMB67.3 million, which were for construction of our new farms and renewal of existing facilities. The Group did not have any significant contingent liabilities as at 30 June 2014.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2014, the Group had approximately 1,100 employees (30 June 2013: 952 employees), all of whom are located in the PRC. The remuneration and staff cost for the Period were RMB19,836,000 (for the six months ended 30 June 2013: RMB13,739,000).

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 Company. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Company participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013.

The 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 Company reviews and determines the remuneration and compensation packages of the Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

## **PURCHASE, SALE OR REDEMPTION OF 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 its 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 shareholders. The Board considers, the Company complied with all the code provisions of the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Listing Rules.

## **COMPLIANCE WITH MODEL CODE**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules 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 confirmed that they had complied with the Model Code during the Period.

## **REVIEW BY AUDIT COMMITTEE**

The Company has established an audit committee ("Audit Committee") with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the three Independent Non-executive Directors, namely Mr. Wu Chi Keung (*committee chairman*), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. The Company's interim condensed consolidated results for the Period have been reviewed by the Audit Committee.

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

The results announcement is required to be published on the website of the Stock Exchange and the designated websites of the Company at [www.ystdfarm.com](http://www.ystdfarm.com) and [www.ystdiaryfarm.com](http://www.ystdiaryfarm.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.

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

Hong Kong, 21 August 2014

*As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhao Hongliang (Chairman), Mr. Wang Shaogang (Vice-chairman), Mr. Fu Wenguo (Chief Executive Officer) and Ms. Su Shiqin (Chief Financial Officer); two non-executive Directors, namely Mr. Sun Wei and Mr. Lau Ho Fung; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.*