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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 2014**

#### **FINANCIAL RESULTS**

The board (the “Board”) of directors of YuanShengTai Dairy Farm Limited (the “Company” or “YuanShengTai”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2014 (the “Year”) together with the comparative figures for the year ended 31 December 2013.

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

Year ended 31 December 2014

	<i>Notes</i>	<b>2014</b> <b>RMB'000</b>	2013 <b>RMB'000</b>
<b>REVENUE</b>	3	<b>1,162,890</b>	880,760
Cost of sales		<u>(631,871)</u>	<u>(505,835)</u>
Gross profit		<b>531,019</b>	374,925
Other income	3	<b>38,899</b>	28,162
Gain from non-interest-bearing financial arrangements		<b>4,994</b>	50,938
Listing expenses		—	(27,629)
Selling and distribution expenses		<b>(20,789)</b>	(19,248)
Administrative expenses		<b>(54,416)</b>	(40,200)
Finance costs	4	<b>(36,537)</b>	(135,151)
Changes in fair value less costs to sell of biological assets		<u>(43,020)</u>	<u>(13,678)</u>
<b>PROFIT BEFORE TAX</b>	5	<b>420,150</b>	218,119
Income tax expense	6	<u>(1,360)</u>	<u>(385)</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>418,790</u></b>	<b><u>217,734</u></b>
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>2,018</u>	<u>(4,878)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>420,808</u></b>	<b><u>212,856</u></b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY</b>			
Basic and diluted	8	<b><u>RMB10.71 cents</u></b>	<b><u>RMB8.79 cents</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	<i>Notes</i>	<b>2014</b> <b>RMB'000</b>	2013 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>1,814,369</b>	1,341,360
Prepaid land lease payments		<b>110,282</b>	112,599
Deposits for property, plant and equipment and biological assets	9	<b>144,298</b>	51,065
Biological assets		<b>1,229,107</b>	1,088,318
Amount due from a beneficial owner of a former shareholder		<u>—</u>	<u>55,618</u>
Total non-current assets		<u><b>3,298,056</b></u>	<u>2,648,960</u>
<b>CURRENT ASSETS</b>			
Inventories		<b>277,134</b>	200,877
Trade receivables	10	<b>168,712</b>	64,633
Prepayments and other receivables	9	<b>28,461</b>	22,295
Prepaid land lease payments		<b>5,612</b>	4,546
Cash and cash equivalents		<u><b>1,295,595</b></u>	<u>2,026,204</u>
Total current assets		<u><b>1,775,514</b></u>	<u>2,318,555</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>263,100</b>	212,091
Other payables and accruals	12	<b>396,514</b>	351,182
Amounts due to related companies		<b>27,767</b>	32,707
Interest-bearing bank borrowings		<u><b>50,000</b></u>	<u>220,000</u>
Total current liabilities		<u><b>737,381</b></u>	<u>815,980</u>
<b>NET CURRENT ASSETS</b>		<u><b>1,038,133</b></u>	<u>1,502,575</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>4,336,189</b></u>	<u>4,151,535</u>

	<i>Notes</i>	<b>2014</b> <b><i>RMB'000</i></b>	2013 <i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Other payables	<i>12</i>	—	185,829
Amount due to a beneficial owner of a former shareholder		<u>—</u>	<u>54,950</u>
Total non-current liabilities		<u>—</u>	<u>240,779</u>
Net assets		<u><b>4,336,189</b></u>	<u>3,910,756</u>
<b>EQUITY</b>			
Issued capital		<b>30,727</b>	30,727
Reserves		<u><b>4,305,462</b></u>	<u>3,880,029</u>
Total equity		<u><b>4,336,189</b></u>	<u>3,910,756</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1.1 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for biological assets and agricultural produce which have been measured at fair values less cost to sell. The financial statements are presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (the “functional currency”) and all values are rounded to the nearest thousand except when otherwise indicated.

### 1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 27	<i>Investment Entities</i>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to IAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to IAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>
Amendment to IFRS 2 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Definition of Vesting Condition<sup>1</sup></i>
Amendment to IFRS 3 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination<sup>1</sup></i>
Amendment to IFRS 13 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendment to IFRS 1 included in <i>Annual Improvements 2011–2013 Cycle</i>	<i>Meaning of Effective IFRSs</i>

<sup>1</sup> Effective from 1 July 2014

The adoption of the above revised standards and interpretation has had no significant financial effect on these 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.

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

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

All non-current assets were located in Mainland China.

Total segment assets and liabilities equal to the total assets and liabilities of the Group.

During the year, the Group made sales to customers, which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2014 and 2013 is as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Customer A	416,438	196,169
Customer B	28,246	277,714
Customer C	606,442	319,102
Others	<u>111,764</u>	<u>87,775</u>
	<u><u>1,162,890</u></u>	<u><u>880,760</u></u>

## 3. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of raw milk sold.

An analysis of revenue and other income is as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Revenue</b>		
Sales of raw milk	<u><u>1,162,890</u></u>	<u><u>880,760</u></u>
<b>Other income</b>		
Government subsidies	12,185	19,623
Interest income from bank deposits	16,707	247
Sales of male calves	9,305	4,945
Commission income	—	3,111
Others	<u>702</u>	<u>236</u>
	<u><u>38,899</u></u>	<u><u>28,162</u></u>

#### 4. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Interest on other financial liabilities	—	85,785
Imputed interest on non-interest-bearing financial arrangements	24,412	25,971
Interest on bank and other borrowings wholly repayable within five years	12,125	21,107
Interest on bank and other borrowings wholly repayable beyond five years	—	2,288
	<u>36,537</u>	<u>135,151</u>

#### 5. PROFIT BEFORE TAX

The Group's profit before tax from operations arrived at after charging:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Breeding costs to produce	485,615	394,866
Production costs for raw milk	<u>146,256</u>	<u>110,969</u>
Cost of sales	<u>631,871</u>	<u>505,835</u>
Depreciation	57,519	50,718
Recognition of prepaid land lease payments	5,427	5,148
Auditors' remuneration	2,970	3,282
Changes in fair value less costs to sell of biological assets	43,020	13,678
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	41,298	28,941
Equity-settled share option expense	4,625	—
Pension scheme contributions	<u>6,111</u>	<u>3,496</u>
	<u>52,034</u>	<u>32,437</u>
Foreign exchange differences, net	<u>1,901</u>	<u>4,088</u>

## 6. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2014 as the Group did not generate any assessable profits arising in Hong Kong during the year (2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued the Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, a uniform income tax rate of 25% has been imposed for both domestic and foreign-invested enterprises from 1 January 2008.

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Group:		
Current — Hong Kong	—	—
Current — Mainland China		
Charge for the year	—	385
Underprovision in prior year	<u>1,360</u>	<u>—</u>
Total tax charge for the year	<u><u>1,360</u></u>	<u><u>385</u></u>

## 7. DIVIDENDS

No dividend was paid or proposed during 2014, nor has any dividend been proposed since the end of the reporting period.

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

The calculation of the basic earnings per share amount for the year ended 31 December 2014 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB418,790,000 (2013: RMB217,734,000) and the weighted average number of ordinary shares in issue of 3,908,747,000 (2013: 2,476,698,334).

No adjustment has been made to the basic earnings per share amounts for the years ended 31 December 2014 and 2013 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.



## 9. PREPAYMENTS AND OTHER RECEIVABLES

### Group

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Prepayments	144,729	62,945
Other receivables	<u>28,030</u>	<u>10,415</u>
	172,759	73,360
Non-current portion	<u>(144,298)</u>	<u>(51,065)</u>
Current portion	<u><u>28,461</u></u>	<u><u>22,295</u></u>

## 10. TRADE RECEIVABLES

### Group

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade receivables	168,712	64,633
Impairment	<u>—</u>	<u>—</u>
	<u><u>168,712</u></u>	<u><u>64,633</u></u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month.

At the end of each reporting period, the aged analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

### Group

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within one month	165,351	64,633
Over one month and within two months	—	—
Over two months	<u>3,361</u>	<u>—</u>
	<u><u>168,712</u></u>	<u><u>64,633</u></u>

## 11. TRADE PAYABLES

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

### Group

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 2 months	162,208	154,358
2 to 6 months	70,371	33,718
6 to 12 months	13,229	12,618
Over 1 year	<u>17,292</u>	<u>11,397</u>
	<u><u>263,100</u></u>	<u><u>212,091</u></u>

## 12. OTHER PAYABLES AND ACCRUALS

### Group

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Deferred income	59,074	12,048
Other payables — construction	80,993	44,334
Other payables — equipment and materials	9,323	15,163
Others	<u>247,124</u>	<u>465,466</u>
	396,514	537,011
Non-current portion	<u>—</u>	<u>(185,829)</u>
Current portion	<u><u>396,514</u></u>	<u><u>351,182</u></u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Market Review**

In order to continue with the reform strategies carried out in 2013, the Chinese government introduced various policies successively in 2014, such as the re-examination of production permits for enterprises producing infant formulas, promotion of the project on merger, acquisition and reorganisation of enterprises in the infant formula industry and strengthening the management in importing milk powder with a view to driving the healthy and orderly development of China's milk and dairy industry in 2014. During the Year, as the domestic raw milk supply recorded stable growth and with the increase in imported raw milk, the price of raw milk receded in contrast with the continuous growth trend in 2013. However, YuanShengTai, leveraging on its advanced herd management techniques, a growing scale of herd and ultra-high quality raw milk, further consolidated and expanded the existing customer bases, thus, successfully realized a significant growth in revenue despite the adverse environment in the industry.

### **Business Review**

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in China. In 2014, benefitting from the increase in production volume of raw milk and average price, decrease in financing cost and the absence of listing fee for the Year comparing to 2013, the total revenue of the Group amounted to RMB1,162.9 million, representing an increase of approximately 32% comparing to the corresponding period in last year (2013: RMB880.8 million). The net profit increased substantially by approximately 92% to RMB418.8 million, comparing to 2013. The total sales volume of raw milk increased significantly by 25% from 183,702 tons in 2013 to 230,121 tons. The gross profit jumped 42% from RMB374.9 million to RMB531.0 million in 2014.

In May 2014, YuanShengTai was included as a constituent stock of the Morgan Stanley Capital International (MSCI) China Index, which shows the investors' acknowledgment of our Group as a leading premium raw milk supplier in China. Since its establishment, the Group had established long-term relationships with China's leading dairy manufacturers. In 2014, the top three customers of our Company are Feihe Dairy Group, Mengniu Group and Bright Dairy Group.

On 8 December 2014, shareholders of the Company passed a resolution by way of poll at the special general meeting to approve the continuing connected transactions contemplated under the Feihe Master Agreement and the revised annual caps relating thereto. Our Group believes that the increase in sales volume to Feihe Dairy Group will secure its future demand on our Group's raw milk and further improve the stability of our customer base, which is crucial to our Company's business development.

During the Year, in order to further increase the value of our product, satisfy customers' demand of high quality raw milk and improve the profitability of our business in the complicated economic environment, the Group has also been actively cooperating with certain research institutions in developing selenium-rich raw milk and the Group intend to further the cooperation with these research institutions. The selenium-rich raw milk must pass the relevant tests before commercial production takes place.

Our top four customers accounted for almost all of our revenue during the Year, and any decreases in our future sales to, or failure to make timely payments to us by, any of them could adversely affect our financial condition and results of operations.

- **Construction of Farms**

As at 31 December 2014, we had five farms in Heilongjiang Province and one farm in Jilin Province, each of the farms had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and total site area of the six farms amounted to approximately 4,929,000 square meters.

	<b>Actual Designed Capacity</b> <i>(Number of Cows/Head)</i>	<b>Site Area</b>  <i>(m<sup>2</sup>)</i>
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	15,000	1,066,667
Kedong Yongjin Farm	12,000	714,000
Baiquan Ruixincheng Farm	<u>15,000</u>	<u>994,000</u>
Total	<u><u>78,000</u></u>	<u><u>4,929,000</u></u>

	<b>Actual inventory of cows</b>
Gannan Oumei Farm	10,730
Kedong Oumei Farm	5,894
Kedong YST Farm	12,869
Zhenlai Farm Phase I	12,849
Kedong Yongjin Farm	2,281
Baiquan Ruixincheng Farm	<u>0</u>
Total	<u><u>44,623</u></u>

- ***Milk yield***

During the Year, the average annual milk yield per cow was 9.4 tons, increased by 4% comparing to 9.0 tons in 2013.

- ***Size of our herd***

Benefitting from our advance model of farm management, the number of dairy cows across four of our dairy farms increased from 40,396 as of 31 December 2013 to 44,623 as of 31 December 2014. Of which, the total number of our milkable cows increased from 21,544 as of 31 December 2013 to 26,005 as of 31 December 2014. The rise in number of our milkable cows allows the Group to sell more raw milk.

	<b>2014</b>	2013
Number of matured milkable cows	<b>26,005</b>	21,544
Number of heifers and calves	<b><u>18,618</u></b>	<u>18,852</u>
Total number of dairy cows	<b><u><u>44,623</u></u></b>	<u><u>40,396</u></u>

- ***Price of raw milk***

Leveraging on the Group's advance breeding, feeds, feeding management and herd management techniques and benefitting from the premium geographical locations of our farm, the Company has always been producing high-quality raw milk well trusted by customers and clients. The sales price of our raw milk is affected by a number of factors, including the quality of milk, diversity and composition of customers, seasonal factors, as well as the market prices and feed costs. Due to the rising demand for high-quality raw milk and the widely recognized premium quality of raw milk from YuanShengTai, our Group's raw milk could still command a price higher than the market average price despite the adverse environment in the industry. During the Year, the average selling price of raw milk was RMB5,053 per ton, representing an increase of 5% comparing to the corresponding period in 2013.

## **Outlook**

Currently, the average consumption of milk per capita of Chinese residents is far lower than the average level of the world. The Group believes that the further progress of China's industrialization and urbanization will have positive effect on the consumption structure and level of demand in second- and third-tier cities as well as third- and fourth-tier cities. Besides, the rising health awareness of urban residents would allow much room for development of the high-quality raw milk industry in China. Furthermore, since the progressive implementation of "selective Two-Child Policy", it is expected that the birth rate in China will grow steadily in the coming years. The rise in birth rate will give an extra boost to the demand for raw milk. All these factors are creating an excellent environment for YuanShengTai to further develop in 2015.

In the future, the Group will further expand the business scale of its super large dairy farms according to the established plan. Our Group plans to build two more farms in the Songnen Plain, which will replicate the super large dairy farms business model. We aim to attain a total herd size of 100,000 in 2017, thus enhancing the advantageous economies of scale of our Group.

Meanwhile, the Group will continue to seek for cooperation with overseas companies, to enhance our technologies of feeding, breeding and producing in order to improve production efficiency as well as expanding the size of upstream business, so as to diversify our source of income, further strengthen the Group's position as China's leading dairy farming company and continue our pursue to become the national leading premium quality raw milk supplier.

## **Our Revenue**

During the Year, our total sales of milk produced increased by 32% from RMB880.8 million in the last fiscal year to RMB1,162.9 million. The sales volume reached 230,121 tons, representing an increase of 46,419 tons or 25% as compared with 183,702 tons in 2013. The growth was primarily attributable to (i) the increase in herd size, and (ii) the increase in per cow annual yield average annual milk yield per cow. In addition, our average selling price of raw milk had grown from RMB4,795 per ton in the year 2013 to RMB5,053 per ton in 2014. The increase in selling price reflected the high demand for premium milk from our customers.

## **Cost of sales**

Our cost of sales for the Year was RMB631.9 million. The table below summarizes the components of our cost of sales by nature for the years 2013 and 2014:

	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Cost of sales		
Feed	<b>485,615</b>	394,866
Salary, welfare and social insurance	<b>30,324</b>	22,789
Depreciation	<b>38,580</b>	33,085
Veterinary cost	<b>22,552</b>	15,940
Utility	<b>21,717</b>	19,583
Other costs	<b>33,083</b>	19,572
	<b><u>631,871</u></b>	<u>505,835</u>
Cost of sales, total		

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB485.6 million and RMB394.9 million for the years ended 31 December 2014 and 2013, respectively, representing 76.9% and 78.1% of the cost of sales for the respective financial year ended 31 December 2014 and 2013. The increase in our feed costs was attributable to the increase in feed consumption in 2014 as the number of our milkable cows grew.

## Gross Profit

Given the above factors, the gross profit increased to RMB531.0 million for the Year, (2013: RMB374.9 million), representing an increase of 41.6% as compared to that of 2013. Our gross profit margin also increased from 42.6% in 2013 to 45.7% in 2014.

## Other Income

	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Other income		
Government subsidies	<b>12,185</b>	19,623
Interest income from bank deposits	<b>16,707</b>	247
Sales of male calves	<b>9,305</b>	4,945
Commission Income	—	3,111
Others	<b>702</b>	236
	<u>          </u>	<u>          </u>
Other income, total	<b><u>38,899</u></b>	<b><u>28,162</u></b>

Other income for the years ended 31 December 2014 and 2013 amounted to RMB38.9 million and RMB28.2 million, respectively representing a growth of 38.1%. The increase was primarily attributable to an increase in interest income from bank deposits, which was mainly due to the significant increase in the level of bank deposits due to the receipt of proceeds from the initial public offering.

## Listing expenses

For the Year, the Group incurred no listing expenses, compared to RMB27.6 million, which was attributable to the initial public offering (the “IPO”) of the Company in 2013.

## Selling and distribution expenses

All of our selling and distribution expenses were transportation expenses of our raw milk. Our selling and distribution costs was RMB20.8 million (2013: RMB19.2 million), reflecting the increase in sales volume in 2014.

## Administrative expenses

The table below summarizes the components of our administrative expenses:

	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Administrative expenses		
Salary and welfare	<b>21,711</b>	10,596
Amortization	<b>5,224</b>	5,189
Travel, meal and entertainment	<b>10,267</b>	9,501
Professional fee	<b>4,437</b>	3,793
Depreciation	<b>338</b>	237
Insurance	<b>3,502</b>	3,020
Others	<b>8,937</b>	7,864
	<b><u>54,416</u></b>	<u>40,200</u>
Administrative expenses, total	<b><u>54,416</u></b>	<u>40,200</u>

We incurred administrative expenses of RMB54.4 million for the Year (2013: RMB40.2 million) representing an increase of approximately 35.3% compared to 2013. During the Year, the Group increased salary and welfare to strengthen our mid-level management and to provide competitive salaries to our staff.

## Finance costs

Our finance costs substantially decreased to RMB36.5 million for the Year (2013: RMB135.2 million). The decrease was primarily due to the fact that the Group did not incur any interest on other financial liabilities.

Each of the Pre-IPO Investors (as defined in the prospectus of the Company dated 14 November 2013 (the “Prospectus”), namely Ares YST Holdings, L.P., Oversea-Chinese Banking Corporation Limited and Key Network Investment Limited) was granted a put option that contained an obligation for the Company to repurchase or purchase its own shares. Therefore, the present value of such instrument was accounted for financial liabilities. The interests calculated by reference to the agreed rate of return, being an internal rate of return of 20% on the subscription price paid by the Pre-IPO Investors, were then recognized in profits and losses. Interests on other financial liabilities arising from the Pre-IPO Investments was RMB85.8 million for 2013. Upon the listing of the shares of the Company on the Main Board of the Stock Exchange, the put option lapses and the present value accounted for financial liabilities at that date was reclassified to the equity of the Group. Please refer to “History, Development and Reorganization — Pre-IPO Investments” on page 127 of the Prospectus for more details.



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

Changes in fair value less cost to sell of biological assets was a loss of RMB43.0 million in 2014 as compared to a loss of RMB13.7 million in 2013. The difference was due to parameter changes.

## Profit for the Year of the Group

Taking into account all of the above factors, the Group's profit was RMB418.8 million for the Year. This represents an increase of 92.3% from RMB217.7 million for the year ended 31 December 2013. Basic earnings per share was approximately RMB10.71 cents (2013: RMB8.79 cents).

## LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB171.6 million, as compared to RMB76.6 million in 2013.

	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Bank borrowings	<b>50,000</b>	220,000
Other borrowings	—	—
Unsecured borrowings	—	
Secured borrowings	<b>50,000</b>	220,000
Guaranteed borrowings	—	—
Carrying amount repayable		
Within one year	<b>50,000</b>	220,000
Between one to two years	—	—
Between two to five years	—	—
Over five years	—	—
Less: amount due within one year shown under current liability	<b><u>(50,000)</u></b>	<b><u>(220,000)</u></b>

As at 31 December 2014, the gearing ratio, being the ratio of total bank borrowings divided by total equity was 1.2% (2013: 5.6%).

The annual interest rate of the bank and other borrowings during the Year was 6% (2013: 6%–7.2%). As at 31 December 2014, all borrowings were denominated in RMB.

## CAPITAL STRUCTURE

As at 31 December 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 (the "Shares") (2013: HK\$39,087,470 divided into 3,908,747,000 Shares).

## **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 for its existing dairy farms.

As part of the Group's future strategy, 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 unutilised net proceeds from the issue of new Shares under the global offering as set out in the Prospectus.

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2014 nor there are other plans for material investments on capital assets as at the date of this report.

## **USE OF PROCEEDS FROM THE IPO**

The Shares first became listed on 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. Up to 31 December 2014, about HK\$1,146.4 million of such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which as to HK\$890.0 million on construction of new farms, and as to HK\$256.4 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 Year, the Group did not have any material acquisitions and disposals of subsidiaries.

## **PLEDGE OF ASSETS**

As at 31 December 2014, no property, plant and equipment of the group were pledged as security for bank borrowings.

## **FOREIGN EXCHANGE EXPOSURE**

Certain assets of the Group are denominated in foreign currencies such as the U.S. dollar and Hong Kong dollars. 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 31 December 2014 and 2013 were RMB209.0 million and RMB62.4 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 2014.

## **FINAL DIVIDEND**

The Board does not recommend the payment of any final dividend in respect of the Year (2013: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2014, the Group had approximately 1,290 employees (2013: 1,000 employees), all of whom are 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 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 of the Company (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.

A share option scheme was adopted by the Company on 7 November 2013 (the "Share Option Scheme") for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. Share options comprising a total of 49,650,000 underlying Shares were granted under the Share Option Scheme to the Directors and members of the Group's senior management (including a director of certain subsidiaries of the Company) on 22 August 2014.

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

#### **EVENT AFTER REPORTING PERIOD**

The Group does not have any material subsequent event after the reporting period and up to the date of this announcement.

#### **PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES**

During the Year, 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.

#### **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 that the Company complied with all the code provisions of the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Year.

#### **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 Year.

#### **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 Audit Committee has reviewed with the Company's management team the Company's annual consolidated results for the Year.

## **PUBLICATION OF INFORMATION ON DESIGNATED WEBSITES**

The results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.ystdfarm.com](http://www.ystdfarm.com) and [www.ystdairyfarm.com](http://www.ystdairyfarm.com)), respectively. The annual report of the Company for the Year will be dispatched to the shareholders of the Company and published on the same websites in due course.

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

Hong Kong, 20 March 2015

*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.*