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## **YuanShengTai Dairy Farm Limited**

**原生態牧業有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1431)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015**

#### **INTERIM RESULTS**

The board (the “Board”) of directors (the “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 2015 (the “Period”) together with selected explanatory notes and the relevant comparative figures.

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

		<b>Six-month period ended 30 June</b>	
	<i>Notes</i>	<b>2015</b>	<b>2014</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>RMB'000</b>	<b>RMB'000</b>
<b>REVENUE</b>		<b>541,699</b>	556,006
Cost of sales		<u>(336,194)</u>	<u>(295,365)</u>
Gross profit		<b>205,505</b>	260,641
Other income		<b>14,086</b>	31,505
Gain from a non-interest-bearing financial arrangement		—	5,051
Selling and distribution expenses		<b>(9,610)</b>	(10,279)
Administrative expenses		<b>(45,175)</b>	(21,302)
Finance costs		<b>(6,862)</b>	(23,480)
Changes in fair value less costs to sell of biological assets	8	<u>(145,946)</u>	<u>8,662</u>
<b>PROFIT BEFORE TAX</b>	3	<b>11,998</b>	250,798
Income tax expense	4	<u>(1,060)</u>	<u>(1,744)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>10,938</b></u>	<u>249,054</u>
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(247)</u>	<u>17,944</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u><b>10,691</b></u>	<u>266,998</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and diluted	6	<u><b>RMB0.3 cent</b></u>	<u>RMB6.4 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	1,849,250	1,814,369
Prepaid land lease payments		107,313	110,282
Deposits for property, plant and equipment and biological assets		153,778	144,298
Biological assets	8	1,247,050	1,229,107
Total non-current assets		3,357,391	3,298,056
<b>CURRENT ASSETS</b>			
Inventories		230,275	277,134
Trade receivables	9	251,105	168,712
Prepayments and other receivables		29,573	28,461
Prepaid land lease payments		5,770	5,612
Cash and cash equivalents		1,080,782	1,295,595
Total current assets		1,597,505	1,775,514
<b>CURRENT LIABILITIES</b>			
Trade payables	10	199,440	263,100
Other payables and accruals	11	352,123	396,514
Amounts due to related companies		—	27,767
Interest-bearing bank borrowing	12	50,000	50,000
Total current liabilities		601,563	737,381
<b>NET CURRENT ASSETS</b>		<b>995,942</b>	<b>1,038,133</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,353,333</b>	<b>4,336,189</b>
Net assets		<b>4,353,333</b>	<b>4,336,189</b>

	<i>Notes</i>	<b>30 June 2015 (Unaudited) RMB'000</b>	31 December 2014 (Audited) RMB'000
<b>EQUITY</b>			
Issued capital		30,727	30,727
Reserves		<u>4,322,606</u>	<u>4,305,462</u>
Total equity		<u><u>4,353,333</u></u>	<u><u>4,336,189</u></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 (the “Listing Rules”) and International Accounting Standard 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 2014, 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.

Amendments to IAS 19

*Defined Benefit Plans: Employee Contributions*

*Annual Improvements 2010–2012 Cycle*

Amendments to a number of IFRSs

*Annual Improvements 2011–2013 Cycle*

Amendments to a number of IFRSs

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.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap 622) during the current period. The main impact to the financial statements is on the presentation and disclosure of certain information in the 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	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Breeding costs to produce	260,596	226,936
Production costs for raw milk	<u>75,598</u>	<u>68,429</u>
Cost of sales	<u><b>336,194</b></u>	<u><b>295,365</b></u>
Depreciation	30,159	28,259
Recognition of prepaid land lease payment	3,126	2,574
Write-down of inventories to net realisable value	12,394	—
Foreign exchange differences, net	<u><b>(2,330)</b></u>	<u><b>(8,981)</b></u>

### 4. INCOME TAX

	Six-month period ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Tax charge for the period — Group: Current — Mainland China	<u><b>1,060</b></u>	<u><b>1,744</b></u>

### 5. INTERIM DIVIDEND

No dividend was paid or proposed by the Company during the six-month periods ended 30 June 2015 and 2014.

### 6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS 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 RMB10,938,000 (30 June 2014: RMB249,054,000) and the weighted average number of ordinary shares in issue of 3,908,747,000 (30 June 2014: 3,908,747,000).

No adjustment has been made to the basic earnings per share amount for the Period (30 June 2014: nil) in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during this Period.

### 7. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of RMB65,078,000. In addition, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB38,000, resulting a loss on disposal of RMB38,000.

## 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 2015 and 31 December 2014 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 30 June 2015 and 31 December 2014 are dairy cows that have not had their first calves.

	<b>30 June 2015 (Unaudited) Heads</b>	31 December 2014 (Audited) Heads
Dairy cows		
Milkable cows	<b>26,255</b>	26,005
Heifers and calves	<u><b>22,715</b></u>	<u>18,618</u>
Total dairy cows	<u><b>48,970</b></u>	<u>44,623</u>

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 days' 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 are 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 2015 (Unaudited)</b>	31 December 2014 (Audited)
Dairy cows	<u><b>1,247,050</b></u>	<u>1,229,107</u>

	<b>Heifers and calves</b>	<b>Milkable cows</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as at 1 January 2014	411,658	676,660	1,088,318
Increase due to raising (feeding cost and others)	222,933	—	222,933
Transfer (out)/in	(319,635)	319,635	—
Decrease due to sales	(4,448)	(34,676)	(39,124)
Gain/(loss) arising from changes in fair value less costs to sell	<u>49,629</u>	<u>(92,649)</u>	<u>(43,020)</u>
Balance as at 31 December 2014 and 1 January 2015	360,137	868,970	1,229,107
Increase due to raising (feeding cost and others)	120,364	—	120,364
Increase due to purchase	82,004	—	82,004
Transfer (out)/in	(149,533)	149,533	—
Decrease due to sales	(4,032)	(34,447)	(38,479)
Gain/(loss) arising from changes in fair value less costs to sell	<u>16,630</u>	<u>(162,576)</u>	<u>(145,946)</u>
Balance as at 30 June 2015	<u><u>425,570</u></u>	<u><u>821,480</u></u>	<u><u>1,247,050</u></u>

The fair values of the Group's dairy cows as at 30 June 2015 were estimated by using the same valuation techniques as stated in note 17 in the annual report of the Company for the year ended 31 December 2014 dated 20 March 2015.

### **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 2015	<u><u>1,247,050</u></u>
As at 31 December 2014	<u><u>1,229,107</u></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>2015</b>	2014
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Fair value of milk produced less costs to sell	<u><b>532,089</b></u>	<u>545,727</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:

	<b>30 June 2015</b>	31 December 2014
	<b>(Unaudited)</b>	(Audited)
	<b>RMB'000</b>	RMB'000
Within one month	<b>107,246</b>	165,351
One month to two months	<b>35,306</b>	—
Over two months	<u><b>108,553</b></u>	<u>3,361</u>
	<u><b>251,105</b></u>	<u>168,712</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. 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:

	<b>30 June 2015</b>	31 December 2014
	<b>(Unaudited)</b>	(Audited)
	<b>RMB'000</b>	RMB'000
Within 2 months	<b>120,852</b>	162,208
2 to 6 months	<b>57,247</b>	70,371
6 to 12 months	<b>14,135</b>	13,229
Over 1 year	<u><b>7,206</b></u>	<u>17,292</u>
	<u><b>199,440</b></u>	<u>263,100</u>

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

## 11. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2015 (Unaudited) RMB'000</b>	31 December 2014 (Audited) RMB'000
Deferred income	59,033	9,074
Other payables — construction	83,931	80,993
Other payables — equipment and materials	20,612	9,323
Amount due to Feihe Dairy Group ( <i>note</i> )	94,447	185,876
Others	<u>94,100</u>	<u>111,248</u>
	<u><b>352,123</b></u>	<u><b>396,514</b></u>

*Note:* On 28 and 29 September 2011, the Group acquired 100% interests in Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (“YST Heping”) and Heilongjiang 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 People’s Republic of China (“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 Gannan Ruixinda 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.

## 12. INTEREST-BEARING BANK BORROWING

During the Period, there was no new bank borrowing obtained (31 December 2014: RMB50,000,000) The balance is repayable within one year and carries a fixed rate of 6.0%. (31 December 2014: 6.0%).

### 13. CAPITAL COMMITMENTS

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

	<b>30 June 2015 (Unaudited) RMB'000</b>	31 December 2014 (Audited) RMB'000
Contracted but not provided for:		
— Construction in progress	226,892	203,808
— Property and equipment	<u>5,160</u>	<u>5,143</u>
	<u><b>232,052</b></u>	<u><b>208,951</b></u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

For the first half of 2015, China's milk industry encountered severe challenges — the volume of imported milk powder kept increasing; certain domestic dairy enterprises have resorted to overseas dairy farms for future cooperation through, for instance, mergers and acquisition with such overseas dairy farms. All these had led to the shift in raw milk procurement demand to overseas dairy market. The imbalance between supply and demand in the domestic raw milk market became more acute, leading to the further decrease in the price of domestic raw milk. Considering the above and in order to stabilize the market and promote the long-run development of the industry, the Ministry of Agriculture of the PRC promulgated “An Urgent Circular on Coordinating and Handling Difficulty in Selling Milk to Stabilize the Production of Dairy Industry” (《關於協調處理賣奶難穩定奶業生產的緊急通知》) on 7 January 2015, indicating PRC government's awareness in the matter. On the other hand, as numerous small-scale farms and individual dairy farmers left the market, the entire industry has transformed, under a stricter regulatory environment, from open-range rearing to standardized and brand-oriented intensive rearing, thus benefiting the existing sizable dairy farms. The importance of scientific feeding for milk cows, scientific layout of dairy farms, construction of environmental facilities as well as healthy development of cattle has attracted the industry's attention.

### Business Review

In terms of herd size and production volume, YuanShengTai Dairy Farm is one of the leading dairy farming companies in China. Supported by the increase in production volume of raw milk, the sales of raw milk for the Period went up by 11.6% from 105,604 tons to 117,831 tons. The total revenue of the Group for the Period amounted to RMB541.7 million, representing a slight drop as compared to the same period in last year (for the first half of 2014: RMB556.0 million). Due to the further decrease in the price of domestic raw milk, the gross profit for the Period dropped by 21.1% from RMB260.6 million to RMB205.5 million and the net profit for the Period declined by 95.6% to RMB10.9 million as compared to the first half of 2014.

Since its establishment, the Group had established and maintained long-term relationships with China's leading dairy manufacturers. During the first half of 2015, the top three customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group.

Taking into account the perishability of raw milk, the Group had been exploring feasible ways to preserve raw milk products, including, among other things, the possibility of converting surplus raw milk to milk powder. As disclosed in the announcement dated 22 June 2015 of the Company (“June Announcement”), Kedong Ruixinda Commercial Trade Co., Ltd.\*, an indirect subsidiary of the Company, entered into a Processing Framework Agreement (as defined in the June Announcement) with Heilongjiang Feihe Daily Co., Ltd.\* (“Feihe Dairy HLJ”), pursuant to which, Feihe Dairy HLJ agreed to process the Group's raw milk into milk powder at a processing fee of RMB4,400 per ton of milk powder. This will better allocate the Group's production capacity and enable the Group to convert its surplus raw milk into milk powder to extend the shelf-life of the Group's raw milk for immediate sale and/or storage for sales in the future, which allows the Group to increase revenue. For further information, please refer to the Company's June Announcement published by the Company.

Apart from that, in the context of a sluggish demand of the market, the Group has refined its cattle mix and improved feed nutrients, with an aim to lifting profits by lowering production costs.

In order to further increase the value of our products and satisfy customers' demand for high quality raw milk, the Group has continued to cooperate with certain research institutions in developing selenium-rich raw milk. The Group will further cooperate with these research institutions, and after satisfying the relevant tests, the selenium-rich raw milk may be put into commercial production.

### ***Construction of Farms***

As at 30 June 2015, 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 the total site area of the six farms amounted to approximately 4,929,000 square metres. The Group also intended to construct two new farms, namely the Keshan Farm and the Gannan Farm, instead of the Honghai Farm and the Sifang Farm as originally planned. The estimated costs for constructing these two new farms will be similar to those of the Honghai Farm and the Sifang Farm.

	<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	15,000	1,066,667
Kedong Yongjin Farm	12,000	714,000
Baiquan Ruixincheng Farm	15,000	994,000
	<u>78,000</u>	<u>4,929,000</u>
<b>Total</b>	<b><u>78,000</u></b>	<b><u>4,929,000</u></b>
		<b>Actual inventory of cows</b>
Gannan Oumei Farm		10,726
Kedong Oumei Farm		6,123
Kedong YST Farm		11,308
Zhenlai Farm Phase I		13,414
Kedong Yongjin Farm		7,399
Baiquan Ruixincheng Farm ( <i>Note</i> )		—
		<u>48,970</u>
<b>Total</b>		<b><u>48,970</u></b>

*Note:* As disclosed in the Company's annual report for the year ended 31 December 2014, the Baiquan Ruixincheng Farm is under construction and is expected to commence operation in the fourth quarter of 2015.

### *Milk yield*

During the Period, the average annual milk yield per cow was 9.61 tons, representing an increase of 2.5% when compared to 9.38 tons of the corresponding period in 2014. The Group expects that the average milk yield per cow will further increase with the development of 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 the Group's six dairy farms increased from 44,623 as of 31 December 2014 to 48,970 as of 30 June 2015. The total number of our milkable cows increased from 26,005 as of 31 December 2014 to 26,255 as of 30 June 2015. The increase of milkable cows enables stable growth in raw milk production of the Group.

	<b>30 June 2015</b>	<b>31 December 2014</b>
Number of matured milkable cows	<b>26,255</b>	26,005
Number of heifers and calves	<b>22,715</b>	<u>18,618</u>
Total number of dairy cows	<b>48,970</b>	<u>44,623</u>

### *Price of raw milk*

The selling price of our raw milk is affected by a number of factors, including the quality of milk, diversity and composition of customers, seasonal factors, market circumstances as well as the market prices and feed costs. The price of domestic raw milk continues to fall due to the further increase of milk powder imports. During the Period, despite the adverse environment in the industry, the Group still manages to sell raw milk at a price higher than the market average price. The average selling price of our raw milk was RMB4,597 per ton, representing a decrease of approximately 12.5% comparing to the corresponding period in 2014.

### **Outlook**

With the continuous development and urbanization in China, the Group believes that, the domestic market, especially the regional market in Central and Western China, has great consumption potential. The rapid growth of disposable income per capita would result in higher consumer demand for high quality dairy products. With growing health awareness, there is much room for development of the raw milk market, especially that of high-end raw milk, in China. Furthermore, as the "Two-child Fertility Policy" is gradually moving forward, it is expected that the demand for raw milk in the dairy industry will be boosted by the rise in birth rate in China, which in turn creates favorable environment for continuous development of the Group.

In the future, the Group will further expand the business scale of its super large dairy farms according to the established plan. The Group plans to build two more farms in the Songnen Plain, which will replicate the super large dairy farms business model (excluding new dairy farms for education and tourism purpose). We aim to attain a total herd size of 100,000 in 2017, thus enhancing the advantageous economies of scale of the Group.

The management of the Group will remain committed to seeking new customers for the expected higher milk yield over the months ahead in 2015. Meanwhile, the Group will continue to enhance our technologies of feeding, breeding and producing in order to improve production efficiency, and expand into the 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 pursuit of becoming a leading national premium quality raw milk supplier.

### Our Revenue

During the Period, our total sales of milk produced decreased by 2.6% to RMB541.7 million as compared with RMB556.0 million in the first half year of 2014. The decrease of total sales was mainly due to decrease in the price of domestic raw milk. The average selling price of our raw milk dropped to RMB4,597 per ton compared with RMB5,260 per ton in the first half year of 2014, representing a 12.6% decrease. The sales volume reached 117,831 tons, representing an increase of 12,227 tons or 11.6% as compared with 105,604 tons in the first half year of 2014.

### Cost of Sales

Our cost of sales for the Period was RMB336.2 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2015 and 2014:

	<b>Six-month period ended 30 June 2015 RMB'000</b>	Six-month period ended 30 June 2014 RMB'000
Cost of sales		
Feed	<b>260,596</b>	226,936
Salary, welfare and social insurance	<b>18,335</b>	13,637
Depreciation	<b>19,903</b>	18,708
Veterinary cost	<b>10,622</b>	10,203
Utility	<b>11,213</b>	10,891
Other cost	<b>15,525</b>	14,990
	<b><u>336,194</u></b>	<u>295,365</u>
Cost of sales, total	<b><u>336,194</u></b>	<u>295,365</u>

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB260.6 million and RMB226.9 million for the six-month periods ended 30 June 2015 and 2014, respectively, representing 77.5% and 76.8% of the cost of sales for the respective six-month period ended 30 June 2015 and 2014. 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 factors discussed above, the gross profit decreased to RMB205.5 million for the Period, (the same period in 2014: RMB260.6 million), representing a decrease of 21.1%. Our gross profit margin decreased from 46.9% for the six-month period ended 30 June 2014 to 37.9% in the first half year of 2015.

### Other Income

	<b>Six-month period ended 30 June 2015 RMB'000</b>	Six-month period ended 30 June 2014 RMB'000
Other income		
Government subsidies	<b>296</b>	7,936
Interest income from bank deposit	<b>4,837</b>	8,774
Sales of male calves	<b>6,303</b>	4,105
Foreign exchange differences, net	<b>2,330</b>	8,981
Other	<b>320</b>	1,709
	<hr/>	<hr/>
Other income, total	<b><u>14,086</u></b>	<b><u>31,505</u></b>

Other income for the six-month periods ended 30 June 2015 and 2014 amounted to RMB14.1 million and RMB31.5 million, representing a decrease of 55.3%, which was mainly attributable to decrease in government subsidies, interest income from bank deposit 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 were RMB9.6 million (the same period in 2014: RMB10.3 million). Decrease was mainly due to that most of the sales in the Period were made to customers located close to our farms.



## Administrative Expenses

The table below summarizes the components of our administrative expenses:

	<b>Six-month period ended 30 June 2015 RMB'000</b>	Six-month period ended 30 June 2014 RMB'000
Administrative expenses		
Salaries and welfare	<b>15,268</b>	6,199
Amortization	<b>2,630</b>	2,604
Travel, meal and entertainment	<b>2,349</b>	2,798
Professional fee	<b>3,959</b>	3,486
Depreciation	<b>192</b>	159
Insurance	<b>3,577</b>	2,693
Write-down of inventories	<b>12,394</b>	—
Other expenses	<b>4,806</b>	3,363
	<b>45,175</b>	21,302
Administrative expenses, total	<b>45,175</b>	21,302

We incurred administrative expenses of RMB45.2 million for the Period (for the first half of 2014: RMB21.3 million), representing an increase of approximately 112.1% as compared to the same period of 2014. Increase was mainly attributable to write-down of inventories occurred in the Period and increase in salaries and welfare.

## Finance costs

Our finance costs were RMB6.9 million for the Period (for the first half of 2014: RMB23.5 million)

## Profit of the Group for the Period

Taking into account all the above factors and another factor that a loss on changes in fair value less cost to sell of biological assets of RMB145.9 million was incurred in the Period (for the first half year of 2014: gain of RMB8.7 million), the Group's profit for the Period was RMB10.9 million, representing a decrease of 95.6% as compared to RMB249.1 million for the period ended 30 June 2014. Basic earnings per share were approximately RMB0.3 cents for the Period (for the same period of 2014: RMB6.4 cents).

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Period (30 June 2014: nil).

## SHARE OPTION SCHEME

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. Share options comprising a total of 49,650,000 ordinary shares of HK\$0.01 each in the share capital of the Company were granted under the Scheme to, among others, the Directors and members of the Group’s senior management (including a director of certain subsidiaries of the Company) on 22 August 2014. No share option was granted, exercised, cancelled or lapsed under the Scheme during the Period.

## LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group’s net cash inflow from operating activities amounted to RMB10.3 million, as compared to RMB171.6 million for the year of 2014.

	<b>At 30 June 2015 RMB’000</b>	At 31 December 2014 RMB’000
Unsecured bank borrowing repayable with in one year	<b>50,000</b>	50,000

As at 30 June 2015, the gearing ratio, being the ratio of total bank borrowings divided by total equity was 1.1% (31 December 2014: 1.2%).

The annual interest rate of the bank and other borrowings during the Period was 6.0% (for the year of 2014: 6.0% to 7.2%). As at 30 June 2015, all borrowings were denominated in RMB.

## CAPITAL STRUCTURE

As at 30 June 2015, 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 Company did not issue any new shares during the Period.

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

During the Period, the principal capital expenditures of the Group were mainly related to addition of equipment for the Group’s new 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").

## **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 2015, such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which an aggregate of HK\$1,063.8 million on construction of new farms, an aggregate of HK\$256.4 million on working capital and general corporate purpose, and an aggregate of HK\$9.4 million on development of upstream operations. The remaining balance was kept in banks and approved financial institutions in Hong Kong and the PRC.

## **MATERIAL ACQUISITION 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 2015, no property, plant and equipment of the Group (31 December 2014: nil) 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 2015 were RMB232.1 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 2015.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2015, the Group had approximately 1,303 employees (31 December 2014: approximately 1,290 employees), all of whom are located in the PRC. The remuneration and staff cost for the Period were RMB33.6 million (for the six-month period ended 30 June 2014: RMB19.8 million).

The salaries of the Group's employees largely depend on their type and level of work as well as their length of service with the 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 recommends to the Board for consideration and approval of the remuneration and compensation packages of the Directors and senior management by reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

## **EVENT AFTER REPORTING PERIOD**

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

## **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 such shares during the Period.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of shareholders. The Board considers that the Company had complied with all the code provisions of the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Listing Rules during the Period.

## **COMPLIANCE WITH THE MODEL CODE**

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

## **REVIEW BY AUDIT COMMITTEE**

The Company has established an audit committee (the "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 unaudited condensed consolidated interim results for the Period have been reviewed by the Audit Committee.

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

The results announcement is required to be 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 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 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.*

\* *for identification purposes only*