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 2018

FINANCIAL RESULTS

The board of directors (the "**Directors**" and the "**Board**", respectively) of YuanShengTai Dairy Farm Limited (the "**Company**" or "**YuanShengTai**") announces the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Year**") together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*3*	**1,099,547**	1,014,128
Cost of sales		**(846,920)**	(760,867)
Gross profit		**252,627**	253,261
Other income	*3*	**25,938**	43,027
Selling and distribution expenses		**–**	(19,871)
Administrative expenses		**(69,425)**	(82,692)
Other expenses		**(15,739)**	(32,967)
Changes in fair value less costs to sell of biological assets		**(313,472)**	(228,665)
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm		**(436,242)**	–
LOSS BEFORE TAX	*4*	**(556,313)**	(67,907)
Income tax expense	*5*	**–**	–
LOSS FOR THE YEAR		**(556,313)**	(67,907)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**23,190**	(22,560)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(533,123)**	(90,467)
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the Company		**(533,123)**	(90,467)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	*7*	**RMB(11.86) cents**	RMB(1.46) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 *RMB'000*	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,118,597**	2,596,929
Prepaid land lease payments		**86,684**	91,768
Prepayments, other receivables and other assets		**19,325**	68,256
Biological assets		**1,211,650**	1,211,825
Total non-current assets		**3,436,256**	3,968,778
CURRENT ASSETS			
Inventories		**302,610**	259,379
Trade receivables	*8*	**58,712**	85,339
Prepayments, other receivables and other assets		**8,167**	11,654
Prepaid land lease payments		**5,081**	5,096
Cash and cash equivalents		**979,573**	1,135,920
Total current assets		**1,354,143**	1,497,388
CURRENT LIABILITIES			
Trade payables	*9*	**285,759**	233,211
Other payables and accruals		**278,384**	464,765
Total current liabilities		**564,143**	697,976
NET CURRENT ASSETS		**790,000**	799,412
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,226,256**	4,768,190
NON-CURRENT LIABILITIES			
Other payables and accruals		**134,327**	156,137
Total non-current liabilities		**134,327**	156,137
Net assets		**4,091,929**	4,612,053
EQUITY			
Issued capital		**37,674**	37,674
Reserves		**4,054,255**	4,574,379
Total equity		**4,091,929**	4,612,053

NOTES TO FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all IFRSs, International Accounting Standards ("**IASs**"), and Interpretations) issued by the International Accounting Standards Board and the disclosure requirements of the Companies Ordinance of Hong Kong. They have been prepared under the historical cost convention, except for biological assets and agricultural produce which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi ("**RMB**") 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 new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*

Other than as explained below regarding the impact of Amendments to IFRS 2, IFRS 9, IFRS 15 and IFRIC Interpretation 22, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement		**IFRS 9 measurement**	
	Category	**Amount**	**Amount**	**Category**
		RMB'000	*RMB'000*	
Financial assets				
Trade receivables	L&R[1]	85,339	85,339	AC[2]
Financial assets included in prepayments, other receivables and other assets	L&R	8,785	8,785	AC
Cash and cash equivalents	L&R	1,135,920	1,135,920	AC
		1,230,044	1,230,044	
Total assets		5,466,166	5,466,166	
Financial liabilities				
Trade payables	AC	233,211	233,211	AC
Financial liabilities included in other payables and accruals	AC	436,175	436,175	AC
		669,386	669,386	
Total liabilities		854,113	854,113	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

Impairment

There is no opening adjustment for impairment allowance since no impairment allowances were accrued under IAS 39 or the ECL allowances under IFRS 9.

Impact on reserves and retained profits

There is no impact of transition to IFRS 9 on reserves and retained profits as at 1 January 2018.

(c) IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

The financial statement line items were not affected as at 1 January 2018 as a result of the adoption of IFRS 15.

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has no impact on other comprehensive income, financial position or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

		Amounts prepared under		
	Note	**IFRS 15** *RMB'000*	**Previous IFRS** *RMB'000*	**Increase/ (decrease)** *RMB'000*
CONTINUING OPERATIONS				
Cost of sales	*(i)*	(846,920)	(824,079)	(22,841)
Gross profit		252,627	275,468	(22,841)
Selling and distribution expenses	*(i)*	–	(22,841)	22,841
Loss before tax		(556,313)	(556,313)	–
Loss for the year		(556,313)	(556,313)	–
Loss for the year and total comprehensive loss attributable to owners of the Company		(533,123)	(533,123)	–
Loss per share attributable to ordinary equity holders of the Company Basic and diluted		(11.86) cents	(11.86) cents	–

The reasons for the changes in the statement of profit or loss and other comprehensive income for the year ended 31 December 2018 are described below:

(i) Transportation expenses related to sale of raw milk

Upon the adoption of IFRS 15, the Group has assessed that there was only one performance obligation in contracts for the sale of raw milk. The revenue from sale of raw milk is recognised at the point in time when control of the asset is transferred to the customers. Transportation expense is incurred before the transfer of control of raw milk and is directly related to the satisfaction of the performance obligation for delivery of raw milk. Accordingly, transportation expense was reclassified from selling and distribution expenses to cost of sales.

For the year ended 31 December 2018, the adoption of IFRS 15 resulted in an increase in cost of sales of RMB22,841,000 and a decrease in selling and distribution expenses of RMB22,841,000, respectively.

(d) IFRIC Interpretation 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw milk. For the purpose of resource 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 were attributable to customers located in Mainland China.

All non-current assets were located in Mainland China.

During the Year, the Group made sales to major customers, the revenue from which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2018 and 2017 is as follows:

	2018	2017
	RMB'000	*RMB'000*
Customer A	**762,924**	532,594
Customer B	**154,958**	369,003
Others	**181,665**	112,531
	1,099,547	1,014,128

3. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers	**1,099,547**	–
Sales of raw milk	**–**	1,014,128
	1,099,547	1,014,128
Other income		
Government subsidies	**14,198**	16,425
Interest income from bank deposits	**9,349**	22,482
Others	**2,391**	4,120
	25,938	43,027

4. LOSS BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Breeding costs to produce	**594,360**	544,442
Production costs for raw milk	**252,560**	216,425
Cost of sales	**846,920**	760,867
Depreciation	**121,678**	116,897
Less: Capitalised in biological assets	**(53,268)**	(43,674)
Depreciation recognised in the statement of profit or loss and other comprehensive income*	**68,410**	73,223
Recognition of prepaid land lease payments	**5,099**	5,588
Auditors' remuneration	**2,400**	2,400
Changes in fair value less costs to sell of biological assets	**313,472**	228,665
Employee benefit expenses excluding directors' and chief executive's remuneration:		
Wages and salaries	**76,336**	73,584
Equity-settled share option expense	**8,927**	2,472
Pension scheme contributions	**19,200**	15,360
Less: Capitalised in biological assets	**(35,025)**	(25,220)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the statement of profit or loss and other comprehensive income**	**69,438**	66,196
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm***	**436,242**	–
Impairment of prepayments, other receivables and other assets	**–**	9,301
Loss on disposal of items of property, plant and equipment	**5,022**	14,113
Foreign exchange differences, net	**(1,343)**	9,253

* Depreciation of approximately RMB66,778,000 (2017: RMB71,857,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

** Employee benefit expenses of approximately RMB51,811,000 (2017: RMB48,973,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

*** Due to the withdrawal notice and removal notice received by Baiquan Ruixincheng Farm Daily Farming Co., Ltd. ("**Baiquan Ruixincheng Farm**"), impairment provision of RMB461,618,000 for immovable property, plant and equipment, impairment provision of RMB32,293,000 for prepayment for construction and equipment, additional accrued expenses, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee, of RMB15,548,000 and government grants of RMB73,217,000 related to the construction of the farm are charged to the consolidated statement of profit or loss and other comprehensive income for the Year. Further details are set out in the announcements of the Company dated 1 March 2019 and 15 March 2019.

5. INCOME TAX

No provision for Hong Kong profits tax has been made for the Year as the Group did not generate any assessable profits arising in Hong Kong during the Year (2017: nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

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

6. DIVIDENDS

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

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the Year attributable to ordinary equity holders of the Company of RMB556,313,000 (2017: RMB67,907,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2017: 4,664,795,050).

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2018 and 2017 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

8. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**58,712**	85,339

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

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

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**56,303**	54,844
1 to 2 months	**372**	6,777
Over 2 months	**2,037**	23,718
	58,712	85,339

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

9. TRADE PAYABLES

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

	2018	2017
	RMB'000	*RMB'000*
Within 2 months	**205,450**	185,778
2 to 6 months	**68,432**	38,779
6 to 12 months	**6,043**	4,816
Over 1 year	**5,834**	3,838
	285,759	233,211

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2018, the per capita disposable income of Chinese residents increased by 6.5% year-on-year, the spending power of residents continued to rise. This, in addition to the rebound in the domestic consumer confidence index, has stimulated the growth of high-end consumption products and promoted consumers' demand for healthy high-end dairy products. As such, the rise in the prices of dairy products on the international market failed to hinder the market penetration of imported dairy products into the Chinese market, which will have a negative impact on the domestic dairy industry, and in turn will intensify competition of the domestic dairy industry.

Since the second half of 2018, due to the effect of the Sino-US trade war and the depreciation of the RMB against the United States dollars (the "**USD**"), the price of feeding materials for Chinese dairy cows has risen despite an international falling trend, pushing up the cost of dairy cow farming; such situation needs to be addressed urgently. Further, the purchase price of raw milk continued to be low, there by increasing the loss for dairy cow farmers. As a result, large-scale farms also began to control overcapacity by eliminating low-capacity dairy cows.

As a leading dairy farming company in the People's Republic of China (the "**PRC**"), the Group adhered to the large-scale and intensive development strategy and continued to enhance operation management during the Year. In respect of the quality control of dairy products, the Group adjusted the herd mix and improved the feeding formula to lower production cost, mitigate pressure on sales and to cope with the downturn of the raw milk industry. Meanwhile, in respect of business, the Group actively looked for opportunities of diversified business development by enriching the diversities of business so as to create additional income sources.

Business review

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. The total sales volume of raw milk of the Group increased from 262,543 tonnes in 2017 to 282,261 tonnes for the Year. The total revenue amounted to RMB1,100 million for the Year, representing an increase of 8.4% from 1,014 million in the same period of 2017. During the Year, the Group recorded a loss of RMB556.3 million (2017: approximately RMB67.9 million), representing a year-on-year increase in loss of 719.2%. The increase in loss was attributable to (i) impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Farm (details of which are set out in note 4 to the consolidated financial statements); (ii) an increase in loss on changes in fair value less costs to sell of biological assets; and (iii) the increase of equity-settled share option expenses which were included in administrative expenses; and (iv) a decrease in other income.

Since its establishment, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2018, the three major customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group. During the Year, benefiting from the policy dividends and these all three major customers continued to expand into the international market, which were constructive to the Group's business. The revenue from these three major customers accounted for nearly 91.3% of the Group's revenue. In the future, the Group is expected to continue to supply raw milk products to the three major customers for a long time, to further strengthen the customer base and secure future demand for raw milk.

Construction of Farms

As of 31 December 2018, we had six farms in Heilongjiang Province and one farm in Jilin Province, respectively. Each farm had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 square metres.

	Actual Designed Capacity *(Number of Cows/Head)*	**Actual Inventory Number**	**Area** *(m^2)*
Gannan Farm	12,000	10,484	986,333
Kedong Heping Farm	6,000	6,310	384,000
Kedong Ruixinda Farm	18,000	11,343	784,000
Zhenlai Farm	15,000	13,487	1,066,667
Kedong Yongjin Farm	12,000	8,121	714,000
Baiquan Ruixincheng Farm	15,000	4,968	994,000
Keshan Farm	12,000	8,931	980,000
Total	90,000	63,644	5,909,000

Milk Yield

During the Year, the average annual milk yield per cow was 9.65 tons, representing a decrease of 1.5% as compared with 9.8 tons in 2017. In the future, the Group will improve its profitability by upgrading and optimizing the cattle mix and improving the feeding formula to achieve scientific and quality management.

Size of Our Herds

Driven by the advanced management model of our farms, the number of dairy cows of the Group's dairy farms increased from 61,207 heads as of 31 December 2017 to 63,644 heads as of 31 December 2018. Among them, the total number of our matured milkable cows increased from 28,244 heads as of 31 December 2017 to 32,425 heads as of 31 December 2018. The increase in number of our matured milkable cows contributed to the steady growth of quality raw milk of the Group.

	31 December 2018	31 December 2017
Number of matured milkable cows	**32,425**	28,244
Number of heifers and calves	**31,219**	32,963
Total number of dairy cows	**63,644**	61,207

Price of Raw Milk

Due to growth in the import of milk powder, the over-supply of raw milk in the upstream market and the impact of the global economic environment, the price of domestic raw milk remained at low levels despite recovery of domestic raw milk prices. During the Year, the Group's average selling price of raw milk was RMB3,896 per ton, slightly higher than last year.

Outlook

The support of policy dividends is particularly critical to the development of the industry. In June 2018, the State Council of the PRC issued the "Opinions on Accelerating the Revitalization of the Dairy Industry and Guaranteeing the Quality and Safety of Dairy Products" (hereinafter referred to as the "**Opinions**"), and proposed that the self-satisfaction rate of domestic milk source should be kept at the upper-middle level by 2020. The "Opinions" emphasized the importance of high-quality milk sources, hoping to enhance the core competitiveness of China's dairy industry from the source to compete with foreign brands, and provided a clear direction for the development of China's dairy industry. According to the National Bureau of Statistics, in the first 11 months of 2018, the total profit of dairy product manufacturers above designated size increased by 4.7% year-on-year to RMB22.06 billion, and the development of the overall industry was healthy and positive. With the upgrading of consumption and the improvement of household spending power, the domestic dairy industry needs industrial optimization and upgrading urgently to respond to consumers' demand for high-quality milk sources.

While China has a large population, the per capita consumption of dairy products is only one-tenth of that of developed countries in Europe and America, reflecting potential for significant growth in consumption. In 2018, the dairy industry sought growth while maintaining stability, with significant progress made in product quality and safety. Consumers' confidence in domestic dairy products has gradually picked up, and the domestic dairy product market has been developing steadily. In the future, the Group will seize opportunities, take advantage of positive trend optimize industrial structure and enhance product competitiveness using scientific methods, so as to improve our profitability, maintain the Group's sound and positive development momentum, and continue to build on our brand as a high quality cow milk manufacturer in China.

Our Revenue

During the Year, our total sales of milk produced increased by 8.4% from RMB1,014.1 million for the year ended 31 December 2017 to RMB1,099.5 million. The sales volume reached 282,261 tons in 2018, representing an increase of 19,718 tons or 7.5% as compared with 262,543 tons in 2017. The growth was primarily attributable to the increase in herd size. Our average selling price of raw milk was RMB3,896 per ton for the Year compared with RMB3,863 per ton in 2017.

Cost of Sales

Our cost of sales for the Year was RMB846.9 million. The table below summarizes the components of our cost of sales by nature:

	2018	2017
	RMB'000	*RMB'000*
Cost of sales		
Feed	**594,360**	544,442
Salary, welfare and social insurance	**51,811**	48,973
Depreciation	**66,778**	71,875
Veterinary cost	**42,541**	35,245
Utility	**40,672**	25,102
Transportation expenses	**22,841**	–
Other costs	**27,917**	35,230
Cost of sales, total	**846,920**	760,867

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB594.4 million and RMB544.4 million for the years ended 31 December 2018 and 2017, respectively, representing 70.2% and 71.6% of the cost of sales for the respective financial years ended 31 December 2018 and 2017. The increase in our cost of sales was attributable to: i) reclassification of transportation expenses related to sale of raw milk from selling and distribution expenses to cost of sales upon adoption of IFRS 15 and ii) increase of feeding cost.

Gross Profit

Given the above factors, the gross profit decreased to RMB252.6 million for the Year (2017: RMB253.3 million), representing a decrease of 0.3% as compared to that for 2017. Our gross profit margin also decreased from 25.0% in 2017 to 23.0% in 2018.

Other income for the Year amounted to RMB25.9 million (2017: RMB43.0 million), representing a decrease of 39.5%. The decrease in other income was mainly attributable to a decrease in interest income from bank deposits.

Selling and Distribution Expenses

All of our selling and distribution expenses were transportation expenses of our raw milk. Our selling and distribution costs were RMB22.8 million for the Year (2017: RMB19.9 million) and it has already been reclassified to cost of sales due to the Group's adoption of IFRS15.

Administrative Expenses

We incurred administrative expenses of RMB69.4 million for the Year (2017: RMB82.7 million) representing a decrease of approximately 16.1% as compared to 2017. The decrease was attributable to: i) decrease of impairment allowance; ii) decrease of exchange losses; iii) decrease of professional service fee; and iv) partially net-off of increase of equity-settled share option expenses.

Other Expenses

Other expenses for the Year amounted to RMB15.7 million (2017: 33.0 million). The decrease was primarily attributable to the decrease in the one-off transportation costs of cow dung and non-current assets disposal losses.

Changes in Fair Value Less Costs to Sell of Biological Assets

Changes in fair value less costs to sell of biological assets was a loss of RMB313.5 million for the Year as compared to a loss of RMB228.7 million for 2017. The decrease in the loss was principally due to the decrease in the price of the average market price for a heifer of 14 months old, which is one of the key parameters for the computation of the fair value of biological assets.

Impairment Losses and Accrued Expenses Related to Removal of Baiquan Ruixincheng Farm

Details of impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm are set out in note 4 to the consolidated financial statements.

Loss for the Year of the Group

Taking into account all of the above factors, the Group's net loss was RMB556.3 million for the Year. This represents an increase of 719.2% from a net loss of RMB67.9 million for the year ended 31 December 2017. Basic loss per share was approximately RMB11.86 cents for the Year (2017: RMB1.46 cents).

FINAL DIVIDEND

The Board has resolved not to recommend payment of a final dividend for the Year (2017: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB287.6 million, as compared to RMB431.4 million in 2017.

The Group had no bank borrowing during the Year (2017: Nil).

CAPITAL STRUCTURE

As at 31 December 2018, the Company's issued share capital was HK$46,904,964 divided into 4,690,496,400 shares of HK$0.01 each (2017: HK$46,904,964 divided into 4,690,496,400 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 and cows for its existing dairy farms.

As part of the future strategy of the Group, the Group's planned capital expenditures for its business operations will 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, the net proceeds from the placing of new shares of the Company (the "**Shares**") under the general mandate from shareholders of the Company (the "**Shareholders**") and the unutilised net proceeds from the issue of new shares under the global offering as set out in the prospectus of the Company dated 14 November 2013 (the "**Prospectus**").

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2018 nor were there other plans for material investments on capital assets as at the date of this announcement.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE "IPO") AND PLACING OF NEW SHARES

The issued Shares were initially listed on the main board of the Stock Exchange on 26 November 2013. Gross proceeds raised from the IPO in such connection amounted to approximately 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 approximately HK$2,564 million. Up to 31 December 2018, approximately HK$2,216.2 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$1,923.0 million on construction of new farms, as to HK$256.4 million on working capital and general corporate purpose, and as to HK$36.8 million on developing upstream operations purpose. The Directors will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market condition to better deploy resources and proceeds of the IPO. Announcement will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The Company issued 781,749,400 new Shares at a price of HK$0.5 per Share pursuant to a placing of Shares completed on 13 January 2017 (the "**Placing**"). The net proceeds from the Placing (after deducting the placing commission payable to the placing agent and other expenses incurred in the Placing) were approximately HK$384.6 million, which were intended to be used for importing heifers and calves from Australia and New Zealand and general working capital. As at 31 December 2018, about HK$98.7 million of such net proceeds were used on importing heifers from New Zealand. The entire amount of the remaining net proceeds, being approximately HK$285.9 million, remained unutilised and is expected to be used as intended.

Such remaining net proceeds were kept in banks and approved financial institutions in Hong Kong, Macau and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ETC.

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

PLEDGE OF ASSETS

As at 31 December 2018, no assets 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 USD 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 2018 and 2017 were RMB41.4 million and RMB93.6 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 2018 (2017: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 1,506 employees (2017: 1,378 employees), of whom one was located in Hong Kong and all the others were located in the PRC.

The salaries of the Group's employees largely depend on their type and level of work as well as length of service with the Group. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Group participates in the social insurance schemes operated by the relevant local government authorities, which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013.

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 their time commitment and responsibilities, the salaries paid by comparable companies and the performance of the Group.

A share option scheme was adopted by the Company on 7 November 2013 for the purpose of providing incentives or rewards to selected participants for their contributions to the Group.

The Group also provides and arranges on the job training for the employees.

EVENT AFTER REPORTING YEAR

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

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF ANNUAL RESULTS AND PRELIMINARY RESULTS ANNOUNCEMENT

The Board has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code, which was revised on 29 December 2018. The Audit Committee comprises all the three independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng) (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.

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

PUBLICATION OF INFORMATION ON DESIGNATED WEBSITES

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

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

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhao Hongliang (Chairman), Mr. Fu Wenguo (Chief Executive Officer), Mr. Chen Xiangqing (Chief Financial Officer) and Mr. Liu Gang; one non-executive Director, namely Mr. Lau Ho Fung; and three independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.