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-MONTH PERIOD ENDED 30 JUNE 2019

INTERIM RESULTS

The board of directors (the "**Directors**" and the "**Board**", respectively) of YuanShengTai Dairy Farm Limited (the "**Company**" or "**YuanShengTai**") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six-month period ended 30 June 2019 (the "**Period**") together with selected explanatory notes and the relevant comparative figures.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

		For the six month ended 30 June	
		2019	2018
	Notes	**(Unaudited)**	(Unaudited)
		RMB'000	*RMB'000*
REVENUE	*4*	**657,321**	536,501
Cost of sales		**(482,841)**	(411,619)
Gross profit		**174,480**	124,882
Other income		**11,975**	14,170
Administrative expenses		**(33,475)**	(44,547)
Other expenses		**(6,644)**	(7,049)
Changes in fair value less costs to sell of biological assets		**(111,637)**	(140,798)
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Dairy Farm Ltd.		**(855)**	–
PROFIT/(LOSS) BEFORE TAX	*5*	**33,844**	(53,342)
Income tax expense	*6*	**–**	–
PROFIT/(LOSS) FOR THE PERIOD		**33,844**	(53,342)
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**602**	7,347
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**34,446**	(45,995)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:			
Ordinary equity holders of the Company		**33,844**	(53,342)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:			
Ordinary equity holders of the Company		**34,446**	(45,995)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (expressed in RMB per share)	*8*	**0.007**	(0.011)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,093,148**	2,118,597
Prepaid land lease payments		**–**	86,684
Right-of-use assets		**89,214**	–
Prepayments and other receivables		**12,936**	19,325
Biological assets		**1,218,263**	1,211,650
Total non-current assets		**3,413,561**	3,436,256
CURRENT ASSETS			
Inventories		**198,507**	302,610
Trade receivables	*9*	**64,589**	58,712
Prepayments and other receivables		**9,724**	8,167
Prepaid land lease payments		**–**	5,081
Cash and cash equivalents		**1,087,608**	979,573
Total current assets		**1,360,428**	1,354,143
CURRENT LIABILITIES			
Trade payables	*10*	**248,737**	285,759
Other payables and accruals		**266,729**	278,384
Total current liabilities		**515,466**	564,143
NET CURRENT ASSETS		**844,962**	790,000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,258,523**	4,226,256
NON-CURRENT LIABILITIES			
Other payables and accruals		**129,788**	134,327
Total non-current liabilities		**129,788**	134,327
NET ASSETS		**4,128,735**	4,091,929
EQUITY			
Share capital		**37,674**	37,674
Reserves		**4,091,061**	4,054,255
Total equity		**4,128,735**	4,091,929

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

1. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 (the "**Interim Condensed Consolidated Financial Information**") has been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Interim Condensed Consolidated Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018 (the "**Annual Financial Statements**").

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Interim Condensed Consolidated Financial Information are consistent with those applied in the preparation of the Annual Financial Statements, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") effective as of 1 January 2019.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
International Financial Reporting Interpretations Committee Interpretation 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 Leases and International Financial Reporting Interpretations Committee Interpretation 23, the new and revised standards are not relevant to the preparation of the Interim Condensed Consolidated Financial Information. The nature and impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, International Financial Reporting Interpretations Committee Interpretations 4 *Determining whether an Arrangement contains a Lease*, Standards Interpretation Committee Interpretations 15 *Operating Leases – Incentives* and Standards Interpretation Committee Interpretations 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and International Financial Reporting Interpretations Committee Interpretations 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and International Financial Reporting Interpretations Committee Interpretations 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g. property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g. laptop computers and telephones); and (ii) leases that, at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) (Unaudited) *RMB'000*
Assets	
Increase in right-of-use assets	91,973
Decrease in property, plant and equipment	–
Decrease in prepaid land lease payments	(91,765)
Decrease in prepayments and other receivables	(208)
Increase in total assets	–
Liabilities	
Increase in total liabilities	–
Decrease in retained earnings	–

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties.

The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Right-of-use assets of the Group mainly included prepaid land lease payments, in which lease contracts, total lease payments were paid at the commencement date in prior years, and, therefore, no lease liability was recognised upon adoption of IFRS 16 from 1 January 2019.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss and other comprehensive income

The carrying amounts of the Group's right-of-use assets and the movement during the period are as follows:

	Prepaid land lease payments *RMB'000*	**Motor vehicles** *RMB'000*	**Subtotal of right-of-use assets** *RMB'000*
As at 1 January 2019	91,765	208	91,973
Additions	–	–	–
Depreciation charge	(2,675)	(84)	(2,759)
As at 30 June 2019	**89,090**	**124**	**89,214**

(b) International Financial Reporting Interpretations Committee Interpretation 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Interim Condensed Consolidated Financial Information.

3. 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.

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of raw milk	**657,321**	536,501

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Segments	**Sale of raw milk**	Sale of raw milk
	RMB'000	*RMB'000*
Type of goods or services		
Sale of goods	**657,321**	536,501
Total revenue from contracts with customers	**657,321**	536,501
Geographical markets		
Mainland China	**657,321**	536,501
Total revenue from contracts with customers	**657,321**	536,501
Timing of revenue recognition		
Goods transferred at a point in time	**657,321**	536,501
Total revenue from contracts with customers	**657,321**	536,501

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Breeding costs to produce	**332,871**	286,439
Production costs for raw milk	**149,970**	125,180
Cost of sales	**482,841**	411,619
Depreciation in property, plant and equipment	**58,219**	60,052
Less: Capitalised in biological assets	**(18,348)**	(18,804)
Depreciation recognised in the statement of profit or loss and other comprehensive income*	**39,871**	41,248
Depreciation in right-of-use assets	**2,759**	–
Recognition of prepaid land lease payments	**–**	2,550
Auditors' remuneration	**1,400**	1,400
Changes in fair value less costs to sell of biological assets	**111,637**	140,798
Employee benefit expenses excluding Directors' and chief executive's remuneration		
Wages and salaries	**43,817**	39,237
Equity-settled share option expense	**1,508**	6,503
Pension scheme contributions	**11,467**	8,424
Less: Capitalised in biological assets	**(18,464)**	(16,767)
Employee benefit expenses excluding directors' and chief executive's remuneration recognized in the statement of profit or loss and other comprehensive income**	**38,328**	37,397
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Dairy Farm Ltd. ("**Baiquan Ruixincheng**")***	**855**	–
Loss on disposal of items of property, plant and equipment	**81**	2,464
Foreign exchange differences, net	**(1,926)**	(1,756)

* Depreciation of approximately RMB36,519,000 (six months ended 30 June 2018: RMB35,351,000) is included in the cost of sales on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

** Employee benefit expenses of approximately RMB32,892,000 (six months ended 30 June 2018: RMB25,101,000) is included in the cost of sales on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

*** Due to the withdrawal notice and removal notice received by Baiquan Ruixincheng, impairment provision of RMB748,000 (six months ended 30 June 2018: Nil) for immovable property, plant and equipment, and impairment provision of RMB107,000 (six months ended 30 June 2018: Nil) for additional accrued transportation expenses, are charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for the Period.

6. INCOME TAX

No provision for Hong Kong profits tax has been made for the Period as the Group did not generate any assessable profits arising in Hong Kong during the Period (six months ended 30 June 2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

7. DIVIDENDS

No dividend was paid or proposed by the Company during the Period (six months ended 30 June 2018: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company of RMB33,844,000 (unaudited) (2018 – basic loss per share: losses of RMB53,342,000 (unaudited)) and the weighted average number of 4,690,496,400 (unaudited) (2018: 4,690,496,400 (unaudited)) ordinary shares of the Company (the "**Shares**") in issue during the Period.

No adjustment has been made to the basic earnings per share amounts for the period (2018 – basic loss per share: Nil) in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

9. TRADE RECEIVABLES

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

	30 June 2019 (Unaudited) ***RMB'000***	31 December 2018 (Audited) *RMB'000*
Within 1 month	**63,857**	56,303
Over 1 month to 2 months	**31**	372
Over 2 months	**701**	2,037
	64,589	58,712

10. TRADE PAYABLES

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

	30 June 2019 (Unaudited) ***RMB'000***	31 December 2018 (Audited) *RMB'000*
Within 2 months	**158,430**	205,450
Over 2 months to 6 months	**78,322**	68,432
Over 6 months to 12 months	**6,242**	6,043
Over 1 year	**5,743**	5,834
	248,737	285,759

11. COMMITMENTS

The Group had the following commitments at the end of the reporting period:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Plant and machinery	**13,238**	41,372

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In the first half of 2019, dairy demand in China recovered with a gradual increase of upstream fresh milk production. Given the sustained and rigid growth in milk consumption, prices of China's raw milk continued their upward streak in last year, showing a moderate upward trend, and the industry as a whole maintained a sound development momentum. There are indications that the situation of low prices of raw milk, which has lasted for years, is changing.

At the same time, the state has provided strong support for the dairy industry on the policy side. In February 2019, the central government issued the No. 1 document ("Certain Opinions of Central Committee of the Communist Party of China and the State Council on Prioritizing the Development of Agriculture and Rural Areas and Providing Comprehensive Services for 'Agriculture, Rural Areas and Farmers'" (《中共中央國務院關於堅持農業農村優先發展做好「三農」工作的若干意見》), a further request was made on prosperous development of the dairy industry that "the government shall take steps for prosperous development of the dairy industry by intensifying the construction of high-quality milk source base and upgrading small and medium-sized dairy farms", and specified the goals of industrial revitalization of China's dairy industry, which has given important and clear guidance for the development of the industry, setting a general tone for China's dairy industry and provided strong support of the dairy industry on policy side, which are believed to help a lot in promoting the stable development of China's dairy industry in the future.

As a leading dairy farming company in the People's Republic of China (the "**PRC**"), the Group will continue to maintain a large-scale and intensive development strategy. In respect of quality, we shall actively implement the Group's primary policy – "adjust the herd structure and optimize the milk source"; on the other hand, we have improved our cattle feeding formula to control production costs. In terms of business, the Group is also seeking more development opportunities to generate more revenue.

Business Review

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. For the Period, the total sales of raw milk of the Group increased by approximately 17.9% to 164,438 tons as compared with the same period of 2018. In addition, the prices of domestic raw milk increased moderately during the Period. The total revenue of the Group during the Period amounted to RMB657.3 million, representing a satisfactory increase of 22.5% as compared with the same period of 2018. During the Period, the gross profit increased by 39.7% to RMB174.5 million as compared with the first half of 2018, and we managed to record a net profit of RMB33.8 million as compared to a net loss of RMB53.3 million for the first half of 2018. During the Period, the Group managed to reduce the rise in cost caused by the increasing prices of some feed by adjusting the feeding formula, thereby having effectively controlled production costs and improved sales performance.

Although the competition in the raw milk market is still fierce, the high cost of dairy farming in China and the impact of import shocks have not been alleviated, the average price of domestic raw milk has risen moderately to RMB3.57 per kg during the Period from RMB3.45 per kg during the first half of 2018, thanks to the favorable environment created by national policy support and strong demand for dairy products.

Since the commencement of business, the Group has established and maintained long-term relationship with leading dairy manufacturers in the PRC. In the first half of 2019, the top three customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group, the revenue from which accounted for 94.7% of the Group's revenue. At present, the revenue of high-end products of Feihe Dairy is growing steadily, combined with the rebound in sales of Mengniu Group and the recovery of the industry, and we believe that it will be conducive to the business of the Group in the future. The Group is expected to continue to supply raw milk products to the top three customers in the long run, which will further consolidate the stability of the customer base of the Group and ensure future demand for raw milk products of the Group.

Construction of Farms

As of 30 June 2019, the Group had six farms in Heilongjiang Province and one farm in Jilin Province. Each farm had an actual 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 m^2.

	Actual Designed Capacity (Number of Dairy Cows/Head)	**Actual Inventory Number**	**Area (m^2)**
Gannan Farm	12,000	10,448	986,333
Kedong Heping Farm	6,000	5,712	384,000
Kedong Ruixinda Farm	18,000	9,812	784,000
Zhenlai Farm	15,000	13,336	1,066,667
Kedong Yongjin Farm	12,000	8,455	714,000
Baiquan Ruixincheng Farm	15,000	6,763	994,000
Keshan Farm	12,000	8,596	980,000
Total	90,000	63,122	5,909,000

Milk Yield

During the Period, the average annual milk yield per cow was 10.22 tons. As the operation of the farms becomes more stable and the age mix and herd structure of the cattle are further upgraded and optimized, the Group expects that the average milk production of the cattle will further increase. In the future, the Group will improve its profit level by adjusting the structure of the herd and improving the feeding formula to achieve scientific and quality management.

Size of Our Herds

The number of dairy cows on the farms operated by the Group decreased from 63,644 as of 31 December 2018 to 63,122 as of 30 June 2019. The total number of matured milkable cows increased from 32,425 as at 31 December 2018 to 34,236 as at 30 June 2019. The increase in number of matured milkable cows has ensured our steady source of quality raw milk.

	30 June 2019	31 December 2018
Number of matured milkable cows	**34,236**	32,425
Number of heifers and calves	**28,886**	31,219
Total number of dairy cows	**63,122**	63,644

Price of Raw Milk

We expect that the price of raw milk will enter an upward cycle, and the dairy farming enterprises will benefit for a long time, and enjoy a rise in profit. According to market statistics, raw milk continued to be in short supply in 2019, and the prices of milk have a strong rising momentum. During the Period, the average selling price of raw milk of the Group was RMB3,997 per ton, a slight increase as compared with the same period of last year (six months ended 30 June 2018: RMB3,846 per ton).

Outlook

The concept proposed by "Healthy China 2030 Plan" has gradually penetrated into the lives of the people, and the dairy industry has gradually become an indispensable industry for healthy China and strong people. In recent years, the pace of revitalization of China's dairy industry has been accelerating supported by more and more related favorable policies. With the structural adjustment of the industry, the scale and standardization of dairy farming in China have increased, and production efficiency has been improved as well. Annual milk production has stabilized at approximately 30 million tons. In addition to high production efficiency, the further improvement in dairy quality has also driven consumers' confidence in domestic dairy products.

After years of publicity campaign about the importance of dairy products, China's milk consumption per capita has increased from less than 6 kg per capita to 36 kg, and the dairy consumption per capita in Beijing, Shanghai, Guangzhou and other first-tier cities has reached more than 50 kg. Although China's dairy consumption per capita has increased, it is still less than one-half of Asia's dairy consumption per capita, and China's dairy market still has huge potential for development. Looking ahead, the domestic dairy market will continue to maintain an upward trend driven by continued domestic demand growth and upgrades of consumer demand. The Group will also seize the opportunity to optimize the herd mix, provide quality milk sources, optimize cost structure and achieve profit growth, and contribute to revitalization of China's dairy industry.

Our Revenue

During the Period, our total sales of milk produced increased by 22.5% to RMB657.3 million as compared with RMB536.5 million in the six months ended 30 June 2018. The increase of the total sales was mainly benefited from an increase in the demand of raw milk. The sales volume reached 164,438 tons, representing an increase of 24,927 tons or 17.9% as compared with 139,511 tons in the six months ended 30 June 2018. The average selling price of our raw milk was RMB3,997 per ton compared with RMB3,846 per ton in the six months ended 30 June 2018.

Cost of Sales

Our cost of sales for the Period was RMB482.8 million. The table below summarizes the components of our cost of sales by nature for the six-month periods ended 30 June 2019 and 2018:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Cost of sales		
Feed	**332,871**	286,439
Salary, welfare and social insurance	**32,892**	25,101
Depreciation	**36,519**	35,351
Veterinary cost	**28,546**	24,454
Utility	**26,488**	19,937
Transportation expenses	**12,866**	11,112
Other cost	**12,659**	9,225
Cost of sales, total	**482,841**	411,619

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB332.9 million and RMB286.4 million for the six-month periods ended 30 June 2019 and 2018, respectively, representing 68.9% and 69.6% of the cost of sales for the respective six-month periods ended 30 June 2019 and 2018. The increase in our feed costs was attributable to an increase in the number of milkable cows.

Gross Profit

Resulted from the factors discussed above, the gross profit increased to RMB174.5 million for the Period (six months ended 30 June 2018: RMB124.9 million), representing an increase of 39.7%. Our gross profit margin increased from 23.3% for the six months ended 30 June 2018 to 26.5% for the Period.

Other Income

Other income for the six-month periods ended 30 June 2019 and 2018 amounted to RMB12.0 million and RMB14.2 million, respectively, representing a decrease of 15.5%. The decrease in other income was mainly attributable to a decrease in interest income from bank deposits.

Administrative Expenses

We incurred administrative expenses of RMB33.5 million for the Period, representing a decrease of approximately 24.7% as compared to RMB44.5 million for the six months ended 30 June 2018. The decrease was attributable to the decreases in: (i) share option expenses; and (ii) travel, meal and entertainment expenses.

Other Expenses

We incurred other expenses of RMB6.6 million for the Period (six months ended 30 June 2018: RMB7.0 million), representing a decrease of approximately 5.7% period-on-period. The decrease was attributable to a decrease in the losses on disposal of equipment.

Impairment Losses and Accrued Expenses Related to Removal of Baiquan Ruixincheng

Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng amounted to RMB855,000 for the Period, and there were no such losses or accrued expenses for the period ended 30 June 2018. Details are set out in note 5 to the notes to the interim condensed consolidated financial information.

Profit of the Group for the Period

As a result of all the above factors and the fact that a decrease in loss on changes in fair value less cost to the sale of biological assets of RMB111.6 million was recorded in the Period (six months ended 30 June 2018: loss of RMB140.8 million) principally due to the increase in the price of the average market price for a milkable cow of 24 months old, the Group recorded a net profit of RMB33.8 million for the Period, as compared to a net loss of RMB53.3 million for the six months ended 30 June 2018. Basic earnings per share was approximately RMB0.7 cent for the Period (six months ended 30 June 2018: basic loss per share of RMB1.1 cents).

Interim Dividend

The Board has resolved not to declare any interim dividend for the Period (six months ended 30 June 2018: nil).

Liquidity and Financial Resources

For the Period, the Group's net cash inflow from operating activities amounted to RMB247.7 million, as compared to RMB269.0 million for the six months ended 30 June 2018.

The Company did not have any bank borrowings during the Period.

Capital Structure

As at 30 June 2019, the Company's issued share capital was HK$46,904,964 divided into 4,690,496,400 Shares of HK$0.01 each. The Company did not issue any new Shares during the Period.

Significant Investments Held and Future Plans for Material Investments and Capital Assets

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

As part of the Group's future strategies, planned capital expenditures of the Group 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 in 2017 under the general mandate approved by the shareholders of the Company (the "**Shareholders**") and the unutilized 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**"). The particulars thereof are detailed below.

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. The net proceeds were spent broadly in accordance with the Company's plan as disclosed in the Prospectus.

The table below sets out the planned applications of the net proceeds from the IPO and the actual usage:

	Planned use of net proceeds from the IPO (as stated in the Prospectus) *HK$ million*	**Actual use of net proceeds from the IPO up to 30 June 2019** *HK$ million*	**Actual use of net proceeds from the IPO during the Period** *HK$ million*	**Unused net proceeds from the IPO as at 30 June 2019** *HK$ million*
Construction of new farms	1,923.0	1,923.0	–	–
Develop upstream operations	384.6	36.8	–	347.8
Working capital and general corporate purpose	256.4	256.4	–	–
Total	2,564.0	2,216.2	–	347.8

The unused net proceeds, being approximately HK$347.8 million, are expected to be used in accordance with the Company's plan as disclosed in the Prospectus (i.e. to develop upstream operations) by 2021. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

The Board will continually evaluate the Group's business strategies and change or modify the plan in line with market conditions, to support business growth of the Group.

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.

The table below sets out the planned applications of the net proceeds from the Placing and the actual usage:

	Planned use of net proceeds from the Placing (as stated in the announcement of the Company dated 23 December 2016)	**Actual use of net proceeds from the Placing up to 30 June 2019**	**Actual use of net proceeds from the Placing during the Period**	**Unused net proceeds from the IPO as at 30 June 2019**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Importing heifers and calves from Australia and New Zealand and general working capital	384.6	98.7	–	285.9
Total	384.6	98.7	–	285.9

The unused net proceeds, being approximately HK$285.9 million, are expected to be used as intended by 2021. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

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 conditions to deploy resources and proceeds better. Announcement(s) will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The remaining balance of such net proceeds was kept in licensed banks and approved financial institutions in Hong Kong and the PRC.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

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

Pledge of Assets

As at 30 June 2019, no assets of the Group (31 December 2018: nil) were pledged as security for bank borrowings.

Foreign Exchange Exposure

Certain assets of the Group are denominated in foreign currencies such as the 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 the 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 Commitments and Contingencies

Capital commitments of the Group as at 30 June 2019 were RMB13.2 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 2019.

Employees and Remuneration Policies

As at 30 June 2019, the Group had approximately 1,540 employees (31 December 2018: 1,506 employees), of whom one was located in Hong Kong and all the others were located in the PRC. The remuneration and staff cost for the Period was RMB62.7 million (six months ended 30 June 2018: RMB35.9 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 Group. 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 Company has adopted a share option scheme 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.

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 remuneration committee of the Board (the "**Remuneration Committee**") regularly reviews and recommends to the Board for consideration and approval 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 Period and up to the date of this announcement.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sale or Redemption of the Company's 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 the Shareholders. The Board considers that the Company has complied with all the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "**CG Code**") during the Period and up to the date of this announcement.

Compliance with the Model Code

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 Period.

Review by Audit Committee

The Board has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code, which were revised and adopted on 29 December 2018 with effect from 1 January 2019. The Audit Committee comprises all the three independent non-executive Directors, namely Meng Jingzong (alias Owens Meng) ("**Mr. Meng**"), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. Mr. Meng is the chairman of the Audit Committee. 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

This results announcement is required to be published on the websites of the Stock Exchange *(www.hkexnews.hk)* and the Company (*www.ystdfarm.com* and *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 in the manner required by the Listing Rules.

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

Hong Kong, 28 August 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, Mr. Lau Ho Fung; and three independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.