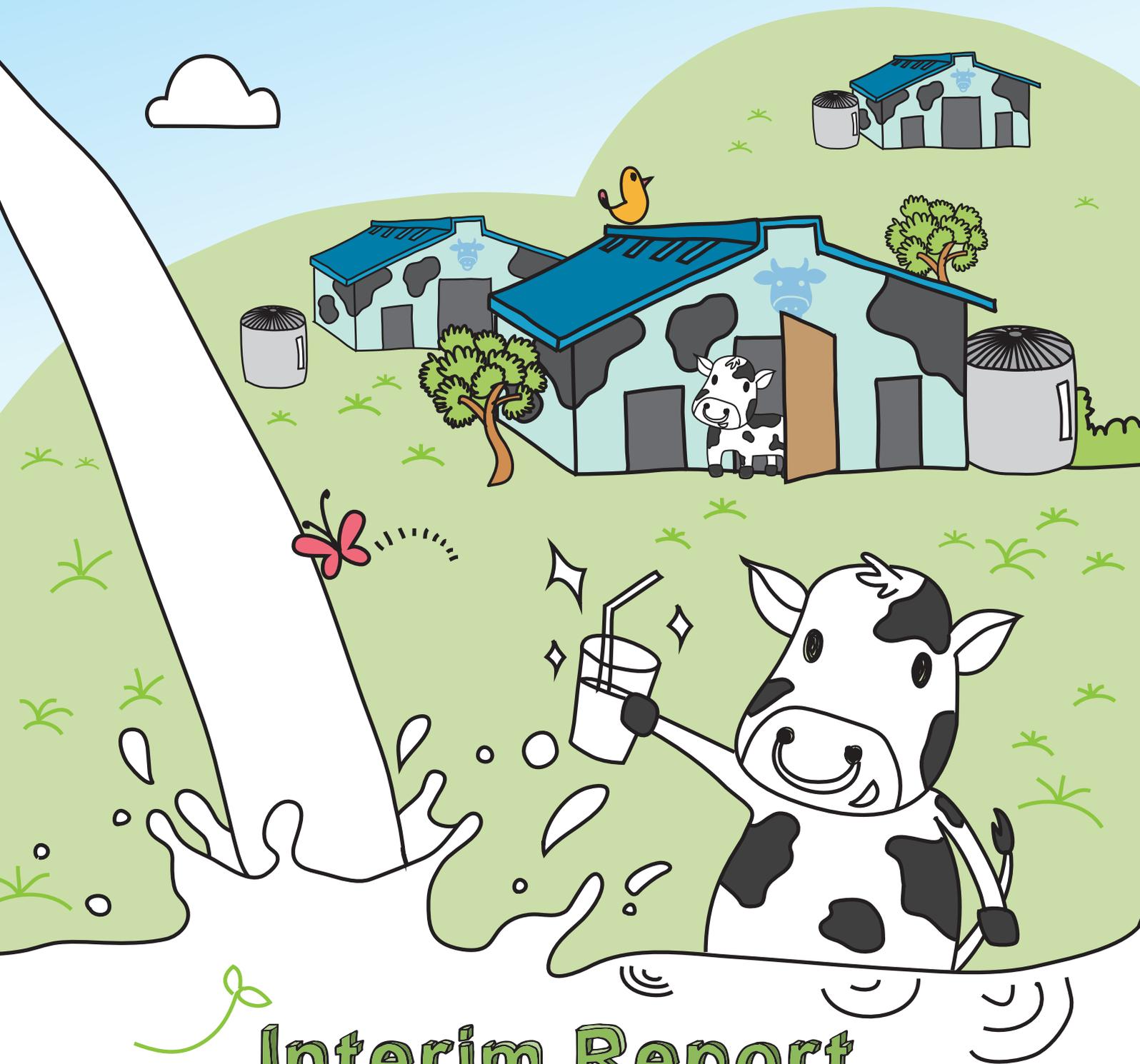




# YuanShengTai Dairy Farm Limited 原生态牧业有限公司

(Incorporated in Bermuda with limited liability)

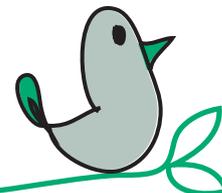
Stock Code : 1431



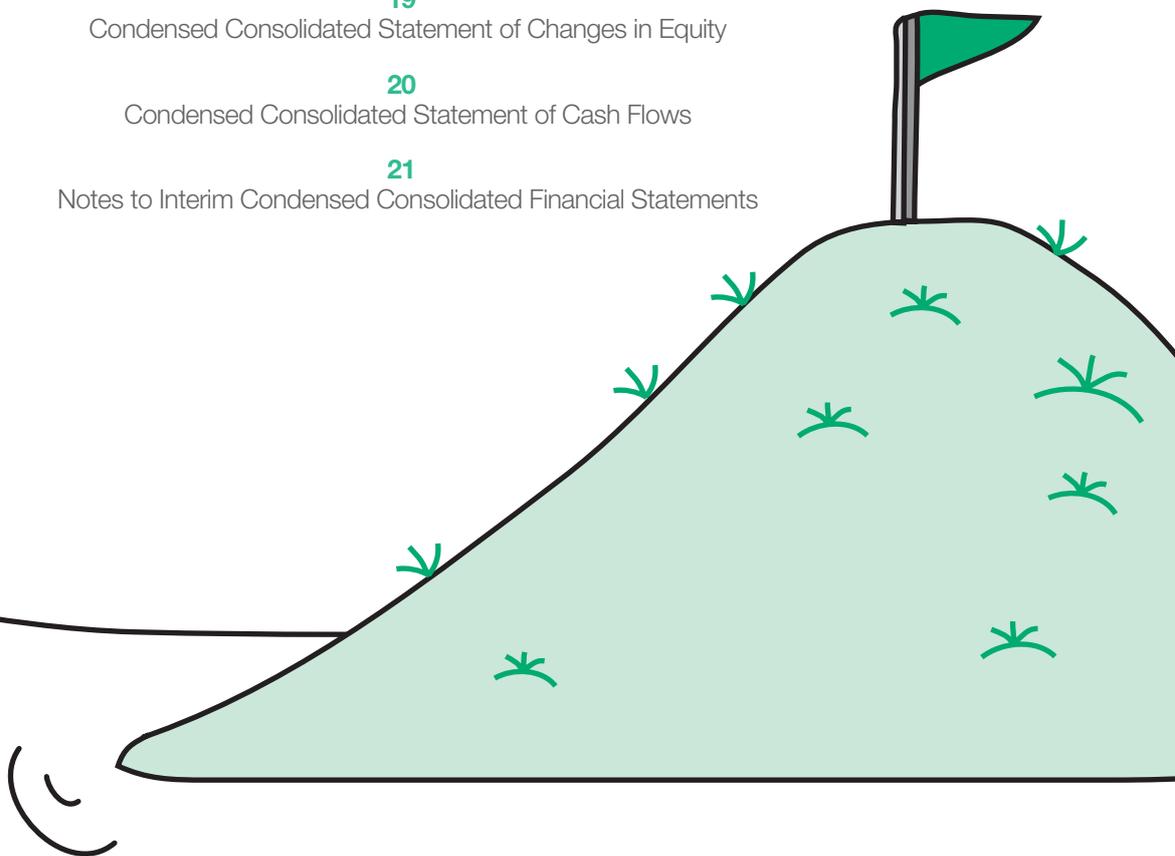
## Interim Report

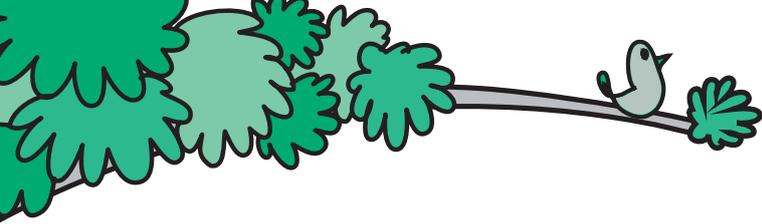
# 2015

# CONTENTS



|    |  |
|----|--|
| 2  | Corporate Information  |
| 3  | Management Discussion and Analysis   |
| 13 | Corporate Governance and Other Information   |
| 16 | Report on Review of Interim Condensed Consolidated Financial Statements              |
| 17 | Condensed Consolidated Statement of Profit or Loss and<br>Other Comprehensive Income |
| 18 | Condensed Consolidated Statement of Financial Position                               |
| 19 | Condensed Consolidated Statement of Changes in Equity                                |
| 20 | Condensed Consolidated Statement of Cash Flows                                       |
| 21 | Notes to Interim Condensed Consolidated Financial Statements                         |





## CORPORATE INFORMATION

### Board of Directors

#### Executive Directors

Mr. Zhao Hongliang (趙洪亮) (*Chairman*)  
Mr. Wang Shaogang (王紹崗) (*Vice-chairman*)  
Mr. Fu Wenguo (付文國) (*Chief Executive Officer*)  
Ms. Su Shiqin (蘇士芹) (*Chief Financial Officer*)

#### Non-executive Directors

Mr. Sun Wei (孫瑋)  
Mr. Lau Ho Fung (劉浩峰)

#### Independent Non-executive Directors

Mr. Wu Chi Keung (胡志強)  
Mr. Zhang Yuezhou (張月周)  
Mr. Zhu Zhanbo (朱戰波)

#### Joint Company Secretaries

Mr. Liu Gang (劉剛)  
Mr. Kwok Siu Man (郭兆文)

#### Authorised Representatives

Mr. Wang Shaogang (王紹崗)  
Mr. Liu Gang (劉剛)

#### Audit Committee

Mr. Wu Chi Keung (胡志強) (*Chairman*)  
Mr. Zhang Yuezhou (張月周)  
Mr. Zhu Zhanbo (朱戰波)

#### Remuneration Committee

Mr. Zhang Yuezhou (張月周) (*Chairman*)  
Mr. Zhu Zhanbo (朱戰波)  
Mr. Wu Chi Keung (胡志強)  
Mr. Zhao Hongliang (趙洪亮)

#### Nomination Committee

Mr. Zhu Zhanbo (朱戰波) (*Chairman*)  
Mr. Wu Chi Keung (胡志強)  
Mr. Zhang Yuezhou (張月周)  
Mr. Fu Wenguo (付文國)

#### Independent Auditor

Ernst & Young

#### Principle Bankers

Agricultural Development Bank of China  
Agricultural Bank of China

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11, Bermuda

### Principal Place of Business and Headquarters in the PRC

Qingxiang Street  
Kedong, Qiqihar  
Heilongjiang Province  
PRC

### Principal Place of Business in Hong Kong

31/F, 148 Electric Road  
North Point  
Hong Kong

### Principal Share Registrar and Transfer Office in Bermuda

Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

### Legal Advisors

*As to Hong Kong Laws*  
Chiu & Partners

*As to PRC Laws*  
Jingtian & Gongcheng

### Stock Code/Board Lots

1431/1,000

### Company's Websites

[www.ystdfarm.com](http://www.ystdfarm.com)  
[www.ystdairyfarm.com](http://www.ystdairyfarm.com)



# 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

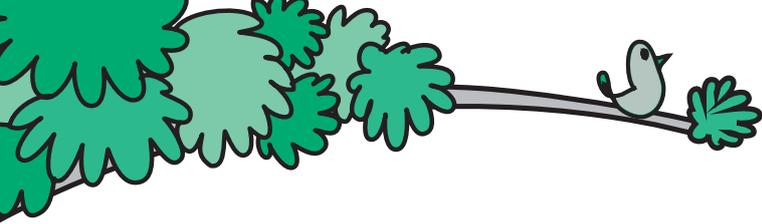
In terms of herd size and production volume, YuanShengTai Dairy Farm Limited (the “Company”) together with its subsidiaries (collectively, the “Group”) is one of the leading dairy farming companies in China. Supported by the increase in production volume of raw milk, the sales of raw milk for the six months ended 30 June 2015 (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 Dairy 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.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

|                          | Actual Designed<br>Capacity (Number<br>of Cows/Head) | Site Area<br>(m <sup>2</sup> ) |
|--------------------------|--|--------------------------------|
| 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                        |
| <b>Total</b>             | <b>78,000</b>  | <b>4,929,000</b>               |

|                                 | Actual inventory<br>of cows |
|---------------------------------|-----------------------------|
| 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 (Note) | —                           |
| <b>Total</b>                    | <b>48,970</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.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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.

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

### Price of raw milk

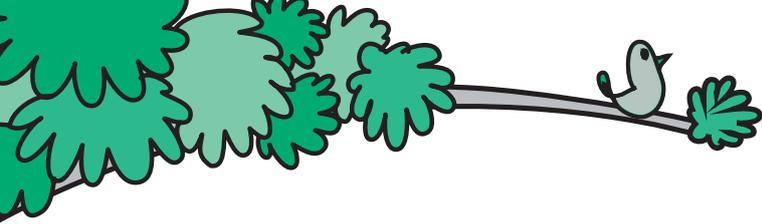
The selling price of our raw milk is affected by a number of factors, including the quality of milk, diversity and composition of customers, seasonal factors, market circumstances as well as the market prices and feed costs. The price of domestic raw milk continues to fall due to the further increase 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.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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:

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

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.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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

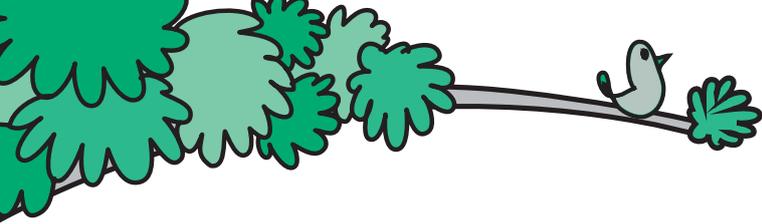
|                                   | Six-month<br>period ended<br>30 June<br>2015<br>RMB'000 | Six-month<br>period ended<br>30 June<br>2014<br>RMB'000 |
|-----------------------------------|---|---|
| Other income                      |   |   |
| Government subsidies              | 296   | 7,936   |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

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.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Administrative Expenses

The table below summarizes the components of our administrative expenses:

|                                | Six-month<br>period ended<br>30 June<br>2015<br>RMB'000 | Six-month<br>period ended<br>30 June<br>2014<br>RMB'000 |
|--------------------------------|---|---|
| Administrative expenses        |   |   |
| Salaries and welfare           | 15,268  | 6,199   |
| Amortization                   | 2,630   | 2,604   |
| Travel, meal and entertainment | 2,349   | 2,798   |
| Professional fee               | 3,959   | 3,486   |
| Depreciation                   | 192   | 159   |
| Insurance                      | 3,577   | 2,693   |
| Write-down of inventories      | 12,394  | —   |
| Other expenses                 | 4,806   | 3,363   |
| Administrative expenses, total | 45,175  | 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) principally due to the drop in price of domestic raw milk, 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).



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Share Option Scheme

A share option scheme (the “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 of the Company (the “Directors”) may grant options (“Options”) to subscribe for shares of the Company to eligible participants, including without limitation employees of the Group, Directors 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 (the “Shares”) 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.

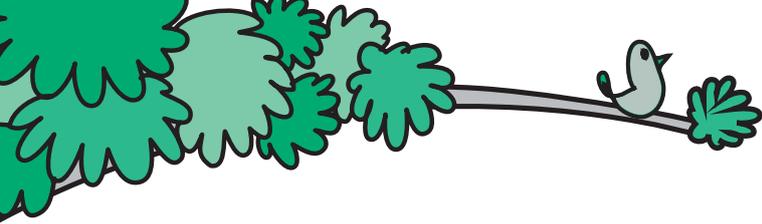
Details of the movements of the share options during the Period are as follows:

| Grantees                         | Number of Options            |                           |                             |                          |                            | Outstanding as at 30.06.2015 | Exercise price per Share HK\$ | Grant Date | Validity period of the Options |
|----------------------------------|------------------------------|---------------------------|-----------------------------|--------------------------|----------------------------|------------------------------|-------------------------------|------------|--------------------------------|
|                                  | Outstanding as at 01.01.2015 | Granted during the period | Cancelled during the period | Lapsed during the period | Exercise during the period |                              |                               |            |                                |
| <b>Directors</b>                 |                              |                           |                             |                          |                            |                              |                               |            |                                |
| Mr. Zhao Hongliang               | 6,500,000                    | —                         | —                           | —                        | —                          | 6,500,000                    | 1.46                          | 22.08.2014 | Note 1                         |
| Mr. Wang Shaogang                | 3,500,000                    | —                         | —                           | —                        | —                          | 3,500,000                    | 1.46                          | 22.08.2014 | Note 1                         |
| Ms. Su Shiqin                    | 2,000,000                    | —                         | —                           | —                        | —                          | 2,000,000                    | 1.46                          | 22.08.2014 | Note 1                         |
| Mr. Fu Wenguo                    | 5,000,000                    | —                         | —                           | —                        | —                          | 5,000,000                    | 1.46                          | 22.08.2014 | Note 1                         |
| Mr. Wu Chi Keung                 | 200,000                      | —                         | —                           | —                        | —                          | 200,000                      | 1.46                          | 22.08.2014 | Note 1                         |
| <b>Senior management members</b> |                              |                           |                             |                          |                            |                              |                               |            |                                |
| Mr. Wang Yongxin                 | 2,000,000                    | —                         | —                           | —                        | —                          | 2,000,000                    | 1.46                          | 22.08.2014 | Note 1                         |
| Mr. Luo Qinghua                  | 2,000,000                    | —                         | —                           | —                        | —                          | 2,000,000                    | 1.46                          | 22.08.2014 | Note 1                         |
| Mr. Xue Dejiang                  | 250,000                      | —                         | —                           | —                        | —                          | 250,000                      | 1.46                          | 22.08.2014 | Note 1                         |
| <b>Employees (in aggregate)</b>  |                              |                           |                             |                          |                            |                              |                               |            |                                |
|                                  | 28,200,000                   | —                         | —                           | —                        | —                          | 28,200,000                   | 1.46                          | 22.08.2014 | Note 1                         |

Note:

- The validity period of the Options shall expire on the 7th anniversary of the Grant Date, or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:
  - Tranche I: beginning on the 1st anniversary of the Grant Date: 30% of such Options granted;
  - Tranche II: beginning on the 2nd anniversary of the Grant Date: 30% of such Options granted; and
  - Tranche III: beginning on the 3rd anniversary of the Grant Date: 40% of such Options granted.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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.

|   | At 30 June<br>2015<br>RMB'000 | At 31 December<br>2014<br>RMB'000 |
|---|-------------------------------|-----------------------------------|
| Unsecured bank borrowing repayable with in one year | 50,000                        | 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 (the "Prospectus").

### Use of Proceeds from the Initial Public Offering

The Shares first became listed on the Main Board of The Stock Exchange of Hong Kong Limited (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.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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

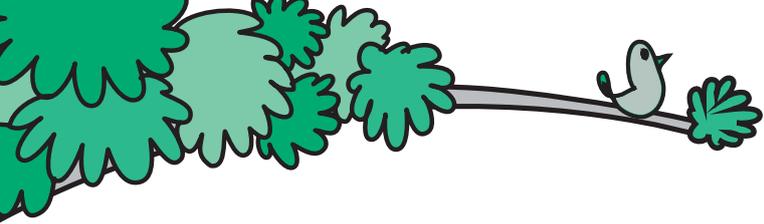
Capital commitment of the Group as at 30 June 2015 were RMB232.1 million, which were for construction of our new farms and renewal of existing facilities. The Group did not have any significant contingent liabilities as at 30 June 2015.

### 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.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

### Compliance with 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 dealing in securities of the Company by the Directors. In response to a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code during the Period.

### Review by Audit Committee

The Company has established an audit committee (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 and this interim report have been reviewed by the Audit Committee. The Company's independent auditor, Ernst & Young, has also review such unaudited condensed consolidated financial results. The report on review of interim condensed consolidated financial statements is included on page 16.





## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2015, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or (c) pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

#### Long Positions in the Shares

| Name of Director/<br>Chief Executive | Capacity/Nature of interest                                 | Number of<br>Shares held | Number of<br>underlying<br>Shares held |               | Approximate<br>percentage of<br>issued Shares |
|--------------------------------------|---|--------------------------|--|---------------|---|
|                                      |   |                          |  | Total         |   |
| Mr. Zhao Hongliang (Note 1)          | (i) Interest in controlled corporation and beneficial owner | 1,173,400,000            | 6,500,000                              | 1,179,900,000 | 30.19%  |
|                                      | (ii) Deemed interest under S.317 of the SFO                 | 170,200,000              | —                                      | 170,200,000   | 4.35%   |
|                                      | Total   | 1,343,600,000            | 6,500,000                              | 1,350,100,000 | 34.54%  |
| Mr. Wang Shaogang (Note 2)           | Beneficial owner  | —                        | 3,500,000                              | 3,500,000     | 0.09%   |
| Ms. Su Shiqin (Note 2)               | Beneficial owner  | —                        | 2,000,000                              | 2,000,000     | 0.05%   |
| Mr. Fu Wenguo (Note 2)               | Beneficial owner  | —                        | 5,000,000                              | 5,000,000     | 0.13%   |
| Mr. Wu Chi Keung (Note 2)            | Beneficial owner  | —                        | 200,000                                | 200,000       | 0.01%   |

#### Notes:

- 1,173,400,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao Hongliang, an executive Director and the Chairman. Therefore, Mr. Zhao Hongliang is deemed or taken to be interested in all the Shares beneficially owned by ZHL Asia Limited by virtue of the SFO.

Options were granted to Mr. Zhao Hongliang on 22 August 2014 pursuant to the share option scheme of the Company (the "Share Option Scheme"), which entitles him to subscribe for a total of 6,500,000 Shares upon his exercise of such options.

170,200,000 Shares were beneficially owned by ZHY Asia Limited which is solely owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang.

ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao Hongliang and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao Hongliang was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. Therefore, Mr. Zhao Hongliang was deemed to be interested in an aggregate of approximately 34.54% of the issued share capital of the Company.

- These represent the Shares to be issued and allotted by the Company upon exercise of the options granted under the Share Option Scheme.

Save as disclosed above, as at 30 June 2015, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Listing Rules.



## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares

As at 30 June 2015, so far as it was known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons which had 5% or more interests in the Shares and the underlying Shares as recorded in the register kept under section 336 of the SFO were as follows:

#### Long Positions and Short Positions in the Shares

| Name of Shareholder         | Capacity/Nature of interest                             | Number of Shares held | Number of underlying Shares held | Deemed interest pursuant to Section 317 of the SFO | Total         | Approximate percentage of issued Shares |
|-----------------------------|---|-----------------------|----------------------------------|--|---------------|---|
| ZHL Asia Limited (Note 1)   | Beneficial owner  | 1,173,400,000         | —                                | 176,700,000  | 1,350,100,000 | 34.54%                                  |
| Mr. Zhao Hongliang (Note 1) | Interest in controlled corporation and beneficial owner | 1,173,400,000         | 6,500,000                        | 170,200,000  | 1,350,100,000 | 34.54%                                  |
| Ms. Li Shuxia (Note 2)      | Interest of spouse                                      | 1,173,400,000         | 6,500,000                        | 170,200,000  | 1,350,100,000 | 34.54%                                  |
| ZHY Asia Limited (Note 1)   | Beneficial owner  | 170,200,000           | —                                | 1,179,900,000                                      | 1,350,100,000 | 34.54%                                  |
| Mr. Zhao Hongyu (Note 1)    | Interest in controlled corporation                      | 170,200,000           | —                                | 1,179,900,000                                      | 1,350,100,000 | 34.54%                                  |

Notes:

1. Please refer to note 1 under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Share and Debentures" above.
2. Ms. Li Shuxia is the spouse of Mr. Zhao Hongliang, an executive Director and the Chairman. Accordingly, Ms. Li Shuxia was deemed or taken to be interested in all the Shares in which Mr. Zhao Hongliang was interested and deemed or taken to be interested for the purpose of the SFO.



# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



**To the board of directors of YuanShengTai Dairy Farm Limited**

*(Incorporated in the Bermuda with limited liability)*

## Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 17 to 30, which comprise the condensed consolidated statement of financial position of YuanShengTai Dairy Farm Limited (the “Company”) and its subsidiaries as at 30 June 2015 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board (the “IASB”).

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

### **Ernst & Young**

*Certified Public Accountants*

22/F Citic Tower, 1 Tim Mei Avenue, Central,

Hong Kong

21 August 2015

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

|  | Notes | Six-month period ended 30 June |                                |
|--|-------|--------------------------------|--------------------------------|
|  |       | 2015<br>(Unaudited)<br>RMB'000 | 2014<br>(Unaudited)<br>RMB'000 |
| <b>REVENUE</b>   |       | <b>541,699</b>                 | 556,006                        |
| Cost of sales  |       | <b>(336,194)</b>               | (295,365)                      |
| 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                                    | 9     | <b>(145,946)</b>               | 8,662                          |
| <b>PROFIT BEFORE TAX</b>   | 4     | <b>11,998</b>                  | 250,798                        |
| Income tax expense   | 5     | <b>(1,060)</b>                 | (1,744)                        |
| <b>PROFIT FOR THE PERIOD</b>   |       | <b>10,938</b>                  | 249,054                        |
| Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods: |       |                                |                                |
| Exchange differences on translation of foreign operations  |       | <b>(247)</b>                   | 17,944                         |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>   |       | <b>10,691</b>                  | 266,998                        |
| <b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>                  |       |                                |                                |
| Basic and diluted  | 7     | <b>RMB0.3 cents</b>            | RMB6.4 cents                   |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | Notes | 30 June<br>2015<br>(Unaudited)<br>RMB'000 | 31 December<br>2014<br>(Audited)<br>RMB'000 |
|--|-------|---|---|
| <b>NON-CURRENT ASSETS</b>  |       |   |   |
| Property, plant and equipment                                    | 8     | 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  | 9     | 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  | 10    | 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   | 11    | 199,440                                   | 263,100                                     |
| Other payables and accruals                                      | 12    | 352,123                                   | 396,514                                     |
| Amounts due to related companies                                 |       | —   | 27,767                                      |
| Interest-bearing bank borrowings                                 | 13    | 50,000                                    | 50,000                                      |
| Total current liabilities  |       | 601,563                                   | 737,381                                     |
| <b>NET CURRENT ASSETS</b>  |       | 995,942                                   | 1,038,133                                   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                     |       | 4,353,333                                 | 4,336,189                                   |
| Net assets   |       | 4,353,333                                 | 4,336,189                                   |
| <b>EQUITY</b>  |       |   |   |
| Issued capital   | 14    | 30,727                                    | 30,727                                      |
| Reserves   |       | 4,322,606                                 | 4,305,462                                   |
| Total equity   |       | 4,353,333                                 | 4,336,189                                   |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | Note | Attributable to owners of the Company |                |               |                 |                              |                      |                  |              |
|---|------|---------------------------------------|----------------|---------------|-----------------|------------------------------|----------------------|------------------|--------------|
|   |      | Issued capital                        | Merger reserve | Share premium | Capital reserve | Exchange fluctuation reserve | Share option reserve | Retained profits | Total equity |
|   |      | RMB'000                               | RMB'000        | RMB'000       | RMB'000         | RMB'000                      | RMB'000              | RMB'000          | RMB'000      |
| At 1 January 2015   |      | 30,727                                | 186,000        | 2,621,198     | 455,505         | (2,860)                      | 4,625                | 1,040,994        | 4,336,189    |
| Profit for the period                                     |      | —                                     | —              | —             | —               | —                            | —                    | 10,938           | 10,938       |
| Other comprehensive expense for the period:               |      |                                       |                |               |                 |                              |                      |                  |              |
| Exchange differences on translation of foreign operations |      | —                                     | —              | —             | —               | (247)                        | —                    | —                | (247)        |
| Total comprehensive income for the period                 |      | —                                     | —              | —             | —               | (247)                        | —                    | 10,938           | 10,691       |
| Equity-settled share option arrangements                  |      | —                                     | —              | —             | —               | —                            | 6,453                | —                | 6,453        |
| At 30 June 2015 (unaudited)                               |      | 30,727                                | 186,000        | 2,621,198     | 455,505         | (3,107)                      | 11,078               | 1,051,932        | 4,353,333    |
| At 1 January 2014   |      | 30,727                                | 186,000        | 2,621,198     | 455,505         | (4,878)                      | —                    | 622,204          | 3,910,756    |
| Profit for the period                                     |      | —                                     | —              | —             | —               | —                            | —                    | 249,054          | 249,054      |
| Other comprehensive income for the period:                |      |                                       |                |               |                 |                              |                      |                  |              |
| Exchange differences on translation of foreign operations |      | —                                     | —              | —             | —               | 17,944                       | —                    | —                | 17,944       |
| Total comprehensive income for the period                 |      | —                                     | —              | —             | —               | 17,944                       | —                    | 249,054          | 266,998      |
| At 30 June 2014 (unaudited)                               |      | 30,727                                | 186,000        | 2,621,198     | 455,505         | 13,066                       | —                    | 871,258          | 4,177,754    |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Six-month period ended 30 June |                                |
|---|--------------------------------|--------------------------------|
|   | 2015<br>(Unaudited)<br>RMB'000 | 2014<br>(Unaudited)<br>RMB'000 |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>             | <b>10,336</b>                  | 236,045                        |
| Purchases of items of property, plant and equipment         | (65,040)                       | (40,559)                       |
| Additions to biological assets                              | (120,364)                      | (111,574)                      |
| Deposits paid for property, plant and equipment             | (76,680)                       | (87,178)                       |
| Deposits paid for biological assets                         | —                              | (28,800)                       |
| Proceeds from disposal of biological assets                 | 38,479                         | 19,911                         |
| Receipt of government grants                                | —                              | 7,400                          |
| Other investing cash flows                                  | (315)                          | 1,144                          |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>          | <b>(223,920)</b>               | (239,656)                      |
| New bank borrowings raised                                  | —                              | 60,000                         |
| Repayments of interest-bearing bank borrowings              | —                              | (20,000)                       |
| Other financing cash flows                                  | (1,517)                        | (7,334)                        |
| <b>NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES</b>   | <b>(1,517)</b>                 | 32,666                         |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b> | <b>(215,101)</b>               | 29,055                         |
| Cash and cash equivalents at beginning of period            | 1,295,595                      | 2,026,204                      |
| Effect of foreign exchange rate changes, net                | 288                            | (9,191)                        |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>           | <b>1,080,782</b>               | 2,046,068                      |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

The Company is a limited liability company incorporated in Bermuda and its registered office is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

During the period, YuanShengTai Dairy Farm Limited and its subsidiaries (together, the “Group”) is principally engaged in the production and sale of raw milk in the People’s Republic of China (the “PRC”).

## 2 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 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.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. 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.

### 4. Profit Before Tax

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

|   | Six-month period ended 30 June |                                |
|---|--------------------------------|--------------------------------|
|   | 2015<br>(Unaudited)<br>RMB'000 | 2014<br>(Unaudited)<br>RMB'000 |
| Breeding costs to produce                         | 260,596                        | 226,936                        |
| Production costs for raw milk                     | 75,598                         | 68,429                         |
| Cost of sales                                     | 336,194                        | 295,365                        |
| 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                 | (2,260)                        | (8,981)                        |

### 5. Income Tax

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

### 6. Interim Dividend

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

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 7. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount for the six-month period ended 30 June 2015 is based on the profit for the period attributable to ordinary equity holders of the parent 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 six-month periods ended 30 June 2015 and 2014 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

### 8. 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.

### 9. 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 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.

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

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.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. Biological Assets (Continued)

#### A – Nature of activities (Continued)

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<br/>2015<br/>(Unaudited)<br/>RMB'000</b> | <b>31 December<br/>2014<br/>(Audited)<br/>RMB'000</b> |
|------------|---|---|
| Dairy cows | <b>1,247,050</b>                                    | 1,229,107   |

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

The fair values of the Group's dairy cows as at 30 June 2015 were estimated by using the same valuation techniques as adopted in note 17 in the Annual Report dated 20 March 2015.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. Biological Assets (Continued)

#### C – Fair value hierarchy

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

|                        | Fair value measurement<br>using significant<br>unobservable inputs<br>(Level 3)<br>RMB'000 |
|------------------------|--|
| As at 30 June 2015     | 1,247,050  |
| As at 31 December 2014 | 1,229,107  |

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

|  | Six-month period ended 30 June |                                |
|--|--------------------------------|--------------------------------|
|  | 2015<br>(Unaudited)<br>RMB'000 | 2014<br>(Unaudited)<br>RMB'000 |
| Fair value of milk produced less costs to sell | 532,089                        | 545,727                        |

### 10. 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:

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

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Trade Receivables (Continued)

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.

### 11. Trade Payables

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

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

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

### 12. Other Payables and Accruals

|   | 30 June<br>2015<br>(Unaudited)<br>RMB'000 | 31 December<br>2014<br>(Audited)<br>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  | 94,100                                    | 111,248                                     |
|   | <b>352,123</b>                            | 396,514                                     |

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. Other Payables and Accruals (Continued)

Note:

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

On 25 April 2013, the Group further entered into a supplementary agreement with Feihe Dairy Group regarding the repayment of the outstanding purchase consideration of RMB532,254,000. Pursuant to the supplementary agreement, the outstanding purchase consideration would be settled in eleven quarterly instalments of RMB48,387,000 per quarter from 1 April 2013 to 31 December 2015 by either cash or delivery of raw milk at the option of the Group.

### 13. Interest-Bearing Bank Borrowings

During the period, there were no new bank borrowings obtained the balance is repayable within one year and carries a fixed rate of 6.0%.

### 14. Share Capital

|  | <b>30 June<br/>2015<br/>(Unaudited)<br/>RMB</b> | 31 December<br>2014<br>(Audited)<br>RMB |
|--|---|---|
| Authorised:<br>50,000,000,000 ordinary shares of HK\$0.01 each                       | <b>406,896,552</b>                              | 406,896,552                             |
| Authorised, issued and fully paid:<br>3,908,747,000 ordinary shares of HK\$0.01 each | <b>30,726,727</b>                               | 30,726,727                              |

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 15. Notes to the Consolidated Statement of Cash Flows

#### Major non-cash transactions

During the period, the Group delivered raw milk of RMB96,773,000 to Feihe Dairy Group for the settlement of considerations for the acquisition of YST Heping and Gannan Ruixinda.

### 16. Capital Commitments

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

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

### 17. Related Party Transactions

(a) The Group had the following transactions with related parties during the period:

|   | Notes     | Six-month period ended 30 June |                              |
|---|-----------|--------------------------------|------------------------------|
|   |           | 2015<br>(Unaudited)<br>RMB'000 | 2014<br>(Audited)<br>RMB'000 |
| <b>Purchases of feeds</b>                               |           |                                |                              |
| Heilongjiang Dinghe Modern Agricultural Company Limited | (i), (ii) | —                              | 463                          |
| Heilongjiang Dinghe Feeds Company Limited               | (i), (ii) | —                              | 6,001                        |
| Heilongjiang Dinghe Qinggang Husbandry Company Limited  | (i), (ii) | —                              | 300                          |

Notes:

- (i) The transactions were conducted in accordance with the terms and conditions mutually agreed by both parties.
- (ii) The major shareholder of the Group is the sole beneficial owner of these entities.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 17. Related Party Transactions (Continued)

(b) Compensation of key management personnel of the Group is as follows:

|   | Six-month period ended 30 June |                                |
|---|--------------------------------|--------------------------------|
|   | 2015<br>(Unaudited)<br>RMB'000 | 2014<br>(Unaudited)<br>RMB'000 |
| Short term employee benefits                        | 1,754                          | 1,364                          |
| Post-employment benefits                            | 129                            | —                              |
| Total compensation paid to key management personnel | 1,883                          | 1,364                          |

### 18. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair value, are as follows:

|                                  | Carrying amounts                          |   | Fair values                               |   |
|----------------------------------|---|---|---|---|
|                                  | 30 June<br>2015<br>(Unaudited)<br>RMB'000 | 31 December<br>2014<br>(Audited)<br>RMB'000 | 30 June<br>2015<br>(Unaudited)<br>RMB'000 | 31 December<br>2014<br>(Audited)<br>RMB'000 |
| <b>Financial liabilities</b>     |   |   |   |   |
| Interest-bearing bank borrowings | 50,000                                    | 50,000                                      | 50,233                                    | 51,733                                      |

Management has assessed that the fair values of cash and cash equivalents, trade receivables, other receivables, amounts due to related companies approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's own non-performance risk for interest-bearing bank borrowing was assessed to be insignificant.

The Group did not have any financial assets or financial liabilities measured at fair value as at 30 June 2015 (31 December 2014: Nil).

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 for both assets and financial liabilities (31 December 2014: Nil).

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

|                                 | Valuation technique         | Significant unobservable input |
|---------------------------------|-----------------------------|--------------------------------|
| Interest-bearing bank borrowing | Discounted cash flow method | Incremental borrowing cost     |

#### Assets for which fair values are disclosed

There were no assets for which fair values were disclosed as at 30 June 2015 and 31 December 2014.

#### Liabilities for which fair values are disclosed

|   | Fair value measurement using                                  |   |   | Total<br>RMB'000 |
|---|---|---|---|------------------|
|   | Quoted prices<br>in active<br>markets<br>(Level 1)<br>RMB'000 | Significant<br>observable<br>inputs<br>(Level 2)<br>RMB'000 | Significant<br>unobservable<br>inputs<br>(Level 3)<br>RMB'000 |                  |
| <b>As at 30 June 2015 (Unaudited)</b>   |   |   |   |                  |
| <b>Financial liability</b>              |   |   |   |                  |
| Interest-bearing bank borrowing         | —   | —   | 50,233  | 50,233           |
| <b>As at 31 December 2014 (Audited)</b> |   |   |   |                  |
| <b>Financial liability</b>              |   |   |   |                  |
| Interest-bearing bank borrowing         | —   | —   | 51,733  | 51,733           |

### 19. Approval of the Interim Financial Statements

The interim financial statements were approved and authorised for issue by the board of directors on 21 August 2015.