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YuanShengTai Dairy Farm Limited

原生態牧業有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL RESULTS

The board (the “Board”) of directors (the “Directors”) of YuanShengTai Dairy Farm Limited (the “Company” or “YuanShengTai”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2015 (the “Year”) together with the comparative figures for the year ended 31 December 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	<i>Notes</i>	2015 RMB'000	2014 RMB'000
REVENUE	3	1,032,648	1,162,890
Cost of sales		<u>(652,597)</u>	<u>(631,871)</u>
Gross profit		380,051	531,019
Other income	3	48,012	38,899
Gain from non-interest-bearing financial arrangements		—	4,994
Selling and distribution expenses		(20,178)	(20,789)
Administrative expenses		(86,160)	(54,416)
Finance costs	4	(9,511)	(36,537)
Changes in fair value less costs to sell of biological assets		<u>(244,981)</u>	<u>(43,020)</u>
PROFIT BEFORE TAX	5	67,233	420,150
Income tax expense	6	<u>(1,060)</u>	<u>(1,360)</u>
PROFIT FOR THE YEAR		<u>66,173</u>	<u>418,790</u>
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>6,260</u>	<u>2,018</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>72,433</u>	<u>420,808</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	8	<u>RMB1.69 cents</u>	<u>RMB10.71 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2015

	<i>Notes</i>	2015 RMB'000	2014 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		2,078,766	1,814,369
Prepaid land lease payments		102,958	110,282
Deposits for property, plant and equipment biological assets	9	102,403	144,298
Biological assets		1,251,429	1,229,107
Total non-current assets		3,535,556	3,298,056
CURRENT ASSETS			
Inventories		326,199	277,134
Trade receivables	10	87,606	168,712
Prepayments and other receivables	9	34,896	28,461
Prepaid land lease payments		5,720	5,612
Cash and cash equivalents		950,303	1,295,595
Total current assets		1,404,724	1,775,514
CURRENT LIABILITIES			
Trade payables	11	194,804	263,100
Other payables and accruals	12	324,781	396,514
Amounts due to related companies		563	27,767
Interest-bearing bank borrowings		—	50,000
Total current liabilities		520,148	737,381
NET CURRENT ASSETS		884,576	1,038,133
NET ASSETS		4,420,132	4,336,189
EQUITY			
Issued capital		30,727	30,727
Reserves		4,389,405	4,305,462
Total equity		4,420,132	4,336,189

NOTES TO FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). They have been prepared under the historical cost convention, except for biological assets and agricultural products which have been measured at fair values less cost to sell. The financial statements are presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (the “functional currency”) and all values are rounded to the nearest thousand except when otherwise indicated.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Annual Improvements to IFRSs 2010–2012 Cycle

Annual Improvements to IFRSs 2011–2013 Cycle

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

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw milk. For the purpose of resources allocation and performance assessment, the Group’s management focuses on the operating results of the Group. As such, the Group’s resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

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

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

All non-current assets were located in Mainland China.

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

During the Year, the Group made sales to customers, which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2015 and 2014 is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Customer A	414,064	416,438
Customer B	111,587	28,246
Customer C	440,772	606,442
Others	66,225	111,764
	<u>1,032,648</u>	<u>1,162,890</u>

3. REVENUE AND OTHER INCOME

Revenue, represents the net invoiced value of raw milk sold. An analysis of revenue and other income is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Revenue		
Sales of raw milk	<u>1,032,648</u>	<u>1,162,890</u>
Other income		
Government subsidies	12,361	12,185
Interest income from bank deposits	23,609	16,707
Sales of male calves	11,185	9,305
Others	857	702
	<u>48,012</u>	<u>38,899</u>

4. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Imputed interest on non-interest-bearing financial arrangements	7,671	24,412
Interest on bank and other borrowings wholly repayable within five years	1,840	12,125
	<u>9,511</u>	<u>36,537</u>

5. PROFIT BEFORE TAX

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Fair value of milk produced less costs to sell at the point of harvest	<u>1,012,470</u>	<u>1,141,398</u>
Breeding costs to produce	498,744	485,615
Production costs for raw milk	<u>153,853</u>	<u>146,256</u>
Cost of sales	<u>652,597</u>	<u>631,871</u>
Depreciation	60,929	57,519
Recognition of prepaid land lease payments	6,264	5,427
Auditors' remuneration	2,779	2,970
Changes in fair value less costs to sell of biological assets	244,981	43,020
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	45,938	41,298
Equity-settled share option expense	11,510	4,625
Pension scheme contributions	<u>5,962</u>	<u>6,111</u>
	<u>63,410</u>	<u>52,034</u>
Loss on disposal of items of property, plant and equipment	279	—
Write-down of inventories to net realisable value	<u>21,044</u>	<u>—</u>
Foreign exchange differences, net	<u>72</u>	<u>1,901</u>

6. INCOME TAX

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

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

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

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Current — Hong Kong	—	—
Current — Mainland China	<u>1,060</u>	<u>1,360</u>
Total tax charge for the year	<u><u>1,060</u></u>	<u><u>1,360</u></u>

7. DIVIDENDS

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

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount for the Year is based on the profit for the Year attributable to ordinary equity holders of the Company of RMB66,173,000 (2014: RMB418,790,000) and the weighted average number of ordinary shares in issue of 3,908,747,000 (2014: 3,908,747,000).

No adjustment has been made to the basic earnings per share amounts for the years ended 31 December 2015 and 2014 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

9. PREPAYMENTS AND OTHER RECEIVABLES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	110,794	144,729
Other receivables	<u>26,505</u>	<u>28,030</u>
Non-current portion	<u>137,299</u> <u>(102,403)</u>	172,759 <u>(144,298)</u>
Current portion	<u><u>34,896</u></u>	<u><u>28,461</u></u>

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

10. TRADE RECEIVABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade receivables	<u>87,606</u>	<u>168,712</u>

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

An aged analysis of the trade receivables as at the end of each reporting period, based on the invoice date and net of provisions, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within one month	49,506	165,351
Over one month and within two months	5,984	—
Over two months	<u>32,116</u>	<u>3,361</u>
	<u>87,606</u>	<u>168,712</u>

No provision for impairment of trade receivables for each of the reporting periods was made.

11. TRADE PAYABLES

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 2 months	125,631	162,208
2 to 6 months	59,855	70,371
6 to 12 months	3,056	13,229
Over 1 year	<u>6,262</u>	<u>17,292</u>
	<u>194,804</u>	<u>263,100</u>

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

12. OTHER PAYABLES AND ACCRUALS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Deferred income	156,979	59,074
Other payables — construction	118,646	80,993
Other payables — equipment and materials	4,682	9,323
Others	<u>44,474</u>	<u>247,124</u>
	<u>324,781</u>	<u>396,514</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

During the Year, the dairy industry of China faced an operating environment which was full of challenges. The price of raw milk in China continued to fall due to flagging domestic consumption. Market competition has intensified due to rapid increase in the quantity of imported milk resulting from low import duty. The Chinese government has taken steps to rationalise the dairy industry and raise the industry standard which has resulted in unprecedented intense market competition. Under a more stringent regulatory environment, the dairy industry has streamlined the production process and undergone structural transformation from free range farming to large scale and intensive farming.

As one of the leading dairy farming companies in China, YuanShengTai focuses on the sale and production of high-end raw milk. During the Year, benefiting from the favorable geographical location of our farms, YuanShengTai maintained its commitment to a large-scale, diversified and intensive development strategy, and strived to improve the operation efficiency by enhancing its farm management and controlling the production cost. The Group also actively explored business development opportunities while at the same time, ensuring the supply of safe, high-quality raw milk.

Business Review

In terms of herd size and production volume, YuanShengTai 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 Year increased by 1.4% from 230,121 tons in 2014 to 233,275 tons. Due to further decrease in the price of domestic raw milk, the total revenue of the Group for the Year amounted to RMB1,032.6 million, representing a drop of 11.2% as compared to that for the year ended 31 December 2014 (2014: RMB1,162.9 million). The net profit declined by 84.2% to RMB66.2 million as compared to the year for the year ended 31 December 2014. The gross profit for the year dropped by 28.4% from RMB531.0 million in 2014 to RMB380.1 million.

Since its establishment, the Group has established and maintained long-term relationships with China's leading dairy manufacturers. In 2015, the top three customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group and they accounted for almost all of our revenue during the Year, and any decreases in our future sales to, or failure to make timely payments to us by, any of them could adversely affect our financial condition and results of operations.

In order to fully utilise the production capacity and resources of the Group and extend the storage life of the Group's raw milk for immediate sale and/or storage for sales in the future, the Group actively explored feasible ways to preserve its raw milk products. On 22 June 2015, Kedong Ruixinda Commercial Trade Co., Ltd.* (克東瑞信達商貿有限公司), an indirect wholly-owned subsidiary of the Group, entered into a processing framework agreement with Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司) ("Feihe Dairy HLJ"), pursuant to which, Feihe Dairy HJL agreed to process the Group's raw milk into milk powder at a processing fee of RMB4,400 per ton of milk powder. This

helped the Group increase its revenue and minimise the potential loss suffered from the perishability of raw milk products of the Group and was in the interest of the Group and shareholders as a whole. For more details, please refer to the announcement of the Company dated 22 June 2015.

- ***Construction of Farms***

As at 31 December 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. In 2015, Baiquan Ruixincheng Farm, a newly constructed farm, was duly put into operation in the fourth quarter.

	Actual Designed Capacity <i>(Number of Cows/Head)</i>	Actual Inventory Number	Site Area <i>(m²)</i>
Gannan Oumei Farm	12,000	9,722	986,333
Kedong Oumei Farm	6,000	6,400	384,000
Kedong YST Farm	18,000	9,358	784,000
Zhenlai Farm Phase I	15,000	12,615	1,066,667
Kedong Yongjin Farm	12,000	6,705	714,000
Baiquan Ruixincheng Farm	<u>15,000</u>	<u>4,995</u>	<u>994,000</u>
Total	<u><u>78,000</u></u>	<u><u>49,795</u></u>	<u><u>4,929,000</u></u>

- ***Milk yield***

During the Year, the average annual milk yield per cow was 9.9 tons, representing an increase of 5.3% as compared to 9.4 tons for the year ended 31 December 2014. The Group expects that the average milk yield per cow will further increase with the development of farms, a more balanced age group of herd and a more optimized structure 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 49,795 as of 31 December 2015. The total number of our matured milkable cows decreased from 26,005 as of 31 December 2014 to 25,064 as of 31 December 2015. The decrease in the number of matured milkable cows enhanced our raw milk production efficiency. Meanwhile, during the Year, the Company actively optimized the herd structure, improved the overall quality of herd and abandoned cows with low yield.

	2015	2014
Number of matured milkable cows	25,064	26,005
Number of heifers and calves	<u>24,731</u>	<u>18,618</u>
Total number of dairy cows	<u><u>49,795</u></u>	<u><u>44,623</u></u>

- *Price of raw milk*

The selling price of our raw milk was 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 continued to fall due to further increase of imported milk powder and the impact of global economic environment. During the Year, despite the unfavourable operating environment, the Group still managed to sell raw milk at a price higher than the market average price. The average selling price of our raw milk was RMB4,427 per ton for the Year, representing a decrease of approximately 12.4% comparing to that for the year ended 31 December 2014.

Outlook

The Group believes that as the disposable income increases, there is much room for milk consumption per capita in China, and the demand for high-quality raw milk in the market will support long term growth outlook. Moreover, at the fifth session of the 18th Plenary Meeting of the PRC Communist Party, the Proposal on the 13th Five-Year Plan for National Economic and Social Development formulated by the PRC Communist Party was passed, which, together with the expected growth in birth rate and population brought out by the implementation of "Two-child Fertility Policy", will create favorable opportunities for the sustainable development of the Group.

To ensure high-quality raw milk supply in the future, the Group will adjust its operation strategy, enhance business portfolio at appropriate time, explore new income sources, shuffle herd structure, improve feeding formula and raise feeds utilization to reduce production cost and increase profit. The Group will also rationally develop the newly established farms to conduct bulls/beef cattles feeding business and improve the overall profitability.

In addition, the Group will continue to replicate its original successful business model through unified layout, standardized operation, breeding, feeding, production, storage and transportation quality control, favorable management system, and continuously provide consumers with top-quality raw milk to further strengthen the Group's position as China's leading dairy farming company and continue our pursuit to become the national leading premium raw milk supplier.

Our Revenue

During the Year, our total sales of milk produced decreased by 11.2% from RMB1,162.9 million for the year ended 31 December 2014 to RMB1,032.7 million. The sales volume reached 233,275 tons, representing an increase of 3,154 tons or 1.4% as compared with 230,121 tons in 2014. The growth was primarily attributable to (i) the increase in herd size, and (ii) the increase in average annual milk yield per cow. In addition, our average selling price of raw milk decreased from RMB5,053 per ton in 2014 to RMB4,427 per ton in 2015. The decrease in selling price was mainly attributable to the continuing drop in market price of domestic raw milk in 2015.

Cost of sales

Our cost of sales for the Year was RMB652.6 million. The table below summarizes the components of our cost of sales by nature for the years 2014 and 2015:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales		
Feed	498,744	485,615
Salary, welfare and social insurance	36,519	30,324
Depreciation	39,679	38,580
Veterinary cost	22,366	22,552
Utility	21,083	21,717
Other costs	<u>34,206</u>	<u>33,083</u>
Cost of sales, total	<u><u>652,597</u></u>	<u><u>631,871</u></u>

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB498.7 million and RMB485.6 million for the years ended 31 December 2015 and 2014, respectively, representing 76.4% and 76.9% of the cost of sales for the respective financial years ended 31 December 2015 and 2014. The increase in our feed costs was attributable to the increase in feed consumption in 2015 as the number of our milkable cows grew.

Gross Profit

Given the above factors, the gross profit decreased to RMB380.1 million for the Year (2014: RMB531.0 million), representing a decrease of 28.4% as compared to that for 2014. Our gross profit margin also decreased from 45.7% in 2014 to 36.8% in 2015.

Other Income

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Other income		
Government subsidies	12,361	12,185
Interest income from bank deposits	23,609	16,707
Sales of male calves	11,185	9,305
Others	857	702
	<u> </u>	<u> </u>
Other income, total	<u>48,012</u>	<u>38,899</u>

Other income for the Year amounted to RMB48.0 million (2014: RMB38.9 million), representing a growth of 23.4%. The increase was primarily attributable to an increase in interest income from bank deposits, which was mainly due to increase in the level of bank deposits.

Selling and distribution expenses

All of our selling and distribution expenses were transportation expenses of our raw milk. Our selling and distribution costs were RMB20.2 million for the Year (2014: RMB20.8 million).

Administrative expenses

The table below summarizes the components of our administrative expenses:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Administrative expenses		
Salary and welfare	30,404	21,716
Amortization	5,250	5,224
Travel, meal and entertainment	7,915	10,262
Professional fee	9,129	4,437
Depreciation	484	338
Insurance	4,683	3,502
Written-down of inventories to not realisable value	21,044	—
Others	7,251	8,937
	<u>86,160</u>	<u>54,416</u>
Administrative expenses, total	<u>86,160</u>	<u>54,416</u>

We incurred administrative expenses of RMB86.2 million for the Year (2014: RMB54.4 million) representing an increase of approximately 58.3% as compared to 2014. The increase was mainly attributable to a write-down of the inventories occurred in the Year and an increase in salaries and welfare.

Finance costs

Our finance costs substantially decreased to RMB9.5 million for the Year (2014: RMB36.5 million). The decrease was primarily due to the fact that the Group did not incur any new bank borrowings during the Year.

Changes in fair value less cost to sell of biological assets

Changes in fair value less cost to sell of biological assets was a loss of RMB245.0 million in 2015 as compared to a loss of RMB43.0 million in 2014. The increase in loss was principally due to the drop in the price of domestic raw milk.

Profit for the Year of the Group

Taking into account all of the above factors, the Group's profit was RMB66.2 million for the Year. This represents a decrease of 84.2% from RMB418.8 million for the year ended 31 December 2014. Basic earnings per share was approximately RMB1.69 cents for the Year (2014: RMB10.71 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB144.7 million, as compared to RMB170.7 million in 2014.

	At 31 December	
	2015	2014
	RMB'000	RMB'000
Unsecured bank borrowings repayable within one year	<u>—</u>	<u>50,000</u>

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

CAPITAL STRUCTURE

As at 31 December 2015, the Company's issued share capital was HK\$39,087,470 divided into 3,908,747,000 shares of HK\$0.01 each (2014: HK\$39,087,470 divided into 3,908,747,000 shares).

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

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

As part of the Group's future strategy, the Group's planned capital expenditures for its business operations will primarily be related to the construction and commencement of operations of its new dairy farms. The Group anticipates that its capital expenditures will be financed by cash generated from its operations, debt financing or bank loans and the unutilised net proceeds from the issue of new shares under the global offering as set out in the prospectus of the Company dated 14 November 2013 (the "Prospectus").

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2015 nor are there other plans for material investments on capital assets as at the date of this announcement.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE "IPO")

The Company's shares (the "Shares") first became listed on the Stock Exchange on 26 November 2013. Gross proceeds raised from the global offering in such connection amounted to about HK\$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company) amounted to about HK\$2,564 million. Up to 31 December 2015, about HK\$1,532.6 million of such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which as to HK\$1,247.2 million on construction of new farms, as to HK\$256.4 million

on working capital and general corporate purpose, and as to HK\$29.0 million on developing upstream operations purpose. The Directors will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market condition to better deploy resources and proceeds of the IPO. Announcement will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The remaining balance was kept in banks and approved financial institutions in Hong Kong and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

PLEDGE OF ASSETS

As at 31 December 2015, no property, plant and equipment of the Group were pledged as security for bank borrowings.

FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as the U.S. dollars and Hong Kong dollars. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2015 and 2014 were RMB120.9 million and RMB209.0 million, respectively, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2015.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend in respect of the Year (2014: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group had approximately 1,377 employees (2014: 1,290 employees), all of whom are located in the PRC.

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

The Directors and senior management of the Company receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Company or executing their functions in relation to its operations. The Company regularly reviews and determines the remuneration and compensation packages of the Directors and senior management.

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

Further, the remuneration committee of the Company reviews and recommends to the Board for consideration and approval of the remuneration and compensation packages of the Directors and senior management by reference to their time commitment and responsibilities, the salaries paid by comparable companies and the performance of the Group.

EVENT AFTER REPORTING PERIOD

A special general meeting was held on 21 January 2016 in which the resolutions regarding the transactions contemplated under a master agreement dated 14 December 2015 entered into between (a) Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司) and Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司), both subsidiaries of the Company; and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk and the proposed annual caps relating thereto were passed by the shareholders of the Company. For further information, please refer the Company's announcements dated 14 December 2015 and 21 January 2016 and circular dated 31 December 2015.

Save as disclosed above, the Group does not have any material subsequent event after the Year and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the Year, the Company did not redeem any of its Shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code Provision A.4.2

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment.

Mr. Chen Xiangqing was appointed as an executive Director on 10 September 2015. Due to an inadvertent oversight, Mr. Chen was not put forward for re-election at the special general meeting of the Company held on 21 January 2016. As such, Mr. Chen shall retire at the forthcoming annual general meeting of the Company, and being eligible, offer himself for re-election thereat.

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 Year.

REVIEW OF ANNUAL RESULTS AND PRELIMINARY RESULTS ANNOUNCEMENT

The Company has established an audit committee ("Audit Committee") with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the three independent non-executive Directors, namely Mr. Wu Chi Keung (*committee chairman*), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. The Audit Committee has reviewed with the Company's management team the Company's annual consolidated results for the Year.

The figures in respect of this announcement of the Group's results for the Year have been agreed by the Company's auditor, Ernst & Young, Certified Public Accountants, to the amounts set out in the Group's audited financial statements for the Year and the amounts were found to be in agreement.

PUBLICATION OF INFORMATION ON DESIGNATED WEBSITES

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

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

Hong Kong, 22 March 2016

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhao Hongliang, Mr. Wang Shaogang, Mr. Fu Wenguo and Mr. Chen Xiangqing; two non-executive Directors, namely Mr. Sun Wei and Mr. Lau Ho Fung; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.