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YuanShengTai Dairy Farm Limited

原生態牧業有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 1431)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of YuanShengTai Dairy Farm Limited (the “Company” or “YuanShengTai”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 (the “Period”) together with selected explanatory notes and the relevant comparative figures.

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

		Six-month period ended 30 June	
		2016	2015
	<i>Notes</i>	(Unaudited)	(Unaudited)
		RMB'000	RMB'000
REVENUE		514,355	541,699
Cost of sales		<u>(337,935)</u>	<u>(336,194)</u>
Gross profit		176,420	205,505
Other income		5,647	14,086
Selling and distribution expenses		(9,049)	(9,610)
Administrative expenses		(52,857)	(45,175)
Finance costs		—	(6,862)
Changes in fair value less costs to sell of biological assets	8	<u>(255,728)</u>	<u>(145,946)</u>
(LOSS)/PROFIT BEFORE TAX	3	(135,567)	11,998
Income tax expense	4	<u>—</u>	<u>(1,060)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(135,567)</u>	<u>10,938</u>
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>948</u>	<u>(247)</u>
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD		<u>(134,619)</u>	<u>10,691</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	6	<u>RMB(3.5) cents</u>	<u>RMB0.3 cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	7	2,169,112	2,078,766
Prepaid land lease payments		99,845	102,958
Deposits for property, plant and equipment and biological assets		106,483	102,403
Biological assets	8	<u>1,098,147</u>	<u>1,251,429</u>
Total non-current assets		<u>3,473,587</u>	<u>3,535,556</u>
CURRENT ASSETS			
Inventories		202,715	326,199
Trade receivables	9	160,419	87,606
Prepayments and other receivables		9,040	34,896
Prepaid land lease payments		5,720	5,720
Cash and cash equivalents		<u>918,170</u>	<u>950,303</u>
Total current assets		<u>1,296,064</u>	<u>1,404,724</u>
CURRENT LIABILITIES			
Trade payables	10	118,233	194,804
Other payables and accruals	11	358,486	324,781
Amount due to a related company		<u>—</u>	<u>563</u>
Total current liabilities		<u>476,719</u>	<u>520,148</u>
NET CURRENT ASSETS		<u>819,345</u>	<u>884,576</u>
NET ASSETS		<u>4,292,932</u>	<u>4,420,132</u>
EQUITY			
Issued capital		30,727	30,727
Reserves		<u>4,262,205</u>	<u>4,389,405</u>
Total equity		<u>4,292,932</u>	<u>4,420,132</u>

NOTES TO INTERIM FINANCIAL INFORMATION

1. BASIS OF PRESENTATION

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the “IASB”).

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015, 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 IFRS 10, IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012–2014 Cycle</i>	Amendments to a number of HKFRSs

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.

2. OPERATING SEGMENT INFORMATION

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

3. (LOSS)/PROFIT BEFORE TAX

	Six-month period ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Breeding costs to produce	249,708	260,596
Production costs for raw milk	<u>88,227</u>	<u>75,598</u>
Cost of sales	<u><u>337,935</u></u>	<u><u>336,194</u></u>
Depreciation	34,669	30,159
Recognition of prepaid land lease payments	3,113	3,126
Write-down of inventories to net realisable value	<u>18,954</u>	<u>12,394</u>
Foreign exchange differences, net	<u><u>62</u></u>	<u><u>(2,260)</u></u>

4. INCOME TAX

	Six-month period ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Tax charge for the period — Group: Current — Mainland China	<u><u>—</u></u>	<u><u>1,060</u></u>

5. INTERIM DIVIDEND

No dividend was paid or proposed by the Company during the six-month periods ended 30 June 2016 and 2015.

6. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount for the Period is based on the loss for the Period attributable to ordinary equity holders of the parent of RMB135,567,000 (30 June 2015: profit of RMB10,938,000) and the weighted average number of ordinary shares in issue of 3,908,747,000 (30 June 2015: 3,908,747,000).

No adjustment has been made to the basic (loss)/earnings per share amount presented for the six-month periods ended 30 June 2016 and 2015 in respect of a dilution as the impact of the share option outstanding had an anti-dilutive effect on the basic (loss)/earnings per share amounts presented.

7. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of RMB126,559,000. In addition, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB1,544,000, resulting in a loss on disposal of RMB167,000.

8. BIOLOGICAL ASSETS

A — Nature of activities

Dairy cows owned by the Group are primarily held to produce milk.

The quantity of dairy cows owned by the Group at 30 June 2016 and 31 December 2015 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 30 June 2016 and 31 December 2015 were dairy cows that have not had their first calves.

	30 June 2016 (Unaudited) Heads	31 December 2015 (Audited) Heads
Dairy cows		
Milkable cows	26,558	25,064
Heifers and calves	24,619	24,731
Total dairy cows	<u>51,177</u>	<u>49,795</u>

In general, the heifers are inseminated with semen when they reached approximately 13 months old. After approximately nine months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days to 340 days before an approximately 55 days' resting period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

B — Value of Dairy Cows

The value of dairy cows at the end of the period/year was:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Dairy cows	<u>1,098,147</u>	<u>1,251,429</u>

	Heifers and calves	Milkable cows	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as at 1 January 2015	360,137	868,970	1,229,107
Increase due to raising (feeding costs and others)	257,517	—	257,517
Increase due to purchase	92,648	—	92,648
Transfer (out)/in	(267,694)	267,694	—
Decrease due to sales	(6,257)	(76,605)	(82,862)
Gain/(loss) arising from changes in fair value less costs to sell	<u>66,098</u>	<u>(311,079)</u>	<u>(244,981)</u>
Balance as at 31 December 2015 and 1 January 2016	502,449	748,980	1,251,429
Increase due to raising (feeding costs and others)	143,577	—	143,577
Transfer (out)/in	(168,815)	168,815	—
Decrease due to sales	(7,870)	(33,261)	(41,131)
Loss arising from changes in fair value less costs to sell	<u>(39,334)</u>	<u>(216,394)</u>	<u>(255,728)</u>
Balance as at 30 June 2016	<u><u>430,007</u></u>	<u><u>668,140</u></u>	<u><u>1,098,147</u></u>

The fair values of the Group's dairy cows as at 30 June 2016 were estimated by using the same valuation techniques as adopted in note 15 to the Group's financial statements dated 22 March 2016.

C — Fair value hierarchy

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

	Fair value measurement using significant unobservable inputs (Level 3) <i>RMB'000</i>
As at 30 June 2016	<u><u>1,098,147</u></u>
As at 31 December 2015	<u><u>1,251,429</u></u>

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

	Six-month period ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Fair value of milk produced less costs to sell	<u>505,306</u>	<u>532,089</u>

9. TRADE RECEIVABLES

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 1 month	76,961	49,506
1 month to 2 months	23,639	5,984
Over 2 months	<u>59,819</u>	<u>32,116</u>
	<u>160,419</u>	<u>87,606</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

10. TRADE PAYABLES

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 2 months	84,391	125,631
2 to 6 months	28,084	59,855
6 to 12 months	2,509	3,056
Over 1 year	<u>3,249</u>	<u>6,262</u>
	<u>118,233</u>	<u>194,804</u>

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

11. OTHER PAYABLES AND ACCRUALS

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Deferred income	174,878	156,979
Other payables — construction	131,414	118,646
Other payables — equipment and materials	8,665	4,682
Others	<u>43,529</u>	<u>44,474</u>
	<u>358,486</u>	<u>324,781</u>

12. CAPITAL COMMITMENTS

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Contracted but not provided for:		
— Construction in progress	<u>151,980</u>	<u>120,944</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

As of the first half of 2016, China's raw milk industry still encounters severe challenges. Since the prices of foreign raw milk powder in large packets are low, the proportion of imported raw milk in China continues to rise. In addition, the unregulated use of concentrated milk and the decrease in market demand for domestic fresh milk all led to the severe environment of the domestic raw milk market, thus pushing down the general domestic milk prices and increasing the pressure on sales.

As a leading dairy farming company in China, YuanShengTai Dairy Farm Limited (the "Company" or "YuanShengTai"), together with its subsidiaries (collectively, the "Group") will continue to maintain its commitment to a large-scale and intensive development strategy and keep enhancing the operation and management standard. We shall, on the one hand, increase the average annual milk yield per matured milkable cow by adjusting the cattle mix and improving the feeding formula in order to enhance the production efficiency; on the other hand, we shall actively diversify our business and seek new profit drivers by starting the trial operation of beef cattle feeding business.

Business Review

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in China. For the six months ended 30 June 2016 (the "Period"), the total sales of raw milk of the Group increased by 9.0% from 117,831 tons in the same period of 2015 to 128,439 tons. Due to further decrease in domestic milk prices, the total revenue of the Group during the Period amounted to RMB514.4 million, representing a decrease of 5.0% (the first half of 2015: RMB541.7 million) as compared to the same period of 2015. The gross profit during the Period dropped by 14.2% from RMB205.5 million to RMB176.4 million, resulting in a loss of RMB135.6 million (the first half of 2015: net profit of RMB10.9 million) during the Period.

Since its establishment, the Group has established and maintained a long-term relationship with China's leading dairy manufacturers. In the first half of 2016, the top three customers of the Company were Feihe Group, Mengniu Group and Bright Dairy Group. The sales attributable to other customers increased from 0.7% in the same period of 2015 to 7.5%, leading to a more stable customer profile.

Construction of Farms

As of 30 June 2016, we had six farms in Heilongjiang Province and one farm in Jilin Province. Each farm had an actual capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 square metres. Among them, the construction of Keshan Farm was nearly halfway completed and is expected to commence operation by the end of 2016 after bringing in cows.

	Actual Designed Capacity (Number of Cows/ Head)	Actual Inventory Number	Area (m²)
Gannan Oumei Farm	12,000	9,531	986,333
Kedong Oumei Farm	6,000	6,853	384,000
Kedong YST Farm	18,000	12,025	784,000
Zhenlai Farm Phase I	15,000	13,155	1,066,667
Kedong Yongjin Farm	12,000	4,495	714,000
Baiquan Ruixincheng Farm	15,000	5,118	994,000
Keshan Farm	12,000	—	980,000
	<u>90,000</u>	<u>51,177</u>	<u>5,909,000</u>
Total	<u>90,000</u>	<u>51,177</u>	<u>5,909,000</u>

Milk yield

During the Period, the average annual milk yield per cow was 10.2 tons, representing an increase of 6.3% as compared to 9.6 tons in the same period of 2015. The Group expects that the average milk yield per cow will further increase with the more mature operation of farms, a more balanced age structure of herd and further optimization of herd structure.

Size of our herd

Driven by the advanced management model of our farms, the number of dairy cows of the Group's seven dairy farms increased from 49,795 as of 31 December 2015 to 51,177 as of 30 June 2016. The total number of our matured milkable cows increased from 25,064 as of 31 December 2015 to 26,558 as of 30 June 2016. The increase in number of matured milkable cows ensures that the Group is supplied with a stable source of quality raw milk.

	30 June 2016	31 December 2015
Number of matured milkable cows	26,558	25,064
Number of heifers and calves	<u>24,619</u>	<u>24,731</u>
Total number of dairy cows	<u>51,177</u>	<u>49,795</u>

Price of raw milk

The price of domestic raw milk remained low due to continuous increase in imported milk powder, the pressure of sales faced by raw milk in upstream market and the impact of global economic environment. During the Period, despite the unfavourable operating environment, the Group still managed to sell raw milk at a price higher than the market price. The average selling price of our raw milk was RMB4,005 per ton during the Period, representing a decrease of approximately 12.9% comparing to that in the same period of 2015.

Outlook

The Group believes that with the increasing disposable income and rising health awareness of Chinese residents, the milk consumption per capita in China still has significant room to increase when compared to the international level. In particular, the demand for quality milk source will continue to grow and concentrated milk will also be eliminated over time. In addition, as the ongoing “Two-child Policy” becomes more established, the growth in birth rate and population will create favourable opportunities for the long-term development of the Group.

In the future, the Group will ensure high-quality raw milk supply while continuing to develop beef cattle feeding business. The Group will establish whole-milk powder processing business in due time, continue to make reasonable adjustment to the herd structure and improve the feeding formula. We shall also reduce the production cost and make more room for profit in order to realize maximization of the interest of the Shareholders. The Group will also rationally develop the newly established farms. It is expected that dairy cows will be introduced to Keshan Farm for feeding by the end of 2016, which will further strengthen the Group’s advantage of economies of scale.

Our Revenue

During the Period, our total sales of milk produced decreased by 5.0% to RMB514.4 million as compared with RMB541.7 million in the first half of 2015. The decrease of total sales was mainly due to a decrease in the price of domestic raw milk. The average selling price of our raw milk dropped to RMB4,005 per ton compared with RMB4,597 per ton in the first half of 2015, representing a decrease of 12.9%. The sales volume reached 128,439 tons, representing an increase of 10,608 tons or 9.0% as compared with 117,831 tons in the first half of 2015.

Cost of Sales

Our cost of sales for the Period was RMB338.0 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2016 and 2015:

	Six-month period ended 30 June 2016 RMB'000	Six-month period ended 30 June 2015 RMB'000
Cost of sales		
Feed	249,708	260,596
Salary, welfare and social insurance	23,273	18,335
Depreciation	22,055	19,903
Veterinary cost	12,705	10,622
Utility	11,510	11,213
Other cost	18,684	15,525
	<hr/>	<hr/>
Cost of sales, total	<u>337,935</u>	<u>336,194</u>

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB249.7 million and RMB260.6 million for the six-month periods ended 30 June 2016 and 2015, respectively, representing 73.9% and 77.5% of the cost of sales for the respective six-month periods ended 30 June 2016 and 2015. The decrease in our feed costs was attributable to the decrease in feed prices and our efforts to optimise the feeding formulas.

Gross Profit

Resulted from the factors discussed above, the gross profit decreased to RMB176.4 million for the Period, (the same period in 2015: RMB205.5 million), representing a decrease of 14.2%. Our gross profit margin decreased from 37.9% for the six-month period ended 30 June 2015 to 34.3% in the first half of 2016.

Other Income

	Six-month period ended 30 June 2016 RMB'000	Six-month period ended 30 June 2015 RMB'000
Other income		
Government subsidies	356	296
Interest income from bank deposit	1,096	4,837
Sales of male calves	2,759	6,303
Sales of milk powder	820	—
Foreign exchange differences, net	—	2,330
Other	616	320
Other income, total	<u>5,647</u>	<u>14,086</u>

Other income for the six-month periods ended 30 June 2016 and 2015 amounted to RMB5.6 million and RMB14.1 million, respectively, representing a decrease of 59.9%, which was mainly attributable to the decreases in sales of male calves, 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 RMB9.0 million (the same period in 2015: RMB9.6 million). The decrease was mainly due to more sales in the Period were made to customers located closer to our farms.

Administrative Expenses

The table below summarizes the components of our administrative expenses:

	Six-month period ended 30 June 2016 RMB'000	Six-month period ended 30 June 2015 RMB'000
Administrative expenses		
Salaries and welfare	15,987	15,268
Amortization	2,623	2,630
Travel, meal and entertainment	3,133	2,349
Professional fee	2,524	3,959
Depreciation	410	192
Insurance	3,483	3,577
Write-down of inventories	18,954	12,394
Other expenses	5,743	4,806
	<hr/>	<hr/>
Administrative expenses, total	<u>52,857</u>	<u>45,175</u>

We incurred administrative expenses of RMB52.9 million for the Period (for the first half of 2015: RMB45.2 million), representing an increase of approximately 17.0% as compared to the same period of 2015. The increase was mainly attributable to the write-down of inventories occurred in the Period.

Finance Costs

There was no bank borrowings during the Period. Our finance costs were RMBnil for the Period (for the first half of 2015: RMB6.9 million).

Loss 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 the sale of biological assets of RMB255.7 million was incurred in the Period (for the first half year of 2015: loss of RMB145.9 million) principally due to the drop in price of domestic raw milk, the Group's net loss for the Period was RMB135.6 million, as compared to a net profit of RMB10.9 million for the period ended 30 June 2015. Basic loss per share was approximately RMB3.5 cents for the Period (for the same period of 2015: earnings per share of RMB0.3 cent).

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Period (30 June 2015: nil).

SHARE OPTION SCHEME

A share option scheme (the “Share Option Scheme”) was adopted by a resolution in writing passed by the then Shareholders on 7 November 2013.

Under the Share Option Scheme, the Directors may grant share options (the “Options”) to subscribe for ordinary shares of the Company of HK\$0.01 each (the “Shares”) to eligible participants, including without limitation employees of the Group, directors of the Company and its subsidiaries. Options comprising a total of 148,850,000 underlying Shares were granted under the Share Option Scheme to certain employees of the Group and the Directors on 22 August 2014 (the “First Grant Date”) and 8 December 2015 (the “Second Grant Date”), respectively. No Option was granted, exercised or cancelled or lapsed under the Share Option Scheme during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group’s net cash inflow from operating activities amounted to RMB198.9 million, as compared to RMB10.3 million for the first half of 2015.

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

CAPITAL STRUCTURE

As at 30 June 2016, the Company’s issued share capital was HK\$39,087,470 divided into 3,908,747,000 Shares. The Company did not issue any new Shares during the Period.

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

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

As part of the Group’s future strategies, 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 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 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 2016, such net proceeds were spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which an aggregate of HK\$1,462.4 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\$36.8 million on development of upstream operations. The remaining balance was kept in banks and approved financial institutions in Hong Kong and the People's Republic of China (the "PRC").

MATERIAL ACQUISITIONS 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 2016, no property, plant and equipment of the Group (31 December 2015: 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 COMMITMENTS AND CONTINGENCIES

Capital commitments of the Group as at 30 June 2016 were RMB152.0 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 2016.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had approximately 1,452 employees (31 December 2015: approximately 1,377 employees), all of whom are located in the PRC. The remuneration and staff cost for the Period were RMB39.3 million (for the six-month period ended 30 June 2015: RMB33.6 million).

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

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

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

EVENT AFTER REPORTING PERIOD

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of its Shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares during the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of the Shareholders. The Board considers that the Company complied with all the code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to 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 Board has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the three independent non-executive Directors, namely Mr. Wu Chi Keung (committee chairman), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. The Company's unaudited condensed consolidated interim results for the Period have been reviewed by the Audit Committee.

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

The results announcement is required to be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ystdfarm.com and www.ystdairyfarm.com), respectively. The interim report of the Company for the Period will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 23 August 2016

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