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## **YuanShengTai Dairy Farm Limited**

**原生态牧業有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1431)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **FINANCIAL RESULTS**

The board (the “**Board**”) of directors (the “**Directors**”) of YuanShengTai Dairy Farm Limited (the “**Company**” or “**YuanShengTai**”) announces the audited consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2017 (the “**Year**”) together with the comparative figures for the year ended 31 December 2016.

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

*For the year ended 31 December 2017*

	Notes	2017 RMB'000	2016 RMB'000
<b>REVENUE</b>	3	<b>1,014,128</b>	1,029,232
Cost of sales		<u>(760,867)</u>	<u>(689,731)</u>
Gross profit		<u>253,261</u>	<u>339,501</u>
Other income	3	<b>43,027</b>	72,193
Selling and distribution expenses		<b>(19,871)</b>	(18,292)
Administrative expenses		<b>(82,692)</b>	(74,918)
Other expenses		<b>(32,967)</b>	–
Changes in fair value less costs to sell of biological assets		<u><b>(228,665)</b></u>	<u>(407,053)</u>
<b>LOSS BEFORE TAX</b>	4	<b>(67,907)</b>	(88,569)
Income tax expense	5	<u>–</u>	<u>–</u>
<b>LOSS FOR THE YEAR</b>		<u><b>(67,907)</b></u>	<u>(88,569)</u>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(22,560)</u>	<u>4,870</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<u><b>(90,467)</b></u>	<u>(83,699)</u>
<b>LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS</b>			
<b>ATTRIBUTABLE TO:</b>			
Owners of the Company		<u><b>(90,467)</b></u>	<u>(83,699)</u>
<b>LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic and diluted	7	<u><b>RMB(1.46) cents</b></u>	<u>RMB(2.27) cents</u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2017*

	<i>Notes</i>	<b>2017</b> <b>RMB'000</b>	2016 <i>RMB'000</i> (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>2,596,929</b>	2,453,485
Prepaid land lease payments		<b>91,768</b>	96,732
Prepayments and other receivables		<b>68,256</b>	72,696
Biological assets		<b>1,211,825</b>	1,101,641
Total non-current assets		<b>3,968,778</b>	3,724,554
<b>CURRENT ASSETS</b>			
Inventories		<b>259,379</b>	316,622
Trade receivables	8	<b>85,339</b>	105,742
Prepayments and other receivables		<b>11,654</b>	20,807
Prepaid land lease payments		<b>5,096</b>	5,720
Cash and cash equivalents		<b>1,135,920</b>	870,134
Total current assets		<b>1,497,388</b>	1,319,025
<b>CURRENT LIABILITIES</b>			
Trade payables	9	<b>233,211</b>	185,113
Other payables and accruals	10	<b>464,765</b>	343,230
Total current liabilities		<b>697,976</b>	528,343
<b>NET CURRENT ASSETS</b>		<b>799,412</b>	790,682
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,768,190</b>	4,515,236
<b>NON-CURRENT LIABILITIES</b>			
Other payables and accruals	10	<b>156,137</b>	159,523
Total non-current liabilities		<b>156,137</b>	159,523
Net assets		<b>4,612,053</b>	4,355,713
<b>EQUITY</b>			
Issued capital		<b>37,674</b>	30,727
Reserves		<b>4,574,379</b>	4,324,986
Total equity		<b>4,612,053</b>	4,355,713

## NOTES TO FINANCIAL STATEMENTS

### 1.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IAS”), and Interpretations) issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Companies Ordinance of Hong Kong. They have been prepared under the historical cost convention, except for biological assets and agricultural produce which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### 1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements to IFRSs 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12</i>

None of the above amendments to IFRSs has had a significant financial effect on these 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 2017 and 2016 is as follows:

	2017 RMB’000	2016 RMB’000
Customer A	532,594	456,428
Customer B	369,003	476,050
Others	112,531	96,754
	<u>1,014,128</u>	<u>1,029,232</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:

	2017 RMB'000	2016 RMB'000
<i>Revenue</i>		
Sales of raw milk	<u>1,014,128</u>	<u>1,029,232</u>
<i>Other income</i>		
Government subsidies	16,425	43,915
Interest income from bank deposits	22,482	21,824
Others	<u>4,120</u>	<u>6,454</u>
	<u>43,027</u>	<u>72,193</u>

### 4. LOSS BEFORE TAX

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

	2017 RMB'000	2016 RMB'000
Breeding costs to produce	544,442	512,438
Production costs for raw milk	<u>216,425</u>	<u>177,293</u>
Cost of sales	<u>760,867</u>	<u>689,731</u>
Depreciation	116,897	72,457
Less: Capitalised in biological assets	<u>(43,674)</u>	<u>(26,973)</u>
Depreciation recognised in the statement of profit or loss and other comprehensive income*	<u>73,223</u>	<u>45,484</u>
Recognition of prepaid land lease payments	5,588	6,226
Auditors' remuneration	2,400	2,400
Changes in fair value less costs to sell of biological assets	228,665	407,053
Employee benefit expenses excluding directors' and chief executive's remuneration:		
Wages and salaries	73,584	68,950
Equity-settled share option expense	2,472	14,101
Pension scheme contributions	15,360	12,578
Less: Capitalised in biological assets	<u>(25,220)</u>	<u>(21,060)</u>
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the statement of profit or loss and other comprehensive income**	<u>66,196</u>	<u>74,569</u>
Loss on disposal of items of property, plant and equipment	14,113	—
Foreign exchange differences, net	<u>9,253</u>	<u>497</u>

- \* Depreciation of approximately RMB71,857,000 (2016: RMB44,691,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.
- \*\* Employee benefit expenses of approximately RMB48,973,000 (2016: RMB44,267,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.

## 5. INCOME TAX

No provision for Hong Kong profits tax has been made for the Year as the Group did not generate any assessable profits arising in Hong Kong during the Year (2016: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

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

## 6. DIVIDENDS

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

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

The calculation of the basic loss per share is based on the loss for the Year attributable to ordinary equity holders of the Company of RMB67,907,000 (2016: loss of RMB88,569,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2016: 3,908,747,000).

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2017 and 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

## 8. TRADE RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade receivables	<u>85,339</u>	<u>105,742</u>

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

An aging 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:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within one month	54,844	87,852
Over one month and within two months	6,777	17,890
Over two months	<u>23,718</u>	<u>—</u>
	<u>85,339</u>	<u>105,742</u>

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

## 9. TRADE PAYABLES

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

	2017 RMB'000	2016 RMB'000
Within 2 months	185,778	138,425
2 to 6 months	38,779	37,136
6 to 12 months	4,816	5,354
Over 1 year	3,838	4,198
	<u>233,211</u>	<u>185,113</u>

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

## 10. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000 (Restated)
Deferred income	167,804	169,667
Other payables – construction	268,432	210,207
Other payables – equipment and materials	7,955	10,095
Others	176,711	112,784
	<u>620,902</u>	<u>502,753</u>
Non-current portion		
Deferred income	<u>(156,137)</u>	<u>(159,523)</u>
	<u>464,765</u>	<u>343,230</u>

Other payables are non-interest-bearing and have no fixed terms of repayment.

Deferred income represents government grants received by the Group as financial subsidies for the purchases of feed and the construction of farms. Government grants are recognised as income over the period necessary to match the grant on a systematic basis to the costs and expenses that they are intended to compensate or over the weighed average of the expected useful life of the relevant property, plant and equipment.

## 11. COMPARATIVE AMOUNTS

The Group has reclassified deferred income of asset-related government grants of RMB159,523,000 as at 31 December 2016, which were expected to be recognised as other income in the consolidated statement of profit or loss and other comprehensive income in more than one year, from current portion of other payables and accruals to non-current portion of other payables and accruals. In addition, the Group has reclassified time deposits of RMB591,674,000 as at 31 December 2016 and RMB573,982,000 as at 31 December 2015, with maturity of over three months when acquired, from cash and cash equivalents to investing activities in the consolidated statement of cash flow.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

The PRC dairy industry continued to recover in 2017. Given the rising household income and health awareness in China, consumers of dairy products demanded higher quality. The PRC dairy industry underwent further integration and became increasingly concentrated, while the focus of competition shifted from quantity to quality. According to the International Farm Comparison Network (IFCN), global raw milk price bottomed out in 2016. Nonetheless, the price gap between domestic and foreign milk remained substantial. As a result, domestic milk sources suffered from the impact of imported milk sources, creating a challenging environment for local enterprises.

As a leading dairy farming company in the PRC, the Group adhered to the large-scale and intensive development strategy and enhanced operation management during the Year. The Group adjusted the herd mix and improved the feeding formula to lower production cost, mitigate pressure on sales and maintain profitability.

### Business Review

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. As of 31 December 2017, supported by increasing production volume of raw milk, the total sales of raw milk of the Group grew by 1.5% from 258,675 tons in 2016 to 262,543 tons. Due to the subdued price level of raw milk, the total revenue of the Group for the Year amounted to RMB1,014 million, representing a slight drop of 1.5% year-on-year (2016: RMB1,029 million). During the Year, the loss of the Group for the Year amounted to RMB67.9 million (2016: approximately RMB88.6 million), representing a decrease of 23.4%, which was attributable to the combined effect of the following factors: 1) loss arising from change in fair value less costs to sell of biological assets decreased; 2) one-time expenses such as transportation cost of cow dung and non-current assets disposal losses increased, which partially offset the effect of the decrease of loss arising from change in fair value less costs to sell of biological assets. The gross profit for the Year dropped by 25.4% from RMB339.5 million in 2016 to RMB253.3 million.

Since its establishment, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2017, the top three major customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group and they accounted for approximately 95% of the Group's revenue during the Year.

Feihe Dairy Group is one of the major customers of the Group. In order to further strengthen the customer base and secure future demand for raw milk, the Group entered into the 2017 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group on 12 May 2017, which confirmed the priority arrangement of the Group's supply of raw milk to Feihe Dairy Group for a term ending on 31 December 2019.



### ***Construction of Farms***

As of 31 December 2017, we had six farms in Heilongjiang Province and one farm in Jilin Province. Each farm had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 square metres. We achieved satisfying progress in farm construction. As of 31 December 2017, we were close to finishing the construction of Baiquan Ruixincheng Farm and completed two-thirds of the Keshan Farm. Both of the farms have commenced operation after bringing in cows.

	<b>Actual Designed Capacity (Number of Cows/Head)</b>	<b>Actual Inventory Number</b>	<b>Area (m<sup>2</sup>)</b>
Gannan Oumei Farm	12,000	9,836	986,333
Kedong Oumei Farm	6,000	6,237	384,000
Kedong YST Farm	18,000	11,544	784,000
Zhenlai Farm Phase I	15,000	13,642	1,066,667
Kedong Yongjin Farm	12,000	7,506	714,000
Baiquan Ruixincheng Farm	15,000	3,591	994,000
Keshan Farm	12,000	8,851	980,000
Total	<u>90,000</u>	<u>61,207</u>	<u>5,909,000</u>

### ***Milk Yield***

During the Year, the average annual milk yield per cow was 9.8 tons, representing a decrease of 2.0% as compared to 10 tons in 2016. The Group expects that the average milk yield per cow will further increase with the maturing operation of farms, a gradually balanced age structure of herds and further optimization of herd structure.

The Group adjusted the cattle mix and improved the feeding formula, thereby optimizing the management and improving profitability.

### ***Size of Our Herds***

Driven by the advanced management model of our farms, the number of dairy cows of the Group's seven dairy farms increased from 54,749 as of 31 December 2016 to 61,207 as of 31 December 2017. The total number of our matured milkable cows increased from 26,689 as of 31 December 2016 to 28,244 as of 31 December 2017. The increase in number of our matured milkable cows resulted in the steady growth of raw milk production.

	<b>As of 31 December 2017</b>	<b>2016</b>
Number of matured milkable cows	<b>28,244</b>	26,689
Number of heifers and calves	<u><b>32,963</b></u>	<u>28,060</u>
Total number of dairy cows	<u><b>61,207</b></u>	<u>54,749</u>

### ***Price of Raw Milk***

The price of domestic raw milk remained at low levels due to increasing import of milk powder and over-supply of raw milk in the upstream market. The average selling price of our raw milk was RMB3,863 per ton for the Year, representing a decrease of approximately 2.9% as compared to that for the year ended 31 December 2016.

### **Outlook**

The year 2017 saw the end of the global dairy crisis, which lasted for four years. Milk price is expected to embark on a journey of steady growth. Currently, the per-capita dairy consumption of the PRC is only one-third of the world's average level and half of the average level of developing countries, hence there is room for growth in the dairy industry. The “National Dairy Industry Development Plan (2016-2020)” expressly points out that the dairy industry is an integral part of modern agriculture and food industry and is essential to a healthy China. It is expected that the total national demand for dairy products will increase at an annual growth rate of 3.1% to 58 million tons by 2020. China is a major producer and consumer of dairy products. It is expected that China's demand for dairy products, which is one of the important indicators of people's living standards, will rise and the market will have stricter quality requirements for raw milk as the industry undergoes continuous transformation and upgrade. Favorable policy and market demand will provide excellent opportunities for the growth of the Group.

Looking forward, the Group is endeavored to strengthen its leading position in the PRC dairy farming industry. Apart from providing high-quality raw milk supply to Chinese consumers, it will increase the inventory of milkable cows and optimize the feeding formula so as to promote the overall profitability of the Group. Furthermore, it will continue to expand sales channels and explore new customers with the view to capturing a larger market share and delivering significant returns to shareholders of the Company.

### **Our Revenue**

During the Year, our total sales of milk produced decreased by 1.5% from RMB1,029.2 million for the year ended 31 December 2016 to RMB1,014.1 million. The sales volume reached 262,543 tons in 2017, representing an increase of 3,868 tons or 1.5% as compared with 258,675 tons in 2016. The growth was primarily attributable to the increases in herd size. Our average selling price of raw milk decreased from RMB3,979 per ton in 2016 to RMB3,863 per ton in 2017. The decrease in selling price was mainly attributable to the continuous drop in the market price of domestic raw milk in 2017.

## Cost of Sales

Our cost of sales for the Year was RMB760.9 million. The table below summarizes the components of our cost of sales by nature:

	2017 RMB'000	2016 RMB'000
Cost of sales		
Feed	544,442	512,438
Salary, welfare and social insurance	48,973	43,945
Depreciation	71,875	44,680
Veterinary cost	35,245	28,333
Utility	25,102	22,860
Other costs	35,230	37,475
Cost of sales, total	<u>760,867</u>	<u>689,731</u>

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB544.4 million and RMB512.4 million for the years ended 31 December 2017 and 2016, respectively, representing 71.6% and 74.3% of the cost of sales for the respective financial years ended 31 December 2017 and 2016. The increase in our feed costs was attributable to the increase in feed consumption in 2017 as the number of our milkable cows grew.

## Gross Profit

Given the above factors, the gross profit decreased to RMB253.3 million for the Year (2016: RMB339.5 million), representing a decrease of 25.4% as compared to that for 2016. Our gross profit margin also decreased from 33.0% in 2016 to 25.0% in 2017.

Other income for the Year amounted to RMB43.0 million (2016: RMB72.2 million), representing a decrease of 40.4%. The decrease was primarily attributable to a substantial decrease of government subsidies recognised during the Year.

## Selling and Distribution Expenses

All of our selling and distribution expenses were transportation expenses of our raw milk. Our selling and distribution costs were RMB19.9 million for the Year (2016: RMB18.3 million).

## Administrative Expenses

We incurred administrative expenses of RMB82.7 million for the Year (2016: RMB74.9 million) representing an increase of approximately 10.4% as compared to 2016. The increase was attributable to the combined effect of the increase in the impairment for other current assets, exchange loss and the decrease in share option expenses.

## Other Expenses

Other expenses for the Year amounted to RMB33.0 million (2016: Nil). The increase was primarily attributable to the increase in the one-off expense of transportation costs of cow dung and non-current assets disposal losses.

## **Changes in Fair Value Less Costs to Sell of Biological Assets**

Changes in fair value less costs to sell of biological assets was a loss of RMB228.7 million for the Year as compared to a loss of RMB407.1 million for 2016. The decrease in the loss was principally due to the slight fluctuation in the price of domestic raw milk, which is one of the key parameters for the computation of the fair value of biological assets.

## **Loss for the Year of the Group**

Taking into account all of the above factors, the Group's net loss was RMB67.9 million for the Year. This represents a decrease of 23.4% from a net loss of RMB88.6 million for the year ended 31 December 2016. Basic loss per share was approximately RMB1.46 cents for the Year (2016: RMB2.27 cents).

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend for the Year (2016: Nil).

## **LIQUIDITY AND FINANCIAL RESOURCES**

For the Year, the Group's net cash inflow from operating activities amounted to RMB431.4 million, as compared to RMB327.9 million in 2016.

The Group had no bank borrowing during the Year.

## **CAPITAL STRUCTURE**

As at 31 December 2017, the Company's issued share capital was HK\$46,904,964 divided into 4,690,496,400 shares of HK\$0.01 each (2016: 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 and cows for its existing dairy farms.

As part of the future strategy of the Group, the Group's planned capital expenditures for its business operations will primarily be related to the construction and commencement of operations of its new dairy farms. The Group anticipates that its capital expenditures will be financed by cash generated from its operations, debt financing or bank loans, the net proceeds from the placing of new shares under shareholders' annual general mandate 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 2017 nor were there other plans for material investments on capital assets as at the date of this announcement.

## **USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE “IPO”) AND PLACING OF NEW SHARES (THE “PLACING”)**

The Company's shares (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 approximately HK\$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company)) amounted to approximately HK\$2,564 million. Up to 31 December 2017, approximately HK\$2,205.9 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\$1,912.7 million on construction of new farms, as to HK\$256.4 million on working capital and general corporate purpose, and as to HK\$36.8 million on developing upstream operations purpose. The Directors will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market condition to better deploy resources and proceeds of the IPO. Announcement will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The Company issued 781,749,400 new Shares at a price of HK\$0.5 per Share pursuant to a placing of Shares completed on 13 January 2017 (the “**Placing**”). The net proceeds from the Placing (after deducting the placing commission payable to the placing agent and other expenses incurred in the Placing) were approximately HK\$385.0 million, which were intended to be used for importing heifers and calves from Australia and New Zealand and general working capital. As at 31 December 2017, about HK\$27.0 million of such net proceeds were used on importing heifers from New Zealand. The entire amount of the remaining net proceeds, being approximately HK\$358.0 million, remained unutilised and is expected to be used as intended.

The remaining balance of such net proceeds was kept in banks and approved financial institutions in Hong Kong, Macau 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 2017, no assets of the Group were pledged as security for bank borrowings.

## **FOREIGN EXCHANGE EXPOSURE**

Certain assets of the Group are denominated in foreign currencies such as the United States 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 2017 and 2016 were RMB93.6 million and RMB104.7 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 2017 (2016: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2017, the Group had approximately 1,378 employees (2016: 1,380 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 Group. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Company participates in the social insurance schemes operated by the relevant local government authorities, which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013.

The 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 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

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

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

Date of completion	Fund raising activity	Net proceeds raised	Reasons for fund raising and use of net proceeds	Closing price of last trading date
13 January 2017	Placing of 781,749,400 new ordinary Shares at HK\$0.50 each to not less than six independent third parties under general mandate	approximately HK\$385.0 million	All the net proceeds are intended to be used for importing heifers and calves from Australia and New Zealand and general working capital	HK\$0.54

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

## 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 of the Company (the "**Shareholders**"). The Board considers that the Company complied with all the code provisions of the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the Year.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 Board has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code, which was revised on 8 December 2015. 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 the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year as set out in the preliminary announcement have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the Year. The work performed by Company's auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Company's auditors on the preliminary announcement.

## **PUBLICATION OF INFORMATION ON DESIGNATED WEBSITES**

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

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

Hong Kong, 27 March 2018

*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); one non-executive Director, namely Mr. Lau Ho Fung; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.*