YuanShengTai Dairy Farm Limited
原生態牧業有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1431)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

INTERIM RESULTS

The board of directors (the "**Directors**" and the "**Board**", respectively) of YuanShengTai Dairy Farm Limited (the "**Company**" or "**YuanShengTai**") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six-month period ended 30 June 2018 (the "**Period**") together with selected explanatory notes and the relevant comparative figures.

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

For the six-month period ended 30 June 2018

		Six-month period ended 30 June	
		2018	2017
	Notes	**(Unaudited)**	(Unaudited)
		RMB'000	*RMB'000*
REVENUE	*3*	**536,501**	492,457
Cost of sales		**(400,507)**	(360,779)
Gross profit		**135,994**	131,678
Other income		**14,170**	27,495
Selling and distribution expenses		**(11,112)**	(9,519)
Administrative expenses		**(44,547)**	(30,492)
Other expenses		**(7,049)**	(13,627)
Changes in fair value less costs to sell of biological assets		**(140,798)**	(122,714)
LOSS BEFORE TAX	*4*	**(53,342)**	(17,179)
Income tax expense	*5*	**–**	–
LOSS FOR THE PERIOD		**(53,342)**	(17,179)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**7,347**	(19,198)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(45,995)**	(36,377)
LOSS FOR THE PERIOD AND TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Equity holders of the parent		**(45,995)**	(36,377)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (expressed in RMB per share)	*7*	**(0.011)**	(0.004)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	**30 June 2018 (Unaudited)** ***RMB'000***	31 December 2017 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,544,014**	2,596,929
Prepaid land lease payments		**89,234**	91,768
Prepayments and other receivables		**91,218**	68,256
Biological assets		**1,216,999**	1,211,825
Total non-current assets		**3,941,465**	3,968,778
CURRENT ASSETS			
Inventories		**171,228**	259,379
Trade receivables	*8*	**73,581**	85,339
Prepayments and other receivables		**8,271**	11,654
Prepaid land lease payments		**5,080**	5,096
Cash and cash equivalents		**1,019,145**	1,135,920
Total current assets		**1,277,305**	1,497,388
CURRENT LIABILITIES			
Trade payables	*9*	**211,329**	233,211
Other payables and accruals		**279,573**	464,765
Total current liabilities		**490,902**	697,976
NET CURRENT ASSETS		**786,403**	799,412
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,727,868**	4,768,190
NON-CURRENT LIABILITIES			
Other payables and accruals		**151,728**	156,137
Total non-current liabilities		**151,728**	156,137
NET ASSETS		**4,576,140**	4,612,053
EQUITY			
Issued capital		**37,674**	37,674
Reserves		**4,538,466**	4,574,379
Total equity		**4,576,140**	4,612,053

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

1.1 Basis of preparation

The interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2018 (the "**Interim Financial Statements**") have been prepared in accordance with International Accounting Standards ("**IAS**") 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017 (the "**2017 Financial Statements**").

1.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of the 2017 Financial Statements, except for the adoption of new standards effective as of 1 January 2018 listed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

International Financial Reporting Standard ("**IFRS**") 15	*Revenue from Contracts with Customers*
IFRS 9	*Financial Instruments*
International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation No. 22	*Foreign Currency Transactions and Advance Considerations*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments* and several other amendments and interpretations, but they do not have a material impact on the Interim Financial Statements.

2. OPERATING SEGMENT INFORMATION

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

3. REVENUE

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

	Six-month period ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Sales of raw milk	**536,501**	492,457

4. LOSS BEFORE TAX

	Six-month period ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Breeding costs to produce	**286,439**	262,161
Production costs for raw milk	**114,068**	98,618
Cost of sales	**400,507**	360,779
Depreciation	**60,052**	44,660
Less: Capitalised in biological assets	**(18,804)**	(14,765)
Depreciation recognised in the statement of profit or loss and other comprehensive income*	**41,248**	29,895
Recognition of prepaid land lease payments	**2,550**	3,227
Auditors' remuneration	**1,400**	1,400
Changes in fair value less costs to sell of biological assets	**140,798**	122,714
Employee benefit expenses excluding Directors' and chief executive's remuneration		
Wages and salaries	**39,237**	37,185
Equity-settled share option expense	**6,503**	1,736
Pension scheme contributions	**8,424**	7,687
Less: Capitalised in biological assets	**(16,767)**	(14,881)
Employee benefit expenses excluding Directors' and chief executive's remuneration recognized in the statement of profit or loss and other comprehensive income**	**37,397**	31,727
Loss on disposal of items of property, plant and equipment	**2,464**	149
Foreign exchange differences, net	**(1,756)**	(782)

* Depreciation of approximately RMB35,351,000 (six-month period ended 30 June 2017: RMB26,751,000) is included in the cost of sales on the face of the condensed consolidated statement of profit or loss and other comprehensive income for the Period.

** Employee benefit expenses of approximately RMB25,101,000 (six-month period ended 30 June 2017: RMB25,368,000) is included in the cost of sales on the face of the condensed consolidated statement of profit or loss and other comprehensive income for the Period.

5. INCOME TAX

No provision for Hong Kong profits tax has been made for the Period as the Group did not generate any assessable profits arising in Hong Kong during the Period (six-month period ended 30 June 2017: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

6. INTERIM DIVIDEND

No dividend was paid or proposed by the Company during the Period (six-month period ended 30 June 2017: Nil).

7. LOSS 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 RMB53,342,000 (unaudited) (six-month period ended 30 June 2017: RMB17,179,000 (unaudited)) and the weighted average number of ordinary shares in issue of 4,690,496,400 (unaudited) (30 June 2017: 4,638,668,000 (unaudited)).

No adjustment has been made to the basic loss per share amounts for the Period (six-month period ended 30 June 2017: Nil) 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

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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging 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 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Within 1 month	**73,308**	54,844
Over 1 month to 2 months	**–**	6,777
Over 2 months	**273**	23,718
	73,581	85,339

No provision for impairment of trade receivables for the Period was made (six-month period ended 30 June 2017: Nil).

9. TRADE PAYABLES

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

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Within 2 months	**135,832**	185,778
Over 2 to 6 months	**61,472**	38,779
Over 6 to 12 months	**10,045**	4,816
Over 1 year	**3,980**	3,838
	211,329	233,211

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

10. CAPITAL COMMITMENTS

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

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Contracted but not provided for:		
– Construction in progress	**61,804**	93,555

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In the first half of 2018, there were both opportunities and challenges in the dairy industry in the People's Republic of China (the "**PRC**"). In 2018, the gross national product increased by 6.8%* over the same period of the previous year. The domestic consumer confidence index rebounded and the per capita disposable income of the citizens in the PRC generally continued to grow, thereby stimulating consumption demand. Meanwhile, following an increase in consumption groups of the emerging middle class and the new generation, the demand of consumers for high-end, healthy and fresh dairy products has increased, leading to continuous increase in market penetration in the PRC of foreign dairy brands. Therefore, imported milk sources still have certain impacts on domestic milk sources, being the main competitor of the domestic dairy industry.

Furthermore, following an increase in production volume of domestic raw milk, the market was in a situation of seasonal oversupply, resulting in a relatively low selling price level of raw milk in the PRC compared to the same period of last year. The low purchase price of raw milk accelerated the exit of loss-making dairy farmers, and large-scale farms also started to restrain excessive production capacity by eliminating dairy cows with low capacity. On the other hand, on 11 June 2018, the General Office of the State Council issued the "Opinions on Promoting the Revitalization of Dairy Industry to Guarantee the Quality and Safety of Dairy Products"*, and proposed that the industry of dairy products would be fully revitalized by strengthening high-quality milk sources, improving processing, circulation and strengthening food safety supervision, among which a series of directions for revitalization of dairy industry were announced, re-emphasizing that the self-sufficiency rate of milk sources remain at over 70%. It was believed that it would have certain deepening impacts on the problem of excessive import of foreign raw milk.

As a leading dairy farming producer in the PRC, the Group will continue to maintain a large-scale and intensive development strategy. In respect of quality, we have consistently optimized milk sources as the Company's primary policy. On the other hand, we have improved our cattle feeding formula to control production costs, in order to confront the continuing low selling price of raw milk. In terms of business, the Group is also actively expanding its customer channels to seek for new development opportunities to create more value.

Business Review

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. For the Period, the total sales of raw milk of the Group increased by 8.9% from 128,067 tons in the same period of 2017 to 139,511 tons. The total revenue of the Group during the Period amounted to RMB536.5 million, representing an increase of 8.9% as compared to the six-month period ended 30 June 2017. The gross profit during the Period increased by 3.3% from RMB131.7 million to RMB136.0 million while the net loss during the Period increased by 210.0% to RMB53.3 million compared with the six-month period ended 30 June 2017. The increase in net loss was attributable to (i) an increase in loss on changes in fair value less costs to sell of biological assets; and (ii) the increase of equity-settled share option expenses which was included in administrative expenses; and (iii) a decrease in other income.

* *For other relevant statistic data, please refer to the National Bureau of Statistics database (http://data.stats.gov.cn), "Consultation Report on Market Operating Trend and Investment Strategies of Raw Milk Industry in the PRC from 2018-2024" (http://www.chyxx.com/industry/201807/658359.html) and (https://www.yicai.com/news/5437517.html).*

Facing the increasing competition in the international raw milk market, the raw milk industry in the PRC was under enormous sales pressure. However, the Group enhanced sales results by adjusting the feeding formula to reduce the increase in cost caused by the increase in certain feed prices. Currently, the domestic price of whole milk powder is approximately RMB23,000 per ton and the average price of domestic raw milk is RMB3.38 per kg, while the price of fresh milk records a slight drop.

Since the commencement of business, the Group has established and maintained long-term relationship with leading dairy manufacturers in the PRC. In the first half of 2018, the top three customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group, the revenue from which accounted for 94.2% of the Group's revenue. In 2017, the overall growth of Feihe Dairy Group exceeded 60%, while high-end sales increased by over 200%. With the recovery in the industry in the future, Feihe Dairy Group is expected to achieve new breakthroughs as soon as practicable, and we believe that it will be conducive to the business of the Group. The Group expects to continue to supply raw milk products to the top three customers in the long run, which will further consolidate the stability of the customer base of the Group and ensure future demand for raw milk products of the Group.

Construction of Farms

As of 30 June 2018, the Group had six farms in Heilongjiang Province and one farm in Jilin Province. Each farm had an actual capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 m^2. At the same time, the construction of Baiquan Farm was almost completed, currently raising 3,740 heifers and calves, while approximately 75% of construction of Keshan Farm has been completed, currently raising 8,509 cows.

	Actual Designed Capacity (Number of Dairy Cows/Head)	**Actual Inventory Number**	**Area (m^2)**
In Heilongjiang Province			
Gannan Oumei Farm	12,000	10,232	986,333
Kedong Oumei Farm	6,000	6,169	384,000
Kedong YST Farm	18,000	11,273	784,000
Kedong Yongjin Farm	12,000	8,451	714,000
Baiquan Ruixincheng Farm	15,000	3,740	994,000
Keshan Farm	12,000	8,509	980,000
In Jilin Province			
Zhenlai Farm Phase I Farm	15,000	13,647	1,066,667
Total	90,000	62,021	5,909,000

Milk Yield

During the Period, the average annual milk yield per cow was 11.80 tons representing an increase of 8.2% comparing with 10.91 tons in the six-month period ended 30 June 2017. The Group adjusted the cattle mix and improved the feeding formula in order to optimize the management and improve the profits.

Size of Our Herds

Driven by the purchase of heifers and calves from Australia and New Zealand and the advanced management model of our farms, the number of dairy cows of the Group's seven dairy farms increased from 56,136 as of 30 June 2017 to 62,021 as of 30 June 2018. The total number of our matured milkable cows increased from 27,259 as of 30 June 2017 to 29,734 as of 30 June 2018. The increase in number of matured milkable cows has ensured our steady source of quality raw milk.

	30 June 2018	30 June 2017
Number of matured milkable cows	**29,734**	27,259
Number of heifers and calves	**32,287**	28,877
Total number of dairy cows	**62,021**	56,136

Price of Raw Milk

The price of domestic raw milk remained low due to continuous increase in imported milk powder, the over-supply in the upstream market and the impact of global economic environment. The average selling price of our raw milk was RMB3,846 per ton for the Period, as compared to that of RMB3,845 per ton in the six-month period ended 30 June 2017.

Outlook

Currently, the economic growth in emerging countries is slowing down, but Asian regions, especially the markets in the PRC and India, are in the stage of consumption upgrading. The demand for high-end dairy products is expected to increase continuously. In the next few years, the global raw milk market still has some room for growth, and it is expected to maintain a certain growth in market demand. Emerging markets are the major growing points of the global raw milk market. According to estimates in market environment, global consumption of liquid milk in 2018 will reach 61.45 million tons. In respect of consumption, first- and second-tier cities in the PRC are becoming gradually saturated, while the consumption from third-tier, fourth-tier and below cities will be the main driving force for demand. With the continuous improvement of consumption power of the residents in the PRC as well as their progressively mature consumption habits for dairy products, the consumption will continue to grow. Following an increase in publicity, it is expected that the population in the PRC will gradually realize that domestically produced high-quality infant formula is trustworthy and more suitable for the consumption by the Chinese babies. In addition, with comprehensive implementation of two-child policy in the PRC, the population growth is expected to be nearly 2-3 million each year, which will in turn increase the demand for infant formula milk powder market. As a result, it is expected that the overall consumption for dairy products in the PRC will maintain an uprising momentum in the next few years, and the business of the Group will strive to achieve profit growth in such favourable environment.

Our Revenue

During the Period, our total sales of milk produced increased by 8.9% to RMB536.5 million as compared with RMB492.5 million in the six-month period ended 30 June 2017. The increase of the total sales was benefited from the increase in production of raw milk. The sales volume reached 139,511 tons, representing an increase of 11,444 tons or 8.9% as compared with 128,067 tons in the six-month period ended 30 June 2017. The average selling price of our raw milk was RMB3,846 per ton compared with RMB3,845 per ton in the six-month period ended 30 June 2017.

Cost of Sales

Our cost of sales for the Period was RMB400.5 million. The table below summarizes the components of our cost of sales by nature for the six-month periods ended 30 June 2018 and 2017:

	Six-month period ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales		
Feed	**286,439**	262,161
Salary, welfare and social insurance	**25,101**	25,368
Depreciation	**35,351**	26,751
Veterinary cost	**24,454**	19,090
Other cost	**29,162**	27,409
Cost of sales, total	**400,507**	360,779

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB286.4 million and RMB262.2 million for the six-month periods ended 30 June 2018 and 2017, respectively, representing 71.5% and 72.7% of the cost of sales for the respective six-month periods ended 30 June 2018 and 2017. The increase in our feed costs was attributable to an increase in the number of milkable cows and the replacement of old feed formula with new premixed feed formula.

Gross Profit

Resulted from the factors discussed above, the gross profit increased to RMB136.0 million for the Period (the six-month period ended 30 June 2017: RMB131.7 million), representing an increase of 3.3%. Our gross profit margin decreased from 26.7% for the six-month period ended 30 June 2017 to 25.3% for the Period.

Other Income

Other income for the six-month periods ended 30 June 2018 and 2017 amounted to RMB14.2 million and RMB27.5 million, respectively, representing a decrease of 48.4%. The decrease in other income is mainly attributable to a decrease in interest income from bank deposits and the absence of sales in remaining stock of milk powder in the six-month period ended 30 June 2018.

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 RMB11.1 million for the Period (the six-month period ended 30 June 2017: RMB9.5 million).

Administrative Expenses

We incurred administrative expenses of RMB44.5 million for the Period (for the six-month period ended 30 June 2017: RMB30.5 million), representing an increase of approximately 45.9% as compared to the six-month period ended 30 June 2017. The increase was attributable to the combined effect of the increase in salaries and welfare which related to equity-settled share option expenses arising from the grant of share options in June 2018 and travel, meal and entertainment expenses.

Other Expenses

We incurred other expenses of RMB7.0 million for the Period (for the six-month period ended 30 June 2017: RMB13.6 million), representing a decrease of approximately 48.5% as compared to the six-month period ended 30 June 2017. The decrease was attributable to a decrease in the disposal of cow dung.

Loss of The Group for the Period

As a result of all the above factors and the fact that a loss on changes in fair value less cost to the sale of biological assets of RMB140.8 million was incurred in the Period (for the six-month period ended 30 June 2017: loss of RMB122.7 million) principally due to the expected drop in the price of domestic raw milk, the Group's net loss for the Period was RMB53.3 million, as compared to a net loss of RMB17.2 million for the six-month period ended 30 June 2017. Basic loss per share was approximately RMB1.1 cents for the Period (for the six-month period ended 30 June 2017: basic loss per share of RMB0.4 cent).

Interim Dividend

The Board has resolved not to declare the payment of any interim dividend for the Period (30 June 2017: nil).

Share Option Scheme

A share option scheme (the "**Share Option Scheme**") was adopted by a resolution in writing passed by the then shareholders of the Company (the "**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 as well as 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 Directors on 22 August 2014 and 8 December 2015, respectively. As at 31 December 2017, the company had 132,950,000 share options outstanding under the Share Option Scheme.

Options previously granted to the grantees to subscribe for a total of 102,750,000 Shares among which 35,650,000 Shares at the exercise price of HK$1.462 with validity period from 22 August 2014 to 21 August 2021 (both days inclusive) and 67,100,000 Shares at the exercise price of HK$0.59 with validity period from 8 December 2015 to 7 December 2022 (both days inclusive) were cancelled on 5 June 2018.

Options comprising a total of 168,500,000 underlying Shares were granted under the Share Option Scheme to certain employees of the Group and Directors on 5 June 2018.

Liquidity and Financial Resources

For the Period, the Group's net cash inflow from operating activities amounted to RMB269.0 million, as compared to RMB255.3 million for the six-month period ended 30 June 2017.

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

Capital Structure

As at 30 June 2018, the Company's issued share capital was HK$46,904,964 divided into 4,690,496,400 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, the net proceeds from the placing of new Shares under Shareholders' annual general mandate 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 "IPO") and Placing of New Shares

The issued Shares were initially listed on the Main Board of the Stock Exchange on 26 November 2013. Gross proceeds raised from the 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 30 June 2018, approximately HK$2,216.2 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$1,923.0 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 conditions to deploy resources and proceeds of the IPO better. Announcement(s) 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 30 June 2018, about HK$64.2 million of such net proceeds were used on importing heifers from New Zealand. The entire amount of the remaining net proceeds, being approximately HK$320.8 million, remained unutilised and is expected to be used as intended.

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

Material Acquisitions and Disposals of Subsidiaries, etc

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

Pledge of Assets

As at 30 June 2018, no property, plant and equipment of the Group (31 December 2017: nil) were pledged as security for bank borrowings.

Foreign Exchange Exposure

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

Treasury Policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients. To manage 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 2018 were RMB61.8 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 2018.

Employees and Remuneration Policies

As at 30 June 2018, the Group had approximately 1,440 employees (31 December 2017: approximately 1,378 employees), of whom one was located in Hong Kong and all the others were located in the PRC. The remuneration and staff cost for the Period was RMB35.9 million (for the six-month period ended 30 June 2017: RMB37.5 million).

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

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

Compliance with the Corporate Governance Code

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of the Shareholders. The Board considers that the Company has complied with all the code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules during the Period and up to the date of this announcement.

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 specific enquiries made by the Company, all Directors confirmed that they had complied with the Model Code during the Period.

Review by Audit Committee

The Board has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code, which was revised on 14 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 Company's unaudited condensed consolidated interim results for the Period have been reviewed by the Audit Committee.

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

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

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

Hong Kong, 28 August 2018

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