



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

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



2016
INTERIM REPORT

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Zhao Hongliang (趙洪亮) (*Chairman*)
Mr. Wang Shaogang (王紹崗) (*Vice-chairman*)
Mr. Fu Wenguo (付文國) (*Chief Executive Officer*)
Mr. Chen Xiangqing (陳祥慶) (*Chief Financial Officer*)

Non-executive Directors

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

Independent Non-executive Directors

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

Joint Company Secretaries

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

Authorised Representatives

Mr. Chen Xiangqing (陳祥慶)
Mr. Liu Gang (劉剛)

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Independent Auditor

Ernst & Young

Principle Bankers

Agricultural Development Bank of China
Agricultural Bank of China
China Construction Bank

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

Principal Place of Business and Headquarters in the People's Republic of China (the "PRC")

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
PRC

Principal Place of Business in Hong Kong

31/F, 148 Electric Road
North Point
Hong Kong

Principal Share Registrar and Transfer Office in Bermuda

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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

Legal Advisors

As to Hong Kong Laws
Chiu & Partners

As to PRC Laws
Jingtian & Gongcheng

Stock Code/Board Lots

1431/1,000

Company's Websites

www.ystdfarm.com
www.ystdairyfarm.com



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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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
Total	90,000	51,177	5,909,000

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 gradual 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	24,619	24,731
Total number of dairy cows	51,177	49,795

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 of the Company (“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.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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
Cost of sales, total	337,935	336,194

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



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	5,647	14,086

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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
Administrative expenses, total	52,857	45,175

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 RMB nil 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 of directors of the Company (the "Directors" and the "Board", respectively) does not recommend the payment of any interim dividend for the Period (30 June 2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

Details of the movements of the Options during the Period are as follows:

Grantees	Number of underlying Shares comprised in Options					Outstanding as at 30.06.2016	Exercise price per Share HK\$	Grant Date	Validity period of the Options
	Outstanding as at 01.01.2016	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Exercise during the Period				
Directors									
Mr. Zhao Hongliang	6,500,000	—	—	—	—	6,500,000	1.462	22.08.2014	Note 1
	3,900,000	—	—	—	—	3,900,000	0.59	08.12.2015	Note 2
Mr. Wang Shaogang	3,500,000	—	—	—	—	3,500,000	1.462	22.08.2014	Note 1
	6,000,000	—	—	—	—	6,000,000	0.59	08.12.2015	Note 2
Mr. Fu Wenguo	5,000,000	—	—	—	—	5,000,000	1.462	22.08.2014	Note 1
	10,000,000	—	—	—	—	10,000,000	0.59	08.12.2015	Note 2
Mr. Chen Xiangqing	1,500,000	—	—	—	—	1,500,000	1.462	22.08.2014	Note 1
	4,000,000	—	—	—	—	4,000,000	0.59	08.12.2015	Note 2
Mr. Wu Chi Keung	200,000	—	—	—	—	200,000	1.462	22.08.2014	Note 1
	300,000	—	—	—	—	300,000	0.59	08.12.2015	Note 2
Former Director									
Ms. Su Shiqin (Note 3)	2,000,000	—	—	—	—	2,000,000	1.462	22.08.2014	Note 1
Senior management members									
Mr. Wang Yongxin	2,000,000	—	—	—	—	2,000,000	1.462	22.08.2014	Note 1
	4,000,000	—	—	—	—	4,000,000	0.59	08.12.2015	Note 2
Mr. Luo Qinghua	2,000,000	—	—	—	—	2,000,000	1.462	22.08.2014	Note 1
	4,000,000	—	—	—	—	4,000,000	0.59	08.12.2015	Note 2
Mr. Xue Dejiang	250,000	—	—	—	—	250,000	1.462	22.08.2014	Note 1
Employees (in aggregate)	26,700,000	—	—	—	—	26,700,000	1.462	22.08.2014	Note 1
	67,000,000	—	—	—	—	67,000,000	0.59	08.12.2015	Note 2



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

- The validity period of the Options shall expire on the 7th anniversary of the First Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

Tranche I: beginning on the 1st anniversary of the First Grant Date: 30% of such Options granted;

Tranche II: beginning on the 2nd anniversary of the First Grant Date: 30% of such Options granted; and

Tranche III: beginning on the 3rd anniversary of the First Grant Date: 40% of such Options granted.
- The validity period of the Options shall expire on the 7th anniversary of the Second Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

Tranche I: beginning on the 1st anniversary of the Second Grant Date: 30% of such Options granted;

Tranche II: beginning on the 2nd anniversary of the Second Grant Date: 30% of such Options granted; and

Tranche III: beginning on the 3rd anniversary of the Second Grant Date: 40% of such Options granted.
- Ms. Su Shiqin resigned as an executive Director and the chief financial officer of the Group with effect from 10 September 2015. She can exercise the Options within 12 months following her resignation under the Share Option Scheme.

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 of Hong Kong Limited (the "Stock Exchange") on 26 November 2013. Gross proceeds raised from the global offering in such connection amounted to about HK\$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company)) amounted to about HK\$2,564 million. As of 30 June 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 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.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 report.



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

Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. In response to a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code during the Period.

Review by Audit Committee

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

Change in Information of a Director

Pursuant to Rules 13.51(B) of the Listing Rules, the change in information of a Director subsequent to the date of the 2015 annual report of the Company is set out below:

Mr. Wu Chi Keung, an independent non-executive Director, was appointed as an independent non-executive director of Huajin International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2738) on 23 March 2016.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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

As at 30 June 2016, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or (c) pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Shares

Name of Directors/ Chief Executive	Capacity/Nature of interest	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of issued Shares
Mr. Zhao Hongliang (<i>Note 1</i>)	(i) Interest in controlled corporation and beneficial owner	1,150,900,000	10,400,000	1,161,300,000	29.71%
	(ii) Deemed interest under S.317 of the SFO	170,200,000	—	170,200,000	4.35%
	Total	1,321,100,000	10,400,000	1,331,500,000	34.06%
Mr. Wang Shaogang (<i>Note 2</i>)	Beneficial owner	—	9,500,000	9,500,000	0.24%
Mr. Chen Xiangqing (<i>Note 2</i>)	Beneficial owner	—	5,500,000	5,500,000	0.14%
Mr. Fu Wenguo (<i>Note 2</i>)	Beneficial owner	—	15,000,000	15,000,000	0.38%
Mr. Wu Chi Keung (<i>Note 2</i>)	Beneficial owner	—	500,000	500,000	0.01%

Notes:

- 1,150,900,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao Hongliang, an executive Director and the chairman of the Board (the "Chairman"). Therefore, Mr. Zhao Hongliang is deemed or taken to be interested in all the Shares beneficially owned by ZHL Asia Limited by virtue of the SFO.

Options were granted to Mr. Zhao Hongliang on 22 August 2014 and 8 December 2015 pursuant to the Share Option Scheme, which entitle him to subscribe for a total of 10,400,000 Shares upon his exercise of such options.

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

ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao Hongliang and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao Hongliang was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. Therefore, Mr. Zhao Hongliang was deemed to be interested in an aggregate of approximately 34.06% of the issued share capital of the Company.

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

Save as disclosed above, as at 30 June 2016, none of the Directors and the chief executive of the Company had any interests or short positions in the shares of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Listing Rules.



CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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

As at 30 June 2016, so far as it was known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons which had 5% or more interests in the Shares and the underlying Shares as recorded in the register kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

Name of Shareholders	Capacity/Nature of interest	Number of Shares held	Number of underlying Shares held	Deemed interest pursuant to Section 317 of the SFO	Total	Approximate percentage of issued Shares
ZHL Asia Limited (<i>Note 1</i>)	Beneficial owner	1,150,900,000	—	180,600,000	1,331,500,000	34.06%
Mr. Zhao Hongliang (<i>Note 1</i>)	Interest in controlled corporation and beneficial owner	1,150,900,000	10,400,000	170,200,000	1,331,500,000	34.06%
Ms. Li Shuxia (<i>Note 2</i>)	Interest of spouse	1,150,900,000	10,400,000	170,200,000	1,331,500,000	34.06%
ZHY Asia Limited (<i>Note 1</i>)	Beneficial owner	170,200,000	—	1,161,300,000	1,331,500,000	34.06%
Mr. Zhao Hongyu (<i>Note 1</i>)	Interest in controlled corporation	170,200,000	—	1,161,300,000	1,331,500,000	34.06%

Notes:

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



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the board of directors of YuanShengTai Dairy Farm Limited

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 17 to 28, which comprise the condensed consolidated statement of financial position of YuanShengTai Dairy Farm Limited (the “Company”) and its subsidiaries as at 30 June 2016 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board (the “IASB”).

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

Scope of Review

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

Conclusion

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

Ernst & Young

Certified Public Accountants

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

Hong Kong

23 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME



	Notes	Six-month period ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
REVENUE		514,355	541,699
Cost of sales		(337,935)	(336,194)
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	9	(255,728)	(145,946)
(LOSS)/PROFIT BEFORE TAX	4	(135,567)	11,998
Income tax expense	5	—	(1,060)
(LOSS)/PROFIT FOR THE PERIOD		(135,567)	10,938
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		948	(247)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(134,619)	10,691
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	7	RMB(3.5) cents	RMB0.3 cent
Diluted	7	N/A	N/A



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	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	9	1,098,147	1,251,429
Total non-current assets		3,473,587	3,535,556
CURRENT ASSETS			
Inventories		202,715	326,199
Trade receivables	10	160,419	87,606
Prepayments and other receivables		9,040	34,896
Prepaid land lease payments		5,720	5,720
Cash and cash equivalents		918,170	950,303
Total current assets		1,296,064	1,404,724
CURRENT LIABILITIES			
Trade payables	11	118,233	194,804
Other payables and accruals	12	358,486	324,781
Amount due to a related company		—	563
Total current liabilities		476,719	520,148
NET CURRENT ASSETS		819,345	884,576
NET ASSETS		4,292,932	4,420,132
EQUITY			
Issued capital	13	30,727	30,727
Reserves		4,262,205	4,389,405
Total equity		4,292,932	4,420,132

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



	Attributable to owners of the Company							
	Issued capital	Merger reserve	Share premium	Capital reserve	Exchange fluctuation reserve	Share option reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	30,727	186,000	2,621,198	455,505	3,400	16,135	1,107,167	4,420,132
Loss for the period	—	—	—	—	—	—	(135,567)	(135,567)
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	—	948	—	—	948
Total comprehensive loss for the period	—	—	—	—	948	—	(135,567)	(134,619)
Equity-settled share option arrangements	—	—	—	—	—	7,419	—	7,419
At 30 June 2016 (unaudited)	30,727	186,000	2,621,198	455,505	4,348	23,554	971,600	4,292,932
At 1 January 2015	30,727	186,000	2,621,198	455,505	(2,860)	4,625	1,040,994	4,336,189
Profit for the period	—	—	—	—	—	—	10,938	10,938
Other comprehensive expense for the period:								
Exchange differences on translation of foreign operations	—	—	—	—	(247)	—	—	(247)
Total comprehensive income for the period	—	—	—	—	(247)	—	10,938	10,691
Equity-settled share option arrangements	—	—	—	—	—	6,453	—	6,453
At 30 June 2015 (unaudited)	30,727	186,000	2,621,198	455,505	(3,107)	11,078	1,051,932	4,353,333



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six-month period ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	198,911	10,336
Purchases of items of property, plant and equipment	(126,559)	(65,040)
Additions to biological assets	(143,577)	(120,364)
Deposits paid for property, plant and equipment	(4,080)	(76,680)
Proceeds from disposal of biological assets	41,131	38,479
Other investing cash flows	1,556	(315)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(231,529)	(223,920)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	—	(1,517)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,618)	(215,101)
Cash and cash equivalents at beginning of period	950,303	1,295,595
Effect of foreign exchange rate changes, net	485	288
CASH AND CASH EQUIVALENTS AT END OF PERIOD	918,170	1,080,782



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

2. Basis of Presentation

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

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 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 IFRSs

The adoption of these new and revised IFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Operating Segment Information

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

4. (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	88,227	75,598
Cost of sales	337,935	336,194
Depreciation	34,669	30,159
Recognition of prepaid land lease payments	3,113	3,126
Write-down of inventories to net realisable value	18,954	12,394
Foreign exchange differences, net	62	(2,260)

5. 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	—	1,060

6. Interim Dividend

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. (Loss)/Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic (loss)/earnings per share amount for the six-month periods ended 30 June 2016 and 2015 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 amounts 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.

8. 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.

9. Biological Assets

A – Nature of activities

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

The quantity of dairy cows owned by the Group at 30 June 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	51,177	49,795

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Biological Assets (Continued)

A – Nature of activities (Continued)

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

B – Value of dairy cows

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

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

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
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	66,098	(311,079)	(244,981)
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	(39,334)	(216,394)	(255,728)
Balance as at 30 June 2016	430,007	668,140	1,098,147

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 approved by the directors of the Company on 22 March 2016.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)



9. Biological Assets (Continued)

C – Fair value hierarchy

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

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

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

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

10. Trade Receivables

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

	30 June 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	59,819	32,116
	160,419	87,606



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Trade Receivables (Continued)

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

11. Trade Payables

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

	30 June 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	3,249	6,262
	118,233	194,804

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

12. 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	43,529	44,474
	358,486	324,781



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Share Capital

	30 June 2016 (Unaudited) RMB	31 December 2015 (Audited) RMB
Authorised: 50,000,000,000 ordinary shares of HK\$0.01 each	406,896,552	406,896,552
Issued and fully paid: 3,908,747,000 ordinary shares of HK\$0.01 each	30,726,727	30,726,727

14. 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	151,980	120,944

15. Related Party Transactions

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

	Six-month period ended 30 June	
Notes	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Purchases of feeds:		
Dinghe Modern Agricultural Company Limited	923	—

Note:

The sole beneficial owner of this entity is one of the major shareholders of the Company. The directors consider that the purchase of feeds were made according to the prices comparable to those offered to the major customers by the supplier.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Related Party Transactions (Continued)

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

	Six-month period ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Short term employee benefits	1,766	1,754
Post-employment benefits	231	129
Total compensation paid to key management personnel	1,997	1,883

16. Fair Value and Fair Value Hierarchy of Financial Instruments

At the end of the reporting period, the carrying amounts of the Group's financial assets and financial liabilities approximated to their fair values.

17. Approval of the Interim Financial Statements

The interim financial statements were approved and authorised for issue by the board of directors on 23 August 2016.