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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 2016**

#### **FINANCIAL RESULTS**

The board (the “**Board**”) of directors (the “**Directors**”) of YuanShengTai Dairy Farm Limited (the “**Company**” or “**YuanShengTai**”) announces the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2016 (the “**Year**”) together with the comparative figures for the year ended 31 December 2015.

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

*Year ended 31 December 2016*

	<i>Notes</i>	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>REVENUE</b>	3	<b>1,029,232</b>	1,032,648
Cost of sales		<u>(689,731)</u>	<u>(652,597)</u>
Gross profit		<b>339,501</b>	380,051
Other income	3	<b>72,193</b>	48,012
Selling and distribution expenses		<b>(18,292)</b>	(20,178)
Administrative expenses		<b>(74,918)</b>	(86,160)
Finance costs	4	–	(9,511)
Changes in fair value less costs to sell of biological assets		<u>(407,053)</u>	<u>(244,981)</u>
<b>(LOSS)/PROFIT BEFORE TAX</b>	5	<b>(88,569)</b>	67,233
Income tax expense	6	<u>–</u>	<u>(1,060)</u>
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b><u>(88,569)</u></b>	<b><u>66,173</u></b>
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>4,870</u>	<u>6,260</u>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		<b><u>(83,699)</u></b>	<b><u>72,433</u></b>
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic and diluted	8	<b><u>RMB(2.27) cents</u></b>	<b><u>RMB1.69 cents</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2016*

	<i>Notes</i>	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>2,453,485</b>	2,078,766
Prepaid land lease payments		<b>96,732</b>	102,958
Prepayments for property, plant and equipment and biological assets	9	<b>72,696</b>	102,403
Biological assets		<b>1,101,641</b>	1,251,429
Total non-current assets		<b>3,724,554</b>	3,535,556
<b>CURRENT ASSETS</b>			
Inventories		<b>316,622</b>	326,199
Trade receivables	10	<b>105,742</b>	87,606
Prepayments and other receivables	9	<b>20,807</b>	34,896
Prepaid land lease payments		<b>5,720</b>	5,720
Cash and cash equivalents		<b>870,134</b>	950,303
Total current assets		<b>1,319,025</b>	1,404,724
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>185,113</b>	194,804
Other payables and accruals	12	<b>502,753</b>	324,781
Amount due to a related company		<b>–</b>	563
Total current liabilities		<b>687,866</b>	520,148
<b>NET CURRENT ASSETS</b>		<b>631,159</b>	884,576
<b>NET ASSETS</b>		<b>4,355,713</b>	4,420,132
<b>EQUITY</b>			
Issued capital		<b>30,727</b>	30,727
Reserves		<b>4,324,986</b>	4,389,405
Total equity		<b>4,355,713</b>	4,420,132

## NOTES TO FINANCIAL STATEMENTS

### 1.1 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for biological assets and agricultural produce which have been measured at fair values less cost to sell. The financial statements are presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Group operate 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 new and revised IFRSs for the first time for the current year’s financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11 IFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to IAS 1 Amendments to IAS 16 and IAS 38	<i>Disclosure Initiative Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41 Amendments to IAS 27 (2011) <i>Annual Improvements to IFRSs 2012-2014 Cycle</i>	<i>Agriculture: Bearer Plants Equity Method in Separate Financial Statements</i>

The adoption of the above revised standards has had no 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 2016 and 2015 is as follows:

	<b>2016</b> <b>RMB’000</b>	2015 RMB’000
Customer A	<b>476,050</b>	414,064
Customer B	<b>67,704</b>	111,587
Customer C	<b>456,428</b>	440,772
Others	<b>29,050</b>	66,225
	<b><u>1,029,232</u></b>	<b><u>1,032,648</u></b>

### 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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
<i>Revenue</i>		
Sales of raw milk	<u>1,029,232</u>	<u>1,032,648</u>
<i>Other income</i>		
Government subsidies	43,915	12,361
Interest income from bank deposits	21,824	23,609
Sales of male calves	5,546	11,185
Others	<u>908</u>	<u>857</u>
	<u>72,193</u>	<u>48,012</u>

### 4. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Imputed interest on non-interest-bearing financial arrangements	-	7,671
Interest on bank and other borrowings wholly repayable within five years	<u>-</u>	<u>1,840</u>
	<u>-</u>	<u>9,511</u>

## 5. (LOSS)/PROFIT BEFORE TAX

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Fair value of milk produced less costs to sell at the point of harvest	<u>(1,010,940)</u>	<u>(1,012,470)</u>
Breeding costs to produce	512,438	498,744
Production costs for raw milk	<u>177,293</u>	<u>153,853</u>
Cost of sales	<u>689,731</u>	<u>652,597</u>
Depreciation	72,457	60,929
Recognition of prepaid land lease payments	6,226	6,264
Auditors' remuneration	2,056	2,779
Changes in fair value less costs to sell of biological assets	407,053	244,981
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	47,515	45,938
Equity-settled share option expense	19,280	11,510
Pension scheme contributions	<u>5,886</u>	<u>5,962</u>
	<u>72,681</u>	<u>63,410</u>
Loss on disposal of items of property, plant and equipment	–	279
Write-down of inventories to net realisable value	–	21,044
Foreign exchange differences, net	<u>497</u>	<u>72</u>

## 6. INCOME TAX

No provision for Hong Kong profits tax has been made for the Year as the Group did not generate any assessable profits arising in Hong Kong during the Year (2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

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

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current – Hong Kong	–	–
Current – Mainland China	<u>–</u>	<u>1,060</u>
Total tax charge for the year	<u>–</u>	<u>1,060</u>

## 7. DIVIDENDS

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

## 8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic (loss)/earnings per share amount for the Year is based on the loss for the Year attributable to ordinary equity holders of the Company of RMB88,569,000 (2015: profit of RMB66,173,000) and the weighted average number of ordinary shares in issue of 3,908,747,000 (2015: 3,908,747,000).

No adjustment has been made to the basic (loss)/earnings per share amounts for the years ended 31 December 2016 and 2015 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic (loss)/earnings per share amounts presented.

## 9. PREPAYMENTS AND OTHER RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Prepayments	77,454	110,794
Other receivables	<u>16,049</u>	<u>26,505</u>
	<b>93,503</b>	137,299
Non-current portion	<u>(72,696)</u>	<u>(102,403)</u>
Current portion	<u><b>20,807</b></u>	<u>34,896</u>

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

## 10. TRADE RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables	<u><b>105,742</b></u>	<u>87,606</u>

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

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

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Within one month	<b>87,852</b>	49,506
Over one month and within two months	<b>17,890</b>	5,984
Over two months	<u>–</u>	<u>32,116</u>
	<b><u>105,742</u></b>	<b><u>87,606</u></b>

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

#### **11. TRADE PAYABLES**

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

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 2 months	<b>138,425</b>	125,631
2 to 6 months	<b>37,136</b>	59,855
6 to 12 months	<b>5,354</b>	3,056
Over 1 year	<u>4,198</u>	<u>6,262</u>
	<b><u>185,113</u></b>	<b><u>194,804</u></b>

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

#### **12. OTHER PAYABLES AND ACCRUALS**

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Deferred income	<b>169,667</b>	156,979
Other payables – construction	<b>210,207</b>	118,646
Other payables – equipment and materials	<b>10,095</b>	4,682
Others	<u>112,784</u>	<u>44,474</u>
	<b><u>502,753</u></b>	<b><u>324,781</u></b>

Other payables are non-interest-bearing and have an average term of three months.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

In 2016, the overall operating environment of dairy industry in China still encountered severe challenges, including an imbalance of demand and supply, a more intense competition in the industry and tightening constraints on resource and environment. The flagging domestic consumption, the reduction of dairy herds in China, the increasing volume of imported milk powder as well as the subdued price level of raw milk exerted more pressure on the market. Meanwhile, the Chinese government continued to reorganize the dairy enterprises in order to stimulate a healthy competition of the industry which is under consolidation through survival of the fittest.

As a leading dairy farming company in China, the Group will maintain its commitment to a large-scale and intensive development strategy and continuously enhancing its operation and management standard. The Group will, on the one hand, increase the average annual milk yield per matured milkable cow and the production efficiency by adjusting the cattle mix and improving the feeding formula and on the other hand, the Group will actively diversify its 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. Supported by the increase in production volume of raw milk, the sales of raw milk for the Year increased by 10.9% from 233,275 tons in 2015 to 258,675 tons. Due to the subdued price level of domestic raw milk, the total revenue of the Group for the Year amounted to RMB1,029.2 million, representing a slight drop of 0.3% as compared to RMB1,032.6 million in 2015. The net loss for the Year was RMB88.6 million as compared to a net profit of RMB66.2 million for the year ended 31 December 2015. The gross profit for the Year dropped by 10.7% from RMB380.1 million in 2015 to RMB339.5 million.

Since its establishment, the Group has established and maintained long-term relationships with China's leading dairy manufacturers. In 2016, the top three major customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group and they accounted for 97% of the Group's revenue during the Year.

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

As of 31 December 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. In the second half of 2016, the construction of Keshan Farm in Heilongjiang Province was halfway completed and commenced operation after bringing in cows.

	<b>Actual Designed Capacity</b> <i>(Number of Cows/Head)</i>	<b>Actual Inventory Number</b>	<b>Area</b> <i>(m<sup>2</sup>)</i>
Gannan Oumei Farm	12,000	9,152	986,333
Kedong Oumei Farm	6,000	7,545*	384,000
Kedong YST Farm	18,000	9,741	784,000
Zhenlai Farm Phase I	15,000	12,963	1,066,667
Kedong Yongjin Farm	12,000	6,224	714,000
Baiquan Ruixincheng Farm	15,000	5,033	994,000
Keshan Farm	<u>12,000</u>	<u>4,091</u>	<u>980,000</u>
Total	<u>90,000</u>	<u>54,749</u>	<u>5,909,000</u>

\* 1,513 dairy cows of which was housed in leased farms.

### ***Milk Yield***

During the Year, the average annual milk yield per cow was 10 tons, representing an increase of 1.0% as compared to 9.9 tons in 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 herds and further optimization of herd structure.

### ***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 49,795 as of 31 December 2015 to 54,749 as of 31 December 2016. Among which, the total number of our matured milkable cows increased from 25,064 as of 31 December 2015 to 26,689 as of 31 December 2016. The increase in number of matured milkable cows enhanced our raw milk yield.

	<b>As of 31 December</b>	
	<b>2016</b>	<b>2015</b>
Matured milkable cows	<b>26,689</b>	25,064
Heifers and calves	<u><b>28,060</b></u>	<u>24,731</u>
Total number of dairy cows	<u><b>54,749</b></u>	<u>49,795</u>

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

The price of domestic raw milk remained low due to continuous increase in imported milk powder, the oversupply in the upstream market and the impact of global economic environment. During the Year, despite the unfavorable operating environment, the Group still managed to sell raw milk at a price higher than the market average price. The average selling price of our raw milk was RMB3,979 per ton for the Year, representing a decrease of approximately 10.1% comparing to that for the year ended 31 December 2015.

### **Outlook**

The Ministry of Agriculture of the PRC and other ministries jointly issued the “National Dairy Development Plan (2016-2020)” (the “**Plan**”), which illustrated the overall planning and systematic deployment of the dairy development of the “13th Five-Year Plan”. It is expected that the structural reform of the dairy supply side will achieve substantive results by 2020. Also, the Plan plays an important role to speed up the revitalization of the dairy farming industry in China. The soaring disposable income of Chinese residents, the accelerating urbanization and the comprehensive implementation of the “Two-child Policy” have also boosted increasing demand for milk products in the market. Facing with the rising price of foreign milk, the dairy enterprises of China can foresee an enormous potential. The policy advantages and growing market demands will create favourable opportunities for the development of the Group.

Looking ahead, the Group will focus on consolidating its leading market position in the dairy farming industry in China. The Group will continuously provide the Chinese consumers with quality raw milk while adjusting its operation models and improving the feeding formula to increase the average annual milk yield per matured milkable cow. Moreover, the Group actively diversifies its business by starting the trial operation of beef cattle feeding business, which will contribute revenue and earnings to the Group. Furthermore, the Group watches the market trend closely, and will buy heifers when appropriate to expand the size of its herds, which will help respond to the upcoming industry revitalization. Meanwhile, through the advanced management model of its farms, the Group will also reduce its production cost and make more room for profit in order to maximise the interest of the shareholders of the Company (the “**Shareholders**”).

### **Our Revenue**

During the Year, our total sales of milk produced decreased by 0.3% from RMB1,032.6 million for the year ended 31 December 2015 to RMB1,029.2 million. The sales volume reached 258,675 tons in 2016, representing an increase of 25,400 tons or 10.9% as compared with 233,275 tons in 2015. The growth was primarily attributable to the increases in (i) herd size and (ii) the average annual milk yield per cow. In addition, our average selling price of raw milk decreased from RMB4,427 per ton in 2015 to RMB3,979 per ton in 2016. The decrease in selling price was mainly attributable to the continuing drop in the market price of domestic raw milk in 2016.

## Cost of Sales

Our cost of sales for the Year was RMB689.7 million. The table below summarizes the components of our cost of sales by nature:

	<b>2016</b>	2015
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Cost of sales		
Feed	<b>512,438</b>	498,744
Salary, welfare and social insurance	<b>43,945</b>	36,519
Depreciation	<b>44,680</b>	39,679
Veterinary cost	<b>28,333</b>	22,366
Utility	<b>22,860</b>	21,083
Other costs	<b>37,475</b>	34,206
	<u>689,731</u>	<u>652,597</u>
Cost of sales, total	<b><u>689,731</u></b>	<b><u>652,597</u></b>

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB512.4 million and RMB498.7 million for the years ended 31 December 2016 and 2015, respectively, representing 74.3% and 76.4% of the cost of sales for the respective financial years ended 31 December 2016 and 2015. The increase in our feed costs was attributable to the increase in feed consumption in 2016 as the number of our milkable cows grew.

## Gross Profit

Given the above factors, the gross profit decreased to RMB339.5 million for the Year (2015: RMB380.1 million), representing a decrease of 10.7% as compared to that for 2015. Our gross profit margin also decreased from 36.8% in 2015 to 33.0% in 2016.

## Other Income

	<b>2016</b>	2015
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Other income		
Government subsidies	<b>43,915</b>	12,361
Interest income from bank deposits	<b>21,824</b>	23,609
Sales of male calves	<b>5,546</b>	11,185
Others	<b>908</b>	857
	<u>72,193</u>	<u>48,012</u>
Other income, total	<b><u>72,193</u></b>	<b><u>48,012</u></b>

Other income for the Year amounted to RMB72.2 million (2015: RMB48.0 million), representing a growth of 50.4%. The growth was primarily attributable to a substantial increase in government subsidies received 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 RMB18.3 million for the Year (2015: RMB20.2 million).

## Administrative Expenses

The table below summarizes the components of our administrative expenses:

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Administrative expenses		
Salary and welfare	<b>37,793</b>	30,404
Amortization	<b>5,248</b>	5,250
Travel, meal and entertainment	<b>8,232</b>	7,915
Professional fee	<b>8,840</b>	9,129
Depreciation	<b>793</b>	484
Insurance	<b>4,429</b>	4,683
Write-down of inventories to net realisable value	–	21,044
Others	<b>9,583</b>	7,251
	<u>          </u>	<u>          </u>
Administrative expenses, total	<b><u>74,918</u></b>	<b><u>86,160</u></b>

We incurred administrative expenses of RMB74.9 million for the Year (2015: RMB86.2 million), representing a decrease of approximately 13.1% as compared to 2015. The decrease was attributable to the increase in salary and welfare and other expenses while no write-down of the inventories occurred during the Year.

## Finance Costs

Our finance costs substantially decreased to nil for the Year (2015: RMB9.5 million). The decrease was primarily due to the fact that the Group repaid all the bank borrowings in 2015 and did not incur any new bank borrowings during the Year.

## Changes in Fair Value Less Cost to Sell of Biological Assets

Changes in fair value less cost to sell of biological assets was a loss of RMB407.1 million for the Year as compared to a loss of RMB245.0 million for 2015. The increase in the loss was principally due to the drop 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 RMB88.6 million for the Year. This represented a decrease of 233.8% from a net profit of RMB66.2 million for the year ended 31 December 2015. Basic loss per share was approximately RMB(2.27) cents for the Year (2015: earnings per share of RMB1.69 cents).

## **LIQUIDITY AND FINANCIAL RESOURCES**

For the Year, the Group's net cash inflow from operating activities amounted to RMB327.9 million, as compared to RMB164.7 million in 2015.

The Group had no bank borrowing during the Year.

## **CAPITAL STRUCTURE**

As at 31 December 2016, the Company's issued share capital was HK\$39,087,470 divided into 3,908,747,000 shares of HK\$0.01 each (2015: HK\$39,087,470 divided into 3,908,747,000 shares).

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

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

As part of the 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 2016 nor are there other plans for material investments on capital assets as at the date of this announcement.

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

The Company's shares (the "**Shares**") first became listed on the Main Board of the Stock Exchange on 26 November 2013. Gross proceeds raised from the global offering in such connection amounted to about HK\$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company) amounted to about HK\$2,564 million. Up to 31 December 2016, about HK\$2,082.1 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\$1,788.9 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 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 2016, no property, plant and equipment of the Group were pledged as security for bank borrowings.

## **FOREIGN EXCHANGE EXPOSURE**

Certain assets of the Group are denominated in foreign currencies such as the 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 2016 and 2015 were RMB104.7 million and RMB120.9 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 2016 (2015: Nil).

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend for the Year (2015: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2016, the Group had approximately 1,380 employees (2015: 1,377 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**

### **Issue of New Shares**

On 23 December 2016, the Company entered into a placing agreement (the **“Placing Agreement”**) with a placing agent (the **“Placing Agent”**), pursuant to which the Company appointed the Placing Agent as its agent to procure not less than six placees (the **“Placees”**) to subscribe up to 781,749,400 placing shares (the **“Placing Share(s)”**) at a price of HK\$0.5 per Placing Share on a best effort basis on the terms and subject to the condition of the Placing Agreement (the **“Placing”**). The Placing Shares were allotted and issued under the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 21 June 2016 (the **“2016 AGM”**). The conditions of the Placing have been fulfilled and completion took place on 13 January 2017. A total of 781,749,400 Placing Shares have been successfully placed to not less than six Placees at the placing price of HK\$0.5 per Placing Share. For further information, please refer to the Company’s announcements dated 23 December 2016 and 13 January 2017, respectively.

### **Resignation of Non-executive Director (the “NED”)**

On 23 January 2017, Mr. Sun Wei tendered his resignation to the Board and resigned from his position as a NED with effect from even date. For further information, please refer to the Company’s announcements dated 23 January 2017 and 24 January 2017, respectively.

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

## **PURCHASE, SALE OR REDEMPTION OF COMPANY’S LISTED SECURITIES**

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



## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of 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 except for the deviations as stated below:

### Code Provision A.4.2

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

Mr. Chen Xiangqing ("**Mr. Chen**") was appointed as an executive Director on 10 September 2015. Due to an inadvertent oversight, Mr. Chen was not put forward for re-election at the special general meeting of the Company held on 21 January 2016 (the "**SGM**"). As such, Mr. Chen offered himself for re-election at the 2016 AGM.

### Code Provision A.6.7

Pursuant to code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other engagements, the two NEDs were unable to attend the SGM and a NED was unable to attend the 2016 AGM. To mitigate the above, future general meetings would be scheduled earlier to avoid timetable clashes.

## COMPLIANCE WITH MODEL CODE

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

## REVIEW 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 Audit Committee has reviewed with the Company's management team the Company's annual consolidated results for the Year.

## **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, 22 March 2017

*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.*