2018 Interim Report

YST Dairy Farm Limited
原生态牧业

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

(Incorporated in Bermuda with limited liability)

Stock Code: 1431

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Hongliang (趙洪亮) *(Chairman)*
Mr. Fu Wenguo (付文國) *(Chief Executive Officer)*
Mr. Chen Xiangqing (陳祥慶) *(Chief Financial Officer)*
Mr. Liu Gang (劉剛)
(appointed with effect from 25 June 2018)
Mr. Wang Shaogang (王紹崗) *(Vice-chairman)*
(resigned with effect from 25 June 2018)

Non-executive Director

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

Ms. Song Miao (宋淼)
(appointed with effect from 25 June 2018)
Mr. Kwok Siu Man (郭兆文)
(appointed with effect from 25 June 2018)
Mr. Liu Gang (劉剛)
(resigned with effect from 25 June 2018)

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
Industrial and Commercial 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

Conyers Corporate Services (Bermuda) 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
Loeb & Loeb LLP

STOCK CODE

1431

BOARD LOTS

1,000

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

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, YuanShengTai Dairy Farm Limited (the "**Company**" or "**YuanShengTai**"), together with its subsidiaries (collectively, 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 six months ended 30 June 2018 (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 of directors of the Company (the "**Directors**" and the "**Board**", respectively) has resolved not to declare the payment of any interim dividend for the Period (for the six-month period ended 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 (the "**First Grant Date**") and 8 December 2015 (the "**Second Grant Date**"), 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 (the "**Third Grant Date**"). The closing price of the Shares immediately before the date on which the options were granted was HK$0.249.

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

Grantees	Outstanding As at 01.01.2018	Granted During the Period	Cancelled During the Period	Lapsed During the Period	Exercise During the Period	Outstanding As at 30.06.2018	Exercise price per Share HK$	Grant Date	Validity Period of the Options
	Number of underlying Shares comprised in Options								
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
	–	4,500,000	–	–	–	4,500,000	0.24	05.06.2018	Note 3
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
	–	20,000,000	–	–	–	20,000,000	0.24	05.06.2018	Note 3
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
	–	13,500,000	–	–	–	13,500,000	0.24	05.06.2018	Note 3
Mr. Liu Gang	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
	–	15,000,000	–	–	–	15,000,000	0.24	05.06.2018	Note 3
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									
Mr. Wang Shaogang	3,500,000	–	–	–	–	3,500,000	1.462	22.08.2014	Note 1
(“**Mr. Wang**”) *(note 4)*	6,000,000	–	–	–	–	6,000,000	0.59	08.12.2015	Note 2
Senior management member									
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
	–	7,000,000	–	–	–	7,000,000	0.24	05.06.2018	Note 3
Employees	20,250,000	–	(17,150,000)	–	–	3,100,000	1.462	22.08.2014	Note 1
(in aggregate)	56,300,000	–	(39,200,000)	–	–	17,100,000	0.59	08.12.2015	Note 2
	–	108,500,000	–	–	–	108,500,000	0.24	05.06.2018	Note 3
Total	132,950,000	168,500,000	(102,750,000)	–	–	198,700,000			

Notes:

1. 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.

2. 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.

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

   Tranche I: beginning on the Third Grant Date: 60% of such Options granted;

   Tranche II: beginning on the 1st anniversary of the Third Grant Date: 40% of such Options granted; and

4. Mr. Wang resigned as an executive Director and the vice-chairman of the Group (the "**Vice-chairman**") with effect from 25 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 of Hong Kong Limited (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 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 has complied with all the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "**CG Code**") during the Period and up to the date of this report.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") 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 and this 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 15 of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, 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, 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 (Note 2)	Total	Approximate percentage of issued Shares
Mr. Zhao Hongliang (Note 1)	(i) Interest in a controlled corporation and beneficial owner/ Corporate and personal interest	1,150,900,000	4,500,000	1,155,400,000	24.63%
	(ii) Deemed interest under S.317 of the SFO	170,200,000	–	170,200,000	3.63%
	Total	1,321,100,000	4,500,000	1,325,600,000	28.26%
Mr. Chen Xiangqing	Beneficial owner/ Personal interest	–	13,500,000	13,500,000	0.29%
Mr. Fu Wenguo	Beneficial owner/ Personal interest	–	20,000,000	20,000,000	0.43%
Mr. Liu Gang ("**Mr. Liu**") (Note 3)	Beneficial owner/ Personal interest	2,101,000	15,000,000	17,101,000	0.36%
Mr. Wu Chi Keung	Beneficial owner/ Personal interest	–	500,000	500,000	0.01%
Mr. Wang (Note 4)	Beneficial owner/ Personal interest	–	9,500,000	9,500,000	0.20%

Notes:

1. 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 5 June 2018 pursuant to the Share Option Scheme, which entitle him to subscribe for a total of 4,500,000 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 28.26% of the issued share capital of the Company.

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

3. Mr. Liu was appointed as an executive Director with effect from 25 June 2018.

4. Mr. Wang resigned as an executive Director and the Vice-chairman with effect from 25 June 2018.

Save as disclosed above, as at 30 June 2018, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, 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 (other than a Director or the chief executive of the Company) which/who 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 (Note 1)	Beneficial owner/ Personal interest	1,150,900,000	–	174,700,000	1,325,600,000	28.26%
Mr. Zhao Hongliang (Note 1)	Interest in a controlled corporation and beneficial owner/ Corporate and personal interest	1,150,900,000	4,500,000	170,200,000	1,325,600,000	28.26%
Ms. Li Shuxia (Note 2)	Interest of spouse/ Family interest	1,150,900,000	4,500,000	170,200,000	1,325,600,000	28.26%
ZHY Asia Limited (Note 1)	Beneficial owner/ Personal interest	170,200,000	–	1,155,400,000	1,325,600,000	28.26%
Mr. Zhao Hongyu (Note 1)	Interest in controlled corporation/ Corporate interest	170,200,000	–	1,155,400,000	1,325,600,000	28.26%

Notes:

1. Please refer to note 1 under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

2. 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.

Save as disclosed above, as at 30 June 2018, so far as it was known by or otherwise notified to the Directors or the chief executive of the Company, no other corporations or persons (other than a Director or the chief executive of the Company) had any interest or short position in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 16 to 30, which comprise the condensed consolidated statement of financial position of YuanShengTai Dairy Farm Limited (the "**Company**") and its subsidiaries (the "**Group**") as at 30 June 2018 and the related interim 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 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 condensed consolidated financial statements 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 directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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 condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
28 August 2018

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

For the six-month period ended 30 June 2018

	Notes	Six-month period ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) 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	9	(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	*8*	**2,544,014**	2,596,929
Prepaid land lease payments		**89,234**	91,768
Prepayments and other receivables		**91,218**	68,256
Biological assets	*9*	**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	*10*	**73,581**	85,339
Prepayments and other receivables		**8,271**	11,654
Prepaid land lease payments		**5,080**	5,096
Cash and cash equivalents	*11*	**1,019,145**	1,135,920
Total current assets		**1,277,305**	1,497,388
CURRENT LIABILITIES			
Trade payables	*12*	**211,329**	233,211
Other payables and accruals	*13*	**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	*13*	**151,728**	156,137
Total non-current liabilities		**151,728**	156,137
NET ASSETS		**4,576,140**	4,612,053
EQUITY			
Issued capital	*14*	**37,674**	37,674
Reserves		**4,538,466**	4,574,379
Total equity		**4,576,140**	4,612,053

Director
Zhao Hongliang

Director
Chen Xiangqing

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six-month period ended 30 June 2018

	Attributable to owners of the Company							
	Issued capital RMB'000	Merger reserve RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2018	**37,674**	**186,000**	**2,956,372**	**455,505**	**37,530**	**(14,290)**	**953,262**	**4,612,053**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(53,342)**	**(53,342)**
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**7,347**	**–**	**7,347**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**7,347**	**(53,342)**	**(45,995)**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**10,082**	**–**	**–**	**10,082**
Transfer of share option reserve upon the forfeiture of share options	**–**	**–**	**–**	**–**	**(30,861)**	**–**	**30,861**	**–**
At 30 June 2018 (unaudited)	**37,674**	**186,000**	**2,956,372**	**455,505**	**16,751**	**(6,943)**	**930,781**	**4,576,140**
At 1 January 2017	30,727	186,000	2,621,198	455,505	34,082	8,270	1,019,931	4,355,713
Loss for the period	–	–	–	–	–	–	(17,179)	(17,179)
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	–	–	–	–	–	(19,198)	–	(19,198)
Total comprehensive loss for the period	–	–	–	–	–	(19,198)	(17,179)	(36,377)
Issue of shares	6,947	–	335,174	–	–	–	–	342,121
Equity-settled share option arrangements	–	–	–	–	3,000	–	–	3,000
Transfer of share option reserve upon the forfeiture of share options	–	–	–	–	(1,216)	–	1,216	–
At 30 June 2017 (unaudited)	37,674	186,000	2,956,372	455,505	35,866	(10,928)	1,003,968	4,664,457

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six-month period ended 30 June 2018

	Note	Six-month period ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		**269,003**	255,329
Purchases of items of property, plant and equipment		**(175,838)**	(88,505)
Additions to biological assets		**(219,281)**	(195,689)
Proceeds from disposal of biological assets		**63,875**	30,899
Decrease in time deposits		**533,067**	–
Other investing cash flows		**846**	4,460
NET CASH FLOWS GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**202,669**	(248,835)
NET CASH FLOWS (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(62,000)**	342,121
NET INCREASE IN CASH AND CASH EQUIVALENTS		**409,672**	348,615
Cash and cash equivalents at beginning of period		**363,606**	278,460
Effect of foreign exchange rate changes, net		**4,619**	(7,970)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*9*	**777,897**	619,105

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

1. CORPORATE INFORMATION

YuanShengTai Dairy Farm Limited (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 six-month period ended 30 June 2018, the Company and its subsidiaries (together, the "**Group**") are principally engaged in the production and sale of raw milk in the People's Republic of China (the "**PRC**").

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

2.1 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**").

2.2 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.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

IFRS 15 *Revenue from Contracts with Customers* (continued)

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

There is no material impact on the condensed consolidated statement of financial position, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and basic and diluted EPS.

The Group is in the business of producing and selling raw milk.

(a) Sale of goods

The Group's contracts with customers for the sale of raw milk generally include one performance obligation. The Group has concluded that revenue from sale of raw milk should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the raw milk. Therefore, the adoption of IFRS 15 did not have an impact on the timing and amount of revenue recognition.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments replaces* IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

There is no material impact on the condensed consolidated statement of financial position, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and basic and diluted EPS.

(a) Classification and measurement

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

IFRS 9 *Financial Instruments* (continued)

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The adoption of the ECL requirements of IFRS 9 resulted in no changes in impairment allowances of the Group's debt financial assets.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction.

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 (Unaudited) RMB'000	2017 (Unaudited) 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. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2018, the Group acquired property, plant and equipment of RMB66,032,000 (unaudited) (six-month period ended 30 June 2017: RMB15,266,000 (unaudited)).In addition, the Group disposed of certain property, plant and equipment with an aggregate net carrying amount of RMB58,895,000 (unaudited) (six-month period ended 30 June 2017: RMB3,195,000 (unaudited)), resulting in a loss on disposal of RMB2,464,000 (unaudited) (six-month period ended 30 June 2017: RMB149,000 (unaudited)).

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 2018 and 31 December 2017 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 30 June 2018 and 31 December 2017 were dairy cows that have not had their first calves.

	30 June 2018 (Unaudited) Heads	31 December 2017 (Audited) Heads
Dairy cows		
Milkable cows	**32,287**	32,963
Heifers and calves	**29,734**	28,244
Total dairy cows	**62,021**	61,207

The Group is exposed to fair value risks arising from changes in price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there are no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

9. BIOLOGICAL ASSETS (continued)

A – Nature of activities (continued)

In general, the heifers are inseminated with semen when they reached approximately 16 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 before an approximately 60 days' dry period.

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

B – Value of dairy cows

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Dairy cows	**1,216,999**	1,211,825

	Heifers and calves RMB'000	**Milkable cows** RMB'000	**Total** RMB'000
Balance as at 1 January 2017	446,671	654,970	1,101,641
Increase due to raising (feeding costs and others)	341,082	–	341,082
Increase due to purchase	94,474	–	94,474
Transfer (out)/in	(262,267)	262,267	–
Decrease due to sales	(48,944)	(47,763)	(96,707)
Gain/(Loss) arising from changes in fair value less costs to sell	3,170	(231,835)	(228,665)
Balance as at 31 December 2017 and 1 January 2018 (audited)	574,186	637,639	1,211,825
Increase due to raising (feeding costs and others)	**189,632**	**–**	**189,632**
Increase due to purchase	**18,133**	**–**	**18,133**
Transfer (out)/in	**(175,153)**	**175,153**	**–**
Decrease due to sales	**(25,636)**	**(36,157)**	**(61,793)**
Loss arising from changes in fair value less costs to sell	**(1,575)**	**(139,223)**	**(140,798)**
Balance as at 30 June 2018 (unaudited)	**579,587**	**637,412**	**1,216,999**

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 2018 (unaudited)	**1,216,999**
As at 31 December 2017 (audited)	1,211,825

10. 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).

11. CASH AND CASH EQUIVALENTS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cash and bank balances	**541,916**	363,606
Time deposits	**477,229**	772,314
Cash and cash equivalents in the interim condensed consolidated statement of financial position	**1,019,145**	1,135,920
Less: Non-pledged time deposits with original maturity of more than three months when acquired	**(239,248)**	(772,314)
Cash and cash equivalents in the interim condensed consolidated statement of cash flows	**777,897**	363,606

At 30 June 2018, the Group's cash and bank balances denominated in RMB amounted to RMB147,684,000 (unaudited) (31 December 2017: RMB260,050,000 (audited)). In addition, at 30 June 2018, the time deposit of the Group denominated in RMB amounted to RMB287,492,000 (unaudited) (31 December 2017: RMB608,476,000 (audited)).The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

12. 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.

13. OTHER PAYABLES AND ACCRUALS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Deferred income	**163,566**	167,804
Other payables – construction	**178,751**	268,432
Other payables – equipment and materials	**8,769**	7,955
Others	**80,215**	176,711
	431,301	620,902
Non-Current Portion		
Deferred income	**(151,728)**	(156,137)
	279,573	464,765

The above amounts are non-interest-bearing and have no fixed terms of settlement.

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

14. ISSUED CAPITAL

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**406,897**	406,897
Issued and fully paid:		
4,690,496,400 ordinary shares of HK$0.01 each	**37,674**	37,674

15. SHARE-BASED PAYMENTS

On 5 June 2018, 102,750,000 share options (the "**Old Options**") previously granted to directors and employees, 35,650,000 of which were granted in 2014 at the exercise price of HK$1.462 while 67,100,000 of which were granted in 2015 at the exercise price of HK$0.59, were cancelled and replaced by 168,500,000 share options (the "**New Options**"). On the date of grant, 26,840,000 of the Old Options were not vested while 75,910,000 of the Old Options were vested. The exercise price of the New Options was HK$0.24 per share, which was equal to the market price of the shares on the date of grant. 60% of the New Options ("**Tranche I**") were vested and exercisable on or after 5 June 2018 and the remaining 40% of the New Options ("**Tranche II**") will be vested and exercisable on or after 5 June 2019. The fair value of the New Options at the grant date is estimated using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is seven years. There is no cash settlement of the options. The fair value of options granted during the six-month period ended 30 June 2018 was estimated on the date of grant using the following assumptions:

	Tranche I	**Tranche II**
Dividend yield (%)	–	–
Expected volatility (%)	50.0110	49.2340
Risk-free interest rate (%)	1.9960	2.0400
Expected life of share options (years)	3.5	4
Weighted average share price (HK$)	0.0919	0.0968

The weighted average fair value of the options granted during the six-month period ended 30 June 2018 was HK$0.0939 (year ended 31 December 2017: Nil).

The following share options were outstanding during the six-month period ended 30 June 2018:

	Weighted average exercise price HKD per share	**Number of options** '000
At 1 January 2018 (audited)	0.8684	132,950
Granted during the period	0.2400	168,500
Cancelled during the period	0.8925	(102,750)
At 30 June 2018 (unaudited)	0.3230	198,700

For the six-month period ended 30 June 2018, the Group has recognized RMB10,082,000 (six-month period ended 30 June 2017: RMB3,000,000) of share-based payment expense in the statement of profit or loss and other comprehensive income.

16. 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

17. RELATED PARTY TRANSACTIONS

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

	Six-month period ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Short term employee benefits	573	682
Equity-settled share option expense	2,797	1,278
Post-employment benefits	204	194
Total compensation paid to key management personnel	3,574	2,154

18. 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.

19. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 28 August 2018.