YuanShengTai Dairy Farm Limited
原 生 態 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 2013

FINANCIAL RESULTS

YuanShengTai Dairy Farm Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) on 1 May 2012 and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 November 2013 (the "Listing Date").

The board of directors of the Company (the "Board") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 together with the comparative figures for the year ended 31 December 2012.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	4	**880,760**	689,113
Cost of sales		**(505,835)**	(428,630)
Gross profit		**374,925**	260,483
Other income	4	**28,162**	17,513
Gain from non-interest-bearing financial arrangements		**50,938**	—
Listing expenses		**(27,629)**	—
Selling and distribution expenses		**(19,248)**	(17,383)
Administrative expenses		**(40,200)**	(22,843)
Finance costs	5	**(135,151)**	(45,742)
Changes in fair value less costs to sell of biological assets		**(13,678)**	17,713
PROFIT BEFORE TAX	6	**218,119**	209,741
Income tax expense	7	**(385)**	—
PROFIT FOR THE YEAR		**217,734**	209,741
Other comprehensive expense to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(4,878)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**212,856**	209,741
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT/COMPANY			
Basic and diluted		**RMB8.8 cents**	RMB9.0 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,341,360**	1,299,119
Prepaid land lease payments		**112,599**	117,747
Deposits for property, plant and equipment, and biological assets	*10*	**51,065**	1,762
Biological assets		**1,088,318**	941,620
Amount due from a beneficial owner of a former shareholder		**55,618**	—
Total non-current assets		**2,648,960**	2,360,248
CURRENT ASSETS			
Inventories		**200,877**	139,122
Trade receivables	*11*	**64,633**	70,886
Prepayments and other receivables	*10*	**22,295**	10,195
Prepaid land lease payments		**4,546**	4,546
Amounts due from related companies		**—**	510
Cash and cash equivalents		**2,026,204**	7,748
Total current assets		**2,318,555**	233,007
CURRENT LIABILITIES			
Trade payables	*12*	**212,091**	207,655
Other payables and accruals	*13*	**351,182**	829,529
Amounts due to shareholders		**—**	134,521
Amounts due to related companies		**32,707**	366,106
Interest-bearing bank borrowings		**220,000**	166,497
Total current liabilities		**815,980**	1,704,308
NET CURRENT ASSETS/(LIABILITIES)		**1,502,575**	(1,471,301)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,151,535**	888,947

	Notes	**2013** **RMB'000**	2012 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**—**	298,477
Other payables	*13*	**185,829**	—
Amount due to a beneficial owner of a former shareholder		**54,950**	—
Total non-current liabilities		**240,779**	298,477
Net assets		**3,910,756**	590,470
EQUITY			
Issued capital		**30,727**	—
Reserves		**3,880,029**	590,470
Total equity		**3,910,756**	590,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Pursuant to the Reorganization of the Group as described in "History, Development and Reorganization — Reorganization" in our "Prospectus" and dated 14 November 2013, the Company became the holding company of the other subsidiaries then comprising the Group, which was completed on 26 October 2012. Since the Company and the companies then comprising the Group were under common control of the controlling shareholders of the Company (the "Controlling Shareholders") both before and after the Reorganization, the Reorganization was accounted for using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the year ended 31 December 2012 include the results and cash flows of all companies then comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2012 have been prepared to present the assets and liabilities of the Group using the existing carrying values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation. Equity interests in subsidiaries held by parties other than the Controlling Shareholders prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

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"). They have been prepared under the historical cost convention, except for biological assets and agricultural product, 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 (the "functional currency") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. As explained above, the acquisition of subsidiaries under common control has been accounted for using the principles of merger accounting.

Merger method

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book value. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

Acquisition method

Under the acquisition method, the consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2 PRINCIPLE ACCOUNTING POLICIES

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the financial statements.

IFRS 9	Financial Instruments[3]
IFRS 9, IFRS 7 and IAS 39 Amendments	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39[3]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — Investment Entities[1]
IFRS 14	Regulatory Deferral Accounts issued[4]
IAS 19 Amendments	Amendments to IAS 19 Employee Benefits — Defined Benefit Plans: Employee Contributions[2]
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[1]
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting[1]
IFRIC 21	Levies[1]
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs issued in January 2014[2]
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption
4 Effective for annual periods beginning on or after 1 January 2016

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sales 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 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 the Mainland China.

All external sales of milk produced by the Group during this year are contributable to customers located in the Mainland China.

All non-current assets were located in the 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 2013 and 2012 is as follows:

	2013	2012
	RMB'000	*RMB'000*
Customer A	**196,169**	194,844
Customer B	**277,714**	305,346
Customer C	**65,731**	96,179
Customer D	**319,102**	91,673
Others	**22,044**	1,071
	880,760	689,113

4. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of raw milk sold.

An analysis of revenue and other income is as follows:

	2013	2012
	RMB'000	*RMB'000*
Revenue		
Sales of raw milk	**880,760**	689,113
Other income		
Government subsidies	**19,623**	14,391
Interest income from bank deposits	**247**	116
Sales of male calves	**4,945**	2,426
Commission Income	**3,111**	—
Others	**236**	580
	28,162	17,513

5. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	2013	2012
	RMB'000	*RMB'000*
Interest on other financial liabilities	**85,785**	—
Imputed interest on non-interest bearing financial arrangements	**25,971**	28,958
Interest on bank and other borrowings wholly repayable within five years	**21,107**	20,834
Interest on bank and other borrowings wholly repayable beyond five years	**2,288**	3,062
	135,151	52,854
Less: Interest capitalised	**—**	(7,112)
	135,151	45,742

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation for the year ended 31 December 2012 was 1.45%.

6. PROFIT BEFORE TAX

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

	2013	2012
	RMB'000	*RMB'000*
Breeding costs to produce	**394,866**	339,341
Production costs for raw milk	**110,969**	89,289
Cost of sales	**505,835**	428,630
Depreciation	**50,718**	36,138
Recognition of prepaid land lease payments	**5,148**	4,049
Auditors' remuneration	**3,282**	323
Employee benefit expenses		
(including directors' and chief executive's remuneration):		
Wages and salaries	**28,941**	21,917
Pension scheme contributions	**3,496**	1,719
	32,437	23,636
Foreign exchange differences, net	**4,088**	—

7. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2013 as the Group did not generate any assessable profits arising in Hong Kong during the year (2012: 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 on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued 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 regulation, certain subsidiaries of the Group are operating in agricultural business and is exempted from enterprise income tax.

	2013	2012
	HK'000	*HK'000*
Group:		
Current — Hong Kong	**—**	—
Current — Mainland China	**385**	—
Total tax charge for the year	**385**	—

8. DIVIDENDS

No dividend was paid or proposed during 2013, nor has any dividend been proposed since the end of the reporting period.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2013 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB217,734,000 (2012: RMB209,741,000) and the weighted average number of ordinary shares in issue of 2,476,698,334 (2012: 2,320,000,000), on the assumption that the reorganisation and the capitalisation issue had been completed on 1 January 2012.

No adjustment has been made to the basic earnings per share amount for the year ended 31 December 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during that year.

10. PREPAYMENT AND OTHER RECEIVABLES

Group

	2013	2012
	RMB'000	*RMB'000*
Prepayments	**62,945**	4,167
Other receivables	**10,415**	7,790
	73,360	11,957
Non-current portion	**(51,065)**	(1,762)
Current portion	**22,295**	10,195

11. TRADE RECEIVABLES

Group

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**64,633**	70,886
Impairment	**—**	—
	64,633	70,886

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

The aged analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

Group

	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	**64,633**	41,051
Less than 1 month past due	**—**	15,363
1 month to 3 months past due	**—**	13,919
Over 3 months past due	**—**	553
	64,633	70,886

12. TRADE PAYABLES

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

Group

	2013	2012
	RMB'000	*RMB'000*
Within 2 months	**154,358**	110,393
2 to 6 months	**33,718**	60,836
6 to 12 months	**12,618**	18,376
Over 1 year	**11,397**	18,050
	212,091	207,655

13. OTHER PAYABLES AND ACCRUALS

Group

	2013	2012
	RMB'000	*RMB'000*
Deferred income	**12,048**	21,439
Other payables — construction	**44,334**	78,251
Other payables — equipment and materials	**15,163**	48,833
Others	**465,466**	681,006
	537,011	829,529
Non-current portion	**(185,829)**	—
Current portion	**351,182**	829,529

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

China's rapid urbanization has driven a steady growth in the consumer market. According to the National Bureau of Statistics of China, in 2013, the total retail sales of social consumer goods reached RMB23,438 billion, representing an increase of 13.1% compared to the same period of 2012. Benefiting from urban residents' rising per capita disposable income, as well as changes in lifestyle and consumer spending patterns, dairy consumption in China, especially the consumption of high-end and premium dairy products, increased substantially. This has promoted a further development of China's dairy industry. Meanwhile, with the increasing demand for high-quality, high-end dairy products and enhancement of consumers' awareness of food safety, dairy manufacturers are paying more attention to securing reliable supply of high-quality raw milk. The Chinese government implemented a number of policies to support the development of large farms at national and regional levels, including the provision of subsidies for the reconstruction and expansion of standardized management of large farms, which contributed to the gradual increase in number of large farms with modern technology and advanced farming methods in recent years.

Business Review

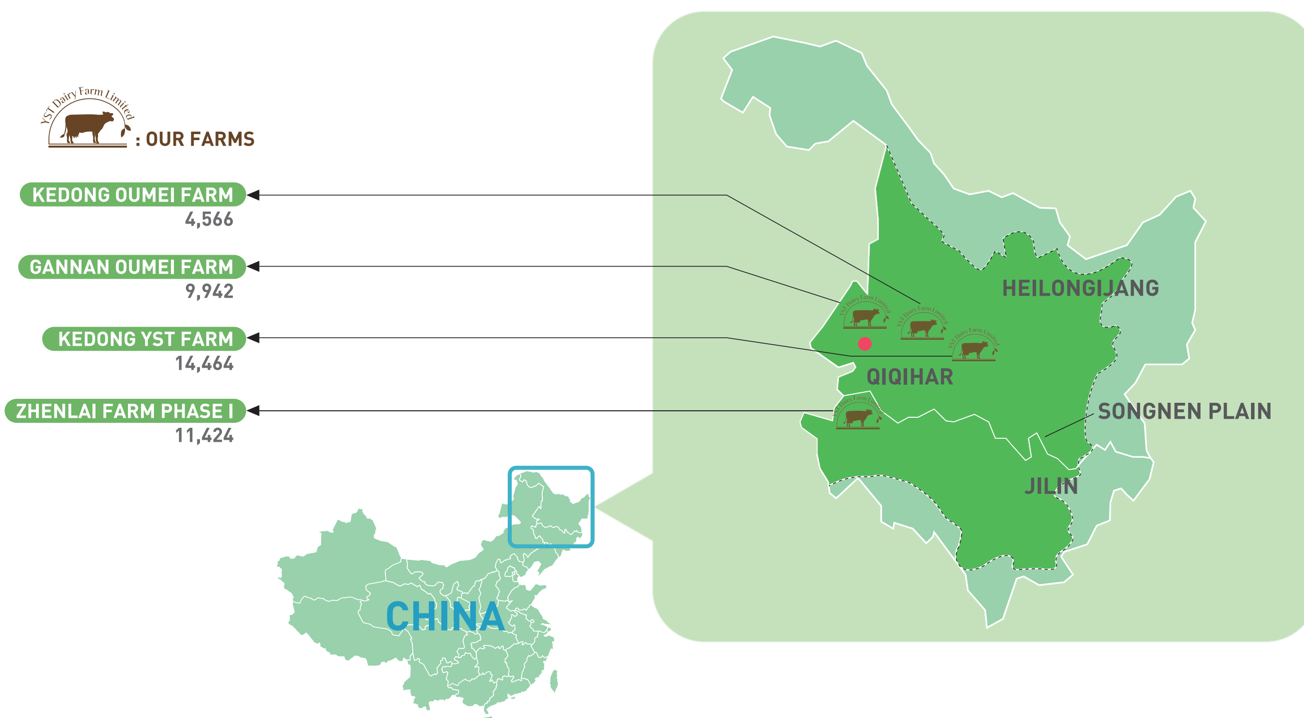
In terms of herd size and production volume in 2012, the Group is a leading dairy farming company in China. In 2013, benefiting from Chinese consumers' growing demand for high-end dairy products and continuous expansion in overall herd size which led to the increase in production, our business recorded a significant growth. The total sales volume increased by 9% from 168,070 tons in 2012 to 183,702 tons in 2013, while the revenue increased 28% from RMB689.1 million in 2012 to RMB880.8 million in 2013. As a result, the total gross profit increased 44% from RMB260.5 million to RMB374.9 million in 2013.

We enjoy wide recognition for our large operating scale and the premium quality of raw milk. Leveraging our leading position in the premium raw milk supply chain and the quality of our raw milk, we have established long-term relationships with China's leading dairy manufacturers. In 2013, our top five customers were Yili Group, Mengniu Group, Feihe Dairy Group, Bright Dairy Group and Aibeite.

Construction of Farms

As of 31 December 2013, we had three farms in Heilongjiang Province and one farm in Jilin Province, each of which had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and total site area of the four farms amounted to 3,220,667 square meters.

	Actual Designed Capacity (Number of Cows/ Head)	**Site Area (m^2)**
Gannan Oumei Farm	12,000	986,333
Kedong Oumei Farm	6,000	384,000
Kedong YST Farm	18,000	784,000
Zhenlai Farm Phase I	15,000	1,066,667
Total	51,000	3,221,000



Milk yield

The milk yield of our cows is affected by a number of factors, including a cow's lactation stage, breed, genetics and feed. The average annual milk yield per cow increased from 8.9 tons in 2012 to 9.0 tons in 2013. We expect our average milk yield per cow to improve with more of our self breed cows become milkable and a more balanced age group of herd.

Size of our herd

Our results of operations are significantly affected by the expansion of our herd. The number of dairy cows across all four of our dairy farms increased from 37,000 as of 31 December 2012 to 40,396 as of 31 December 2013. As a result of our organic growth, the total number of our milkable cows increased from 20,643 for 2012 to 21,544 for 2013.

	2013	2012
Matured milkable cows	**21,544**	20,643
Heifers and calves	**18,852**	16,357
Total dairy cows	**40,396**	37,000

Price of raw milk

With a series of policies introduced by the Chinese government to encourage the development of large modern farms, to promote further integration of dairy farming industry, the number of small scale farms gradually reduced. These factors have led to the continuous decrease in the supply of high quality raw milk in China in the second half of 2013.

The sales price of our raw milk is affected by many combined factors, including the quality of milk, diversity and composition of customers, seasonal factors, as well as the market and feed costs. Due to the rising demand for high quality raw milk, while the supply continued to decrease, the price of our high quality raw milk was generally higher than the average sales price in the market. Our average sales price increased 17% from RMB4,100 per ton in 2012 to RMB4,795 per ton in 2013. In the past, we would consult with our customers about price increase to adjust the price of our raw milk, which can reflect the increase in feed costs. More importantly, we are able to pass part of such increase in cost to our customers.

Outlook

Looking ahead, China's urbanization, the continuous rise in urban residents' consumption levels and growing concerns about food and health will continue to promote steady development of enterprises producing high quality raw milk. Moreover, with the Chinese government's easing measures on the "One Child Policy" in 2013, the space for the development of dairy product will be further expanded, which is expected to benefit dairy producers, including infant formula producers.

With advanced herd management techniques, a large scale of herd, ideal geographic environment and favorable government support policies, the Group will further expand the business scale of its super large dairy farms and improve gross margin through economies of scale. In order to achieve greater market share and to seize the rising demand for high-quality raw milk, the overall milk production capacity is expected to increase. In the next three years, we plan to build another five farms in the Songnen Plain, including one farm for education and tourism and other three for commercial production. We aim to attain a total herd size of 100,000 in 2017. In addition, we are trying to obtain license(s) and permit(s) required for the Tiefeng Farm, Baiquan Farm and Kedong Yongjin Farm and we will obtain the license and permission of the Honghai Farm and the Sifang Farm in 2014. We expect to replicate our business model of operating mega scale dairy farm. We believe that, in addition to the increase in the milk production and sales volume, we will improve our operational efficiency and optimize our systematic management of dairy farms to control operating costs by expanding our business scale, which will further allow us to achieve better economies of scale.

We will explore opportunities to cooperate with feed suppliers and oversea dairy farms. We will continue to enhance our technologies of feeding, breeding and producing to improve production efficiency, and meanwhile, we will take efforts to diversify revenue sources by expanding business to upstream business so as to further strengthen our position as China's leading dairy farming company. We will seize the opportunities in developing China's dairy products, especially the high-end raw milk industry, to maintain a stable long-term development of business. We are dedicated to becoming a national leading supplier of premium raw milk.

Our Revenue

During the year ended 31 December 2013, our total sales of milk produced increased by 28% from RMB689.1 million in the last fiscal year to RMB880.8 million. The sales volume reached 183,702 tons, representing an increase of 15,930 tons or 9.3% as compared with 168,070 tons in 2012. The growth was primarily attributable to (i) the increase in herd size, and (ii) the increase in per cow annual yield. In addition, our average selling price of raw milk price had grown from RMB4,100 per ton in the year 2012 to RMB4,795 per ton during the year 2013. The increase in selling price reflected the high demand for premium milk from our customers.

Cost of sales

Our cost of sales for the year ended 31 December 2013 was RMB505.8 million. The table below summarizes the components of our cost of sales by nature for the years 2012 and 2013:

	2013	2012
	RMB'000	*RMB'000*
Cost of sales		
Feed	**394,866**	339,341
Salary, welfare and social insurance	**22,789**	17,640
Depreciation	**33,085**	23,386
Veterinary cost	**15,940**	13,289
Utility	**19,583**	19,360
Other costs	**19,572**	15,614
Cost of sales, total	**505,835**	428,630

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB394.9 million and RMB339.3 million for the years ended 31 December 2013 and 2012, respectively, representing 78.1% and 79.2% of the cost of sales for the respective financial year ended 31 December 2013 and 2012. The increase in our feed costs was attributable to the increase in feed consumption for the year 2013 as the number of our milkable cows grew.

Gross Profit

Resulted from factors discussed, the gross profit increased to RMB374.9 million for the year end 31 December 2013, (2012: RMB260.5 million), representing an increase of 43.9%. Our gross profit margin also increased from 37.8% in 2012 to 42.6% in 2013.

Other Income

	2013	2012
	RMB'000	*RMB'000*
Other income		
Government subsidies	**19,623**	14,391
Interest income from bank deposits	**247**	116
Sales of male calves	**4,945**	2,426
Commission Income	**3,111**	—
Others	**236**	580
Other Income, Total	**28,162**	17,513

Other income for the years 2013 and 2012 were RMB28.2 million and RMB17.5 million, representing a growth of 60.8%. The increase was primarily attributable to increase in government subsidy, with the majority of which are derived from unconditional subsidies as a result of operation of scaled dairy cow farming business.

Listing expenses

For the year ended 31 December 2013, the Group incurred listing expense of RMB27.6 million, which is attributable to the IPO we completed in 2013.

Selling and distribution expenses

All of our selling and distribution expenses were transportation expenses of our raw milk. Our selling and distribution costs was RMB19.2 million (2012: RMB17.4 million), reflecting the increase in sales volume in the year 2013.

Administrative expenses

The table below summarizes the components of our administrative expenses:

	2013	2012
	RMB'000	*RMB'000*
Administrative expenses		
Salary and welfare	**10,596**	5,996
Amortization	**5,189**	4,049
Travel, meal and entertainment	**9,501**	4,917
Professional fee	**3,793**	2,054
Depreciation	**237**	200
Insurance	**3,020**	2,642
Others	**7,864**	2,985
Administrative expenses, total	**40,200**	22,843

We incurred administrative expenses of RMB40.2 million for the year ended 31 December 2013 (2012: RMB22.8 million) representing an increase of approximately 76.0% compared to 2012. During 2013, the Group has completed the Hong Kong public offering, which resulted in the increase in travel expense, professional fee, and other administrative expense. The Group have also increased salary and welfare for a strengthened mid-level management and to provide competitive salaries to our staff.

Finance costs

Our finance costs substantially increased to RMB135.2 million for the year ended 31 December 2013 (2012: RMB45.7 million). The increase was primarily due to (1) the increase in interests which accrued on other financial liabilities and (2) imputed interest on non-interest bearing financial liabilities.

Each of the Pre-IPO Investors (namely Ares YST Holdings, L.P. ("Ares"), Oversea-Chinese Banking Corporation Limited ("OCBC") and Key Network Investment Limited ("KNI")) was granted a put option that contains an obligation for the Company to repurchase or purchase its own shares. Therefore, the present value of such instrument was accounted for financial liabilities. The interests calculated by reference to the agreed rate of return, being an internal rate of return of 20% on the subscription price paid by Pre-IPO Investors, were then recognized in profits and losses. Interests on other financial liabilities arising from the Pre-IPO Investments of RMB85.8 million for the year 2013. Upon the Listing of our Shares on the Main Board of the Hong Kong Stock Exchange, when the put option lapses, the present value accounted for financial liabilities at that date was reclassified to the equity of the Group. Please refer to "History, Development and Reorganization — Pre-IPO Investments" on page 126 of the prospectus dated 14 November 2013 ("Prospectus") for more details.

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 RMB13.7 million in fiscal year 2013 as compared to a gain of RMB 17.7 million in 2012. The difference was due to parameter changes.

Profit for the year of the Group

Taking into account all of the above factors, the Group's profit for the year was RMB217.7 million for the financial year ended 31 December 2013. This represents an increase of 3.54% from RMB209.7 million for the year ended 31 December 2012. Basic earnings per share was approximately RMB8.8 cents (2012: RMB9.0 cents).

Liquidity and Financial Resources

For the financial year ended 31 December 2013, the Group's net cash inflow from operating activities amounted to RMB78.7 million, as compared to RMB128.8 million in the last fiscal year.

	2013	2012
	RMB'000	*RMB'000*
Bank borrowings	**220,000**	464,974
Other borrowings	**—**	—
Unsecured borrowings		
Secured borrowings	**220,000**	464,974
Guaranteed borrowings	**—**	—
Carrying amount repayble		
Within one year	**220,000**	166,497
Between one to two years	**—**	106,497
Between two to five years	**—**	151,980
Over five years	**—**	40,000
Less: amount due within one year shown under current liability	**(220,000)**	(166,497)

As at 31 December 2013, the gearing ratio, being the ratio of total bank borrowings divided by total equity was 5.6% (2012: 78.7%).

The annual interest rate of the bank and other borrowings during the year ended 31 December 2013 varied from 6% to 7.21% (2012: 6.31%–7.48%). As of 31 December 2013, all borrowings were denominated in RMB.

Capital Structure

As at 31 December 2013, the Company's issued share capital was HK$39,087,470 divided into 3,908,747,000 ordinary shares of HK$0.01 each (2012: HK$580 divided into 58,000 ordinary shares of HK$0.01 each).

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

During the financial year ended 31 December 2013, the principal capital expenditures of the Group were related to major maintenance and addition of equipment at its existing dairy farms.

As part of the Group's future strategy, the Group's planned capital expenditures for its business operations will primarily be related to the construction and commencement of operations of its new dairy farms. The Group anticipates that its capital expenditures will be financed by cash generated from its operations, debt financing or bank loans and the unutilised net proceeds from the issue of new shares of the Company under the global offering as set out in the Prospectus.

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2013 nor there are other plans for material investments on capital assets as at the date of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares in the Company first became listed on the Stock Exchange on 26 November 2013. The Prospectus in connection with the listing and the public offering dated 14 November 2013 was issued by the Company. 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 2013, about HK$180.4 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$147.8 million on construction of new farms, and as to HK$32.6 million on working capital and general corporate purpose. The remaining balance was kept in banks and approved financial institutions in Hong Kong and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in the Prospectus, during the financial year ended 31 December 2013, the Group did not have any material acquisitions and disposals of subsidiaries.

PLEDGE OF ASSETS

As at 31 December 2013, 40% carrying value of buildings and equipment with carrying value of RMB219.4 million (2012: RMB13.9 million) were pledged as security for bank borrowings.

FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as the U.S. dollar 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 of the end of 2013 and 2012 were RMB62.4 million and RMB75.1 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 31 December 2013.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend in respect of the year ended 31 December 2013 (2012: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, the Group had approximately 1,000 employees (2012: 800 employees), all of whom are located in the People's Republic of China (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 Company. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Company participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013.

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

Further, the remuneration committee of the Company reviews and determines the remuneration and compensation packages of the Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the listing of the shares of the Company on the Main Board of the Stock Exchange on the Listing Date, 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 its shares during the year ended 31 December 2013.

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 shareholders. The Board considers that during the period from the Listing Date and up to 31 December 2013, the Company complied with all the code provisions of the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (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. Following a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code since the Listing Date up to 31 December 2013.

REVIEW BY AUDIT COMMITTEE

The Company has established an audit committee ("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 ended 31 December 2013.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

The results announcement is required to be published on the website of Hong Kong Exchanges and Clearing Limited (the "HKEX") at *www.hkex.com.hk* under "Latest Listed Company Information" and the designated websites of the Company at *www.ystdfarm.com* and *www.ystdiaryfarm.com* respectively. The annual report of the Company for the year ended 31 December 2013 will be dispatched to the shareholders and published on the respective websites of HKEX and the Company in due course.

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

Hong Kong, 24 March 2014

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 Ms. Su Shiqin (Chief Financial Officer); two Non-executive Directors, namely Mr. Sun Wei and Mr. Lau Ho Fung; and three Independent Non-executive Directors, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.