The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

EY 安永
Building a better working world

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

14 November 2013

The Board of Directors
YuanShengTai Dairy Farm Limited
China Securities (International) Corporate Finance Company Limited
Credit Suisse (Hong Kong) Limited
Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the financial information of YuanShengTai Dairy Farm Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2010, 2011 and 2012, and the six-month period ended 30 June 2013 (the "Relevant Periods"), and the consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012 and 30 June 2013, and the statements of financial position of the Company as at 31 December 2012 and 30 June 2013, together with the notes thereto (the "Financial Information"), and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six-month period ended 30 June 2012 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 14 November 2013 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Bermuda as a company with limited liability on 1 May 2012. Pursuant to a group reorganization (the "Reorganization") as set out in "Reorganization" in the Prospectus, which was completed on 26 October 2012, the Company became the holding company of the other subsidiaries comprising the Group. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as the Company has not been involved in any significant business transaction other than the Reorganization described above as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the end of the Relevant Periods, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2010, 2011 and 2012, and the six-month period ended 30 June 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, and the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information 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 HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope that an audit and therefore provides a lower level of assurance that an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2010, 2011 and 2012 and 30 June 2013, and the state of affairs of the Company as at 31 December 2012 and 30 June 2013, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

1. Consolidated Statements of Comprehensive Income

		Year ended 31 December			Six-month period ended 30 June	
		2010	2011	2012	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
REVENUE	*4*	337	148,785	689,113	327,382	385,129
Cost of sales		(224)	(97,404)	(428,630)	(200,129)	(234,667)
Gross profit		113	51,381	260,483	127,253	150,462
Other income	*4*	6,461	2,585	17,513	1,505	10,018
Gain on bargain purchase	*29*	—	164,417	—	—	—
Gain from non-interest-bearing financial arrangement		—	—	—	—	49,195
Selling and distribution expenses		—	(3,294)	(17,383)	(8,052)	(9,248)
Administrative expenses		(3,548)	(10,969)	(22,843)	(10,363)	(26,191)
Finance costs	*5*	(525)	(24,170)	(45,742)	(19,635)	(58,180)
Changes in fair value less costs to sell of biological assets	*15*	5,608	9,903	17,713	15,400	(16,462)
PROFIT BEFORE TAX	*6*	8,109	189,853	209,741	106,108	99,594
Income tax expense	*7*	—	—	—	—	—
PROFIT FOR THE YEAR/PERIOD		8,109	189,853	209,741	106,108	99,594
Other comprehensive expense to be reclassified to profit or loss in subsequent periods:						
Exchange differences on translation of foreign operations		—	—	—	—	(2,440)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		8,109	189,853	209,741	106,108	97,154

2. *Consolidated Statements of Financial Position*

		As at 31 December			As at 30 June
		2010	2011	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*12*	493,103	1,153,085	1,299,119	1,292,657
Prepaid land lease payments	*13*	28,432	119,110	117,747	115,173
Deposits for property, plant and equipment and biological assets	*14*	6,219	79,311	1,762	3,067
Biological assets	*15*	173,360	805,010	941,620	987,233
Amount due from a shareholder	*18*	—	—	—	55,121
Total non-current assets		701,114	2,156,516	2,360,248	2,453,251
CURRENT ASSETS					
Inventories	*16*	48,456	125,051	139,122	88,508
Trade receivables	*17*	—	46,343	70,886	70,444
Prepayments and other receivables	*14*	1,874	36,932	10,195	22,651
Prepaid land lease payments	*13*	1,052	3,165	4,546	4,546
Amounts due from related companies	*18*	—	1,000	510	—
Cash and cash equivalents	*19*	73,882	17,419	7,748	407,969
Total current assets		125,264	229,910	233,007	594,118
CURRENT LIABILITIES					
Trade payables	*20*	26,320	142,586	207,655	176,830
Other payables and accruals	*21*	354,610	796,140	829,529	290,220
Amounts due to shareholders	*18*	300	103,900	134,521	—
Amounts due to related companies	*18*	94,372	233,091	366,106	41,717
Other financial liability	*22*	—	—	—	616,726
Interest-bearing bank borrowings	*23*	31,980	126,497	166,497	186,755
Total current liabilities		507,582	1,402,214	1,704,308	1,312,248
NET CURRENT LIABILITIES		(382,318)	(1,172,304)	(1,471,301)	(718,130)
TOTAL ASSETS LESS CURRENT LIABILITIES		318,796	984,212	888,947	1,735,121
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	*23*	127,920	364,973	298,477	262,228
Other payables	*21*	—	238,510	—	276,516
Amount due to a shareholder	*18*	—	—	—	53,247
Total non-current liabilities		127,920	603,483	298,477	591,991
Net assets		190,876	380,729	590,470	1,143,130
EQUITY					
Issued capital	*24*	—	—	—	1
Reserves	*25*	190,876	380,729	590,470	1,143,129
Total equity		190,876	380,729	590,470	1,143,130

3. *Consolidated Statements of Changes in Equity*

		Attributable to owners of the Company					
		Issued capital	Merger reserve	Capital reserve	Exchange fluctuation reserve	(Accumulated loss)/retained profits	Total equity
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010		—	85,000	—	—	(3,233)	81,767
Profit for the year and total comprehensive income for the year		—	—	—	—	8,109	8,109
Capital contribution from the Controlling Shareholder		—	101,000	—	—	—	101,000
At 31 December 2010 and 1 January 2011		—	186,000	—	—	4,876	190,876
Profit for the year and total comprehensive income for the year		—	—	—	—	189,853	189,853
At 31 December 2011 and 1 January 2012		—	186,000	—	—	194,729	380,729
Profit for the year and total comprehensive income for the year		—	—	—	—	209,741	209,741
At 31 December 2012 and 1 January 2013		—	186,000	—	—	404,470	590,470
Profit for the period		—	—	—	—	99,594	99,594
Other comprehensive loss for the period		—	—	—	(2,440)	—	(2,440)
Total comprehensive income for the period		—	186,000	—	(2,440)	504,064	687,624
Contribution from a shareholder	*25(b)*	—	—	455,505	—	—	455,505
Issuance of new shares	*24*	1	—	—	—	—	1
At 30 June 2013		1	186,000	455,505	(2,440)	504,064	1,143,130
(Unaudited)							
At 1 January 2012		—	186,000	—	—	194,729	380,729
Profit for the period and total comprehensive income for the period		—	—	—	—	106,108	106,108
At 30 June 2012		—	186,000	—	—	300,837	486,837

4. *Consolidated Statements of Cash Flows*

		Year ended 31 December			Six-month period ended 30 June	
		2010	2011	2012	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		8,109	189,853	209,741	106,108	99,594
Adjustments for:						
Finance costs	*5*	525	24,170	45,742	19,635	58,180
Interest income	*4*	(117)	(129)	(116)	(59)	(64)
Depreciation	*6*	1,022	14,374	36,138	15,892	24,877
Recognition of prepaid land lease payments	*6*	1,052	1,567	4,049	2,038	2,574
Gain on bargain purchase	*4*	—	(164,417)	—	—	—
Changes in fair value less costs to sell of biological assets	*15*	(5,608)	(9,903)	(17,713)	(15,400)	16,462
		4,983	55,515	277,841	128,214	201,623
Decrease/(increase) in inventories		(47,985)	(48,614)	(14,071)	63,257	50,614
Decrease/(increase) in trade receivables		—	(5,035)	(24,543)	(4,923)	442
Decrease/(increase) in prepayments and other receivables		64,335	97,249	26,737	2,273	(12,497)
Decrease/(increase) in amounts due from related companies		—	(1,000)	490	1,000	243
Increase/(decrease) in trade payables		26,320	68,031	65,069	(2,548)	(30,825)
Increase/(decrease) in amounts due to related companies		16,733	(8,944)	14,969	9,874	(42,513)
Increase/(decrease) in other payables and accruals		148,643	(82,625)	(217,771)	(175,939)	(141,417)
Exchange realignment		—	—	—	—	(2,690)
Cash generated from operations		213,029	74,577	128,721	21,208	22,980
Interest received		117	129	116	59	64
Net cash flows from operating activities		213,146	74,706	128,837	21,267	23,044

	Notes	Year ended 31 December 2010 RMB'000	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Six-month period ended 30 June 2012 RMB'000 (Unaudited)	Six-month period ended 30 June 2013 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(160,196)	(270,053)	(175,657)	(48,253)	(106,798)
Prepayment of land lease payments		—	(1,500)	(4,067)	(3,982)	—
Acquisition of subsidiaries	29	—	(110,180)	—	—	—
Additions to biological assets		(166,579)	(129,489)	(142,659)	(71,489)	(90,084)
Decrease/(increase) in deposits for property, plant and equipment and biological assets		14,503	(73,092)	77,549	51,055	(1,305)
Proceeds from disposal of biological assets		288	11,488	23,762	17,919	28,009
Proceeds from disposal of items of property, plant and equipment		617	1,316	267	3,713	452
Receipt of government grants		12,179	7,775	1,485	7,184	7,565
Net cash flows used in investing activities		(299,188)	(563,735)	(219,320)	(43,853)	(162,161)
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment to shareholders		—	—	(44,540)	—	(136,395)
Advance from shareholders		—	103,600	75,161	36,915	—
Increase/(decrease) in amounts due to related companies		15,900	147,663	118,046	60,486	(281,609)
Decrease in other payables		—	(6,978)	(17,463)	(17,463)	(51,384)
Increase in other financial liability	22	—	—	—	—	585,180
New bank borrowings raised		40,000	260,000	100,000	—	—
Repayments of interest-bearing bank borrowings		(30,100)	(49,238)	(126,496)	(33,248)	(15,991)
Interest paid		(5,480)	(22,481)	(23,896)	(18,485)	(16,201)
Capital injection		101,000	—	—	—	—
Capital contributions from shareholders		—	—	—	—	455,488
Net cash flows from financing activities		121,320	432,566	80,812	28,205	539,088
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		35,278	(56,463)	(9,671)	5,619	399,971
Cash and cash equivalents at beginning of year/period		38,604	73,882	17,419	17,419	7,748
Effect of foreign exchange rate changes, net		—	—	—	—	250
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		73,882	17,419	7,748	23,038	407,969

5. *Statements of Financial Position*

Company

	Notes	31 December 2012 RMB	30 June 2013 RMB
NON-CURRENT ASSETS			
Investments in subsidiaries	*(i)*	631	631
CURRENT ASSETS			
Amount due from a subsidiary		—	579,211,732
Prepayments		—	4,436,910
Bank balances		—	1,576
Total current assets		—	583,650,218
CURRENT LIABILITIES			
Amounts due to subsidiaries		159	8,917,445
Other financial liability		—	616,726,895
Other payables and accruals		—	5,945,138
Total current liabilities		159	631,589,478
NET CURRENT LIABILITIES		(159)	(47,939,260)
Net assets/(liabilities)		472	(47,938,629)
EQUITY/(DEFICIENCY IN ASSETS)			
Issued capital	*24*	472	595
Reserves	*25*	—	(47,939,224)
Total equity/(net deficiency in assets)		472	(47,938,629)

(i) The investments in subsidiaries are unlisted equity at cost. Details of the subsidiaries are disclosed in note 1 to the Financial Information.

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND REORGANIZATION

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.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries are principally engaged in the production and sale of milk in the PRC.

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in "History, Development and Reorganization — Reorganization" in this Prospectus. The Company became the holding company of the subsidiaries now comprising the Group upon completion of the Reorganization.

As at the end of the Relevant Periods, the Company had direct and indirect interests in the following subsidiaries, all of which are private limited liability companies in Hong Kong (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Natural Dairy Farm Limited[1]	BVI 3 May 2012	US$100	100	—	Investment holding
Royal Dairy Farm Limited[2]	Hong Kong 17 May 2012	HK$10,000	—	100	Investment holding
黑龍江甘南瑞信達原生態牧業有限公司[3] Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. ("Ruixinda Gannan")[#]	PRC 9 July 2007	RMB38,000,000	—	100	Production and sale of milk
黑龍江克東和平原生態牧業有限公司[3] Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. ("YST Heping")[#]	PRC 3 July 2007	RMB76,520,000	—	100	Production and sale of milk
黑龍江克東瑞信達原生態牧業股份有限公司[4] Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.[#]	PRC 5 September 2008	RMB186,850,000	—	100	Production and sale of milk
鎮賚瑞信達原生態牧業有限公司[5] Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd.[#]	PRC 9 July 2009	RMB60,000,000	—	100	Production and sale of milk

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
齊齊哈爾紅海原生態牧業股份有限公司[3] Qiqihar Honghai YuanShengTai Dairy Farming Joint Stock Husbandry Co., Ltd.#	PRC 5 September 2008	RMB5,000,000	—	100	Inactive
齊齊哈爾四方原生態牧業股份有限公司[3] Qiqihar Sifang YuanShengTai Dairy Farming Joint Stock Co., Ltd.#	PRC 5 September 2008	RMB5,000,000	—	100	Inactive
哈爾濱市瑞信達牧業有限公司[6] Harbin Ruixinda Dairy Farming Co., Ltd. ("Ruixinda")#	PRC 9 December 2010	RMB18,000,000	—	100	Investment holding
齊齊哈爾瑞信達生態養殖有限公司[2] Qiqihar Ruixinda ShengTai Dairy Farming Co., Ltd.#	PRC 10 September 2012	RMB3,000,000	—	100	Inactive
哈爾濱市瑞信誠商貿有限公司[2] Harbin Ruixincheng Trading Co., Ltd. ("Ruixincheng")#	PRC 3 May 2013	RMB550,000,000	—	100	Inactive
拜泉瑞信達原生態牧業有限公司[2] Baiquan Ruixinda YuanShengTai Dairy Farming Co., Ltd.#	PRC 25 June 2013	RMB50,000,000	—	100	Inactive

\# The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as they do not register any official English names.

1 No audited financial statements have been prepared for this company as this entity was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

2 No audited financial statements have been prepared for these entities.

3 The statutory financial statements of these entities for the years ended 31 December 2010, 2011 and 2012 prepared under PRC generally accepted accounting principles were audited by 黑龍江安聯會計師事務所有限公司北安分所, certified public accountants registered in the PRC.

4 The statutory financial statements of this entity for the years ended 31 December 2010, 2011 and 2012 prepared under PRC generally accepted accounting principles were audited by 黑龍江中齊會計師事務所有限公司, certified public accountants registered in the PRC.

5 The statutory financial statements of this entity for the years ended 31 December 2010, 2011 and 2012 prepared under PRC generally accepted accounting principles were audited by 吉林金興會計師事務所有限公司, certified public accountants registered in the PRC.

6 The statutory financial statements of this entity for the period from 9 December 2010 to 31 December 2010, and the years ended 31 December 2011 and 2012 prepared under PRC generally accepted accounting principles were audited by 黑龍江立信會計師事務所有限責任公司, certified public accountants registered in the PRC.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization as more fully explained in "History, Development and Reorganization — Reorganization" in this Prospectus, the Company became the holding company of the companies now comprising the Group on 26 October 2012. The companies now comprising the Group were under the common control of the Controlling Shareholders (as defined in the Prospectus) before the Reorganization. Accordingly, for the purpose of this report, the Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting, as if the Reorganization had been completed at the beginning of the Relevant Periods.

The consolidated statements of comprehensive income, statements of financial position, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses 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 2010, 2011 and 2012 and 30 June 2012 and 2013 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

Going concern

The Financial Information has 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"). All IFRSs effective for accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the reporting entity in the preparation of the Financial Information throughout the Relevant Periods and the Interim Comparative Information. They have been prepared under the historical cost convention, except for biological assets and agricultural product, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group recorded net current liabilities of RMB382,318,000, RMB1,172,304,000, RMB1,471,301,000 and RMB718,130,000 at of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively.

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash inflow from operation, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Financial Information has been prepared on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Financial Information does not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 9	Financial Instruments[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — Investment Entities[1]
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[1]
IAS 36 Amendments	Amendments to IAS 36 Impairment of Assets — Recoverable Amount Disclosures for Non-financial Assets[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]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on the Group's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combination

Merger method

The Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policy. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting.

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 recognized 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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognized in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

All intra-group balances, transactions, unrealized gains and losses resulting from intragroup transactions and dividends are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for an equity transaction.

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Subsidiaries

A subsidiary is an entity over which the Group has power to direct the subsidiary's relevant activities, has exposure or rights to variable returns from its involvement with the subsidiary and has the ability to use its power over the subsidiary to affect the amount of the returns.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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 four elements of control listed above.

The results of subsidiaries are included in profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, biological assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3%
Leasehold improvements	Over the shorter of the lease terms and 18%
Furniture and fixtures	18%
Plant and machinery	6–7%
Motor vehicles	11–12%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents buildings and leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Biological assets

Dairy cows

Dairy cows, including milkable cows, heifers and calves are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, with any gain or loss recognized in profit or loss for the period in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation costs and excluding finance costs and income taxes. The fair value of dairy cows is determined based on their present location and condition and is determined independently by professional valuers.

The feeding costs and other related costs including the depreciation charge, utility costs and consumables incurred for the raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Milk

Agricultural produce represents raw milk harvested from the Group's biological assets. Milk is recognized at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices quoted in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation costs, excluding finance costs and income tax.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value plus transaction costs.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in profit or loss. The loss arising from impairment is recognized in profit or loss and in administrative expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, amounts due to shareholders, amounts due to related companies, other financial liability and interest-bearing bank borrowings.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and unused tax losses, Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 10% to 20% of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Payments to state-managed retirement benefit schemes in jurisdictions other than the PRC are charged as expenses when employees have rendered service entitling them to the contributions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Fair value measurement

Fair value would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

— In the principal market for the asset or liability, or

— In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainly at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Fair values of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of each of the Relevant Periods adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 15 to the Financial Information.

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's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

The Group's revenue from external customers is derived solely from its operations in the PRC.

All external sales of milk produced by the Group during the Relevant Periods are contributable to customers located in the PRC.

All non-current assets were located in the PRC.

Total segment assets and liabilities equal to the total assets and liabilities of the Group.

During the years ended 31 December 2010, 2011 and 2012, and the six-month period ended 30 June 2013, the Group made sales to customers, which individually contributed to more than 10% of the Group's total revenue for that year/period. The analysis for each of the Relevant Periods is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Customer A	N/A	49,064	194,844	82,309	91,042
Customer B	N/A	46,234	305,346	141,088	153,310
Customer C	N/A	419	96,179	45,996	37,503
Customer D	337	52,820	91,673	57,989	94,806
Others	N/A	248	1,071	N/A	8,468
	337	148,785	689,113	327,382	385,129

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:

	Year ended 31 December			Six-month period ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Revenue					
Sales of raw milk	337	148,785	689,113	327,382	385,129
Other income					
Government subsidies	5,019	905	14,391	95	7,565
Interest income from banks deposit	117	129	116	59	64
Rental income	1,300	900	—	—	—
Sales of male calves	5	521	2,426	1,229	2,311
Others	20	130	580	122	78
	6,461	2,585	17,513	1,505	10,018

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

Fair value of milk produced less cost to sell	337	145,491	671,730	319,330	375,881

5. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on other financial liability . .	—	—	—	—	31,546
Imputed interest on non-interest-bearing financial arrangement . . .	—	12,184	28,958	8,262	10,433
Interest on bank and other borrowings wholly repayable within five years	5,480	19,125	20,834	16,918	14,257
Interest on bank and other borrowings wholly repayable beyond five years	—	3,356	3,062	1,567	1,944
	5,480	34,665	52,854	26,747	58,180
Less: Interest capitalised.	(4,955)	(10,495)	(7,112)	(7,112)	—
	525	24,170	45,742	19,635	58,180

The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation for the years ended 31 December 2010, 2011 and 2012 were 2.64%, 3.08% and 1.45%, respectively.

6. PROFIT BEFORE TAX

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

		Year ended 31 December			Six-month period ended 30 June	
		2010	2011	2012	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Breeding costs to produce.		170	76,846	339,341	160,232	181,680
Production costs for raw milk . . .		54	20,558	89,289	39,897	52,987
Cost of sales.		224	97,404	428,630	200,129	234,667
Depreciation	*12*	1,022	14,374	36,138	15,892	24,877
Recognition of prepaid land lease payments	*13*	1,052	1,567	4,049	2,038	2,574
Auditors' remuneration.		37	132	323	294	148
Changes in fair value less costs to sell of biological assets	*15*	(5,608)	(9,903)	(17,713)	(15,400)	16,462
Employee benefit expenses (including directors' and chief executive's remuneration *(note 8)*):						
Wages and salaries		714	6,613	21,917	9,626	12,526
Pension scheme contributions .		150	477	1,719	763	1,213
		864	7,090	23,636	10,389	13,739
Foreign exchange differences, net		—	—	—	—	647

7. INCOME TAX

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at a rate of 16.5% during the Relevant Periods. 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% was imposed on both domestic and foreign-invested enterprises from 1 January 2008.

According to the prevailing tax rules and regulation, the Group is operating in agricultural business and is exempted from enterprise income tax.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Year ended 31 December						**Six-month period ended 30 June**			
	2010		**2011**		**2012**		**2012**		**2013**	
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**%**	**RMB'000 (Unaudited)**	**%**	**RMB'000**	**%**
Profit before tax	8,109		189,853		209,741		106,108		99,594	
Tax at the statutory tax rate	2,027	25.0	47,463	25.0	52,435	25.0	26,527	25.0	24,899	25.0
Expenses not deductible for tax	13	0.2	—	—	—	—	—	—	—	—
Effect of tax exemptions granted to agricultural entities	(2,040)	(25.2)	(47,463)	(25.0)	(52,435)	(25.0)	(26,527)	(25.0)	(24,899)	(25.0)
Tax charge at the Group's effective rate	—	—	—	—	—	—	—	—	—	—

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the Relevant Periods, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Year ended 31 December			**Six-month period ended 30 June**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Fees	—	—	—	—	—
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	—	396	970	288	504
Pension scheme contributions	—	1	—	—	—
	—	397	970	288	504

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods were as follows:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010					
Wu Chi Keung	—	—	—	—	—
Zhang Yuezhou	—	—	—	—	—
Zhu Zhanbo	—	—	—	—	—
	—	—	—	—	—

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011					
Wu Chi Keung	—	—	—	—	—
Zhang Yuezhou	—	—	—	—	—
Zhu Zhanbo	—	—	—	—	—
	—	—	—	—	—

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2012					
Wu Chi Keung	—	—	—	—	—
Zhang Yuezhou	—	—	—	—	—
Zhu Zhanbo	—	—	—	—	—
	—	—	—	—	—

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six-month period ended 30 June 2012 (Unaudited)					
Wu Chi Keung	—	—	—	—	—
Zhang Yuezhou	—	—	—	—	—
Zhu Zhanbo	—	—	—	—	—
	—	—	—	—	—

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six-month period ended 30 June 2013					
Wu Chi Keung	—	—	—	—	—
Zhang Yuezhou	—	—	—	—	—
Zhu Zhanbo	—	—	—	—	—
	—	—	—	—	—

(b) Executive directors, non-executive directors and chief executive

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010					
Executive directors:					
Fu Wenguo*	—	—	—	—	—
Wang Shaogang	—	—	—	—	—
Su Shiqin	—	—	—	—	—
Zhao Hongliang	—	—	—	—	—
	—	—	—	—	—
Non-executive directors:					
Sun Wei	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—
	—	—	—	—	—

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011					
Executive directors:					
Fu Wenguo*	—	—	—	—	—
Wang Shaogang	—	302	—	—	302
Su Shiqin	—	94	—	1	95
Zhao Hongliang	—	—	—	—	—
	—	396	—	1	397
Non-executive directors:					
Sun Wei	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—
	—	396	—	1	397

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2012					
Executive directors:					
Fu Wenguo*	—	595	—	—	595
Wang Shaogang	—	242	—	—	242
Su Shiqin	—	133	—	—	133
Zhao Hongliang	—	—	—	—	—
	—	970	—	—	970
Non-executive directors:					
Sun Wei	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—
	—	970	—	—	970

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six-month period ended 30 June 2012 (Unaudited)					
Executive directors:					
Fu Wenguo*	—	181	—	—	181
Wang Shaogang	—	61	—	—	61
Su Shiqin	—	46	—	—	46
Zhao Hongliang	—	—	—	—	—
	—	288	—	—	288
Non-executive directors:					
Sun Wei	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—
	—	288	—	—	288

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six-month period ended 30 June 2013					
Executive directors:					
Fu Wenguo*	—	181	—	—	181
Wang Shaogang	—	89	—	—	89
Su Shiqin	—	53	—	—	53
Zhao Hongliang	—	181	—	—	181
	—	504	—	—	504
Non-executive directors:					
Sun Wei	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—
	—	504	—	—	504

* *Mr. Fu Wenguo is also the chief executive officer of the Company.*

There was no agreement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the years ended 31 December 2010, 2011 and 2012 and the six-month period ended 30 June 2012 and 2013 included nil, one, two, two and three directors and chief executive, respectively, details of whose remuneration are set out in note 8 above.

The aggregate amounts of the remuneration in respect of the individuals who are not directors are as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, allowances and benefits in kind	312	523	637	230	158
Performance related bonuses	—	137	—	—	—
Pension scheme contributions	7	37	11	4	2
	319	697	648	234	160

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	Number of employees	Number of employees	Number of employees	Number of employees (Unaudited)	Number of employees
Nil to HK$1,000,000	5	4	3	3	2

10. PROFITS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the six-month period ended 30 June 2013 included a loss of RMB45,910,000 (year ended 31 December 2012: Nil) which has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010, net of accumulated depreciation	19	61	1,151	32	1,465	171,609	174,337
Additions	450	151	24,169	69	23,581	271,985	320,405
Transfers	164,260	—	—	—	—	(164,260)	—
Depreciation provided during the year	(61)	(13)	(313)	(9)	(626)	—	(1,022)
Disposals/write-off	—	—	(54)	—	(563)	—	(617)
At 31 December 2010 and 1 January 2011, net of accumulated depreciation	164,668	199	24,953	92	23,857	279,334	493,103
Acquisition of subsidiaries *(note 29)*	377,181	345	36,407	2,403	5,724	44,713	466,773
Additions	6,385	244	27,948	87	17,613	156,622	208,899
Transfers	56,410	—	—	—	—	(56,410)	—
Depreciation provided during the year	(8,556)	(47)	(2,666)	(179)	(2,926)	—	(14,374)
Disposals/write-off	—	(141)	(115)	(5)	(1,055)	—	(1,316)
At 31 December 2011 and 1 January 2012, net of accumulated depreciation	596,088	600	86,527	2,398	43,213	424,259	1,153,085
Additions	13	273	44,100	3,717	6,954	127,382	182,439
Transfers	461,949	—	—	—	—	(461,949)	—
Depreciation provided during the year	(22,816)	(167)	(6,866)	(784)	(5,505)	—	(36,138)
Disposals/write-off	(40)	(5)	(167)	(4)	(51)	—	(267)
At 31 December 2012 and 1 January 2013, net of accumulated depreciation	1,035,194	701	123,594	5,327	44,611	89,692	1,299,119
Additions	46	209	832	49	410	17,351	18,897
Transfers	9,191	—	—	—	—	(9,191)	—
Depreciation provided during the period	(16,401)	(120)	(4,575)	(662)	(3,119)	—	(24,877)
Disposals/write-off	(452)	—	(22)	(1)	(7)	—	(482)
At 30 June 2013, net of accumulated depreciation	1,027,578	790	119,829	4,713	41,895	97,852	1,292,657
At 1 January 2010:							
Cost	19	62	1,174	32	1,510	171,609	174,406
Accumulated depreciation	—	(1)	(23)	—	(45)	—	(69)
Net carrying amount	19	61	1,151	32	1,465	171,609	174,337
At 31 December 2010 and 1 January 2011:							
Cost	164,729	213	25,289	101	24,528	279,334	494,194
Accumulated depreciation	(61)	(14)	(336)	(9)	(671)	—	(1,091)
Net carrying amount	164,668	199	24,953	92	23,857	279,334	493,103
At 31 December 2011 and 1 January 2012:							
Cost	604,705	661	89,529	2,586	46,810	424,259	1,168,550
Accumulated depreciation	(8,617)	(61)	(3,002)	(188)	(3,597)	—	(15,465)
Net carrying amount	596,088	600	86,527	2,398	43,213	424,259	1,153,085
At 31 December 2012:							
Cost	1,089,758	1,147	138,101	7,360	54,903	89,692	1,380,961
Accumulated depreciation	(54,564)	(446)	(14,507)	(2,033)	(10,292)	—	(81,842)
Net carrying amount	1,035,194	701	123,594	5,327	44,611	89,692	1,299,119
At 30 June 2013:							
Cost	1,098,542	1,338	138,906	7,407	55,286	97,852	1,399,331
Accumulated depreciation	(70,964)	(548)	(19,077)	(2,694)	(13,391)	—	(106,674)
Net carrying amount	1,027,578	790	119,829	4,713	41,895	97,852	1,292,657

At 31 December 2010, 2011 and 2012 and 30 June 2013, certain of the Group's property, plant and equipment with carrying amounts of approximately RMB16,553,000, RMB15,257,000, RMB13,960,000 and RMB13,313,000, respectively, were pledged to secure general bank loans granted to the Group (note 23).

At 31 December 2011 and 2012 and 30 June 2013, certain of the Group's buildings and plants with net carrying amounts of approximately RMB299,701,000, RMB290,071,000 and RMB285,257,000 were pledged to secure the acquisition of YST Heping and Ruixinda Gannan.

At 31 December 2010, 2011 and 2012 and 30 June 2013, all the Group's buildings located in the PRC did not have building ownership certificates. The Directors have sought for PRC legal advice and have confirmed that the Group is eligible to use the buildings though the formal title of these buildings will not be granted to the Group.

13. PREPAID LAND LEASE PAYMENTS

Group

	31 December			30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Carrying amount at beginning of the year	30,536	29,484	122,275	122,293
Acquisition of subsidiaries *(note 29)*	—	92,858	—	—
Additions	—	1,500	4,067	—
recognized during the year/period	(1,052)	(1,567)	(4,049)	(2,574)
Carrying amount at end of the year/period	29,484	122,275	122,293	119,719
Current portion	(1,052)	(3,165)	(4,546)	(4,546)
Non-current portion	28,432	119,110	117,747	115,173

The leasehold lands are situated in the PRC and are held under medium term leases.

At 31 December 2010, 2011 and 2012 and 30 June 2013, all the Group's leasehold lands located in the PRC did not have land use right certificates as all are land leased from various independent third parties. The directors of the Company have sought for PRC legal advice and have confirmed that the Group is eligible to use the land though the formal title of these lands will not be granted to the Group.

14. PREPAYMENTS AND OTHER RECEIVABLES

Group

	31 December			30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Prepayments	6,236	102,804	4,167	9,094
Other receivables	1,857	13,439	7,790	16,624
	8,093	116,243	11,957	25,718
Non-current portion	(6,219)	(79,311)	(1,762)	(3,067)
Current portion	1,874	36,932	10,195	22,651

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

15. 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 31 December 2010, 2011 and 2012 and 30 June 2013 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 31 December 2010, 2011 and 2012 and 30 June 2013 are dairy cows that have not had their first calves.

	31 December			30 June
	2010	**2011**	**2012**	**2013**
	heads	**heads**	**heads**	**heads**
Dairy cows				
Milkable cows	97	14,950	20,643	20,885
Heifers and calves	7,796	17,269	16,357	17,903
Total dairy cows	7,893	32,219	37,000	38,788

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 is 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.

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

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.

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in note 32, the Group is exposed to the following operation risks:

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates breeding. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

(ii) Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular inspections and disease controls and surveys and insurance.

B — Value of Dairy Cows

The value of dairy cows at the end of each of the Relevant Periods was:

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Dairy cows	173,360	805,010	941,620	987,233

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2010	—	—	—
Increases due to purchases	148,866	—	148,866
Increase due to raising (feeding costs and others)	19,174	—	19,174
Transfer in/(out)	(2,610)	2,610	—
Decrease due to sales	(284)	(4)	(288)
Gain/(loss) arising from changes in fair value less costs to sell	5,617	(9)	5,608
Balance as at 31 December 2010 and 1 January 2011	170,763	2,597	173,360
Acquisition of subsidiaries *(note 29)*	171,477	332,269	503,746
Increase due to purchases	40,483	—	40,483
Increase due to raising (feeding costs and others)	89,006	—	89,006
Transfer in/(out)	(126,867)	126,867	—
Decrease due to sales	(9,688)	(1,800)	(11,488)
Gain/(loss) arising from changes in fair value less costs to sell	24,367	(14,464)	9,903
Balance as at 31 December 2011 and 1 January 2012	359,541	445,469	805,010
Increase due to raising (feeding costs and others)	142,659	—	142,659
Transfer in/(out)	(264,943)	264,943	—
Decrease due to sales	(6,400)	(17,362)	(23,762)
Gain/(loss) arising from changes in fair value less costs to sell	94,856	(77,143)	17,713
Balance as at 31 December 2012 and 1 January 2013	325,713	615,907	941,620
Increase due to raising (feeding costs and others)	90,084	—	90,084
Transfer in/(out)	(65,731)	65,731	—
Decrease due to sales	(4,125)	(23,884)	(28,009)
Gain/(loss) arising from changes in fair value less costs to sell	20,471	(36,933)	(16,462)
Balance as at 30 June 2013	366,412	620,821	987,233

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent qualified professional valuers not connected with the Group, who has appropriate qualifications and recent experiences in valuation of biological assets. The fair value less costs to sell of the heifers and calves are determined with reference to the market prices of items with similar age, breed and genetic merit, if the market prices are available. There is no active market for heifers and calves in PRC market. An arm's length negotiation price in PRC might deviate from overseas market price because of transportation costs, administration costs and other factors. Due to the fact that the market prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less costs to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of each of the Relevant Periods will reduce at a certain culling rate due to natural or unnatural factors.
- The culling rates adopted are 10%, 13%, 15%, 23%, 35% and 100% for milkable cows in the first to sixth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.
- The average milk yield during the projected period of six lactation cycles, which is the estimated amount of milk producible by a cow.

- The expected average prices of milk during the projected period of six lactation cycles, which is the estimated production period of a dairy cow, are estimated after taking into account certain percentage growth for each projected year after considering future demand and inflation in the PRC.
- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture.
- Costs are average costs based on historical cost information.
- The discount rates used are 14.0%, 14.7% and 13.8% for the years ended 2011 and 2012 and the six-month period ended 30 June 2013, respectively.

The principal valuation assumption adopted in measuring fair value of heifers and calves are as follows.

- The valuation of the fair value of biological assets has taken into consideration the transportation costs following IFRS 13 "Fair value measurement". Because of the import and export control of livestock in the PRC, the directors are of the view that the PRC is the principal market in determining the fair value. The transportation costs for importing heifers and calves included in the market price estimated by the management of the Company amounted to RMB22,631,788, RMB51,207,000, RMB49,071,000 and RMB53,709,000, as at 31 December 2010, 2011, 2012 and the period ended 30 June 2013, respectively.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Group has pledged a certain number of dairy cows, respectively, to banks to secure the general banking facilities granted to the Group (note 23).

The aggregate gains or losses arising during the years ended 31 December 2010, 2011 and 2012 and the six-month period ended 30 June 2013 on initial recognition of dairy cows and milk and from the changes in fair value less costs to sell of dairy cows are analysed as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Sales of milk/fair value of milk produced less costs to sell	337	145,491	671,730	319,330	375,881
Gain/(loss) arising from changes in fair value less costs to sell	5,608	9,903	17,713	15,400	(16,462)
	5,945	155,394	689,443	334,730	359,419

C — Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
As at 31 December 2010	—	—	173,360	173,360
As at 31 December 2011	—	—	805,010	805,010
As at 31 December 2012	—	—	941,620	941,620
As at 30 June 2013	—	—	987,233	987,233

D — Sensitivity analysis

Feeding costs sensitivity analysis for milkable cows

The following table demonstrates the sensitivity to a reasonably possible change in feeding costs, with all other variables held constant, of the Group's profit before tax (through the impact on changes in the feeding costs).

Group

	Increase/(decrease) in profit before tax				
	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Increase in feeding costs of 10% . . .	(17)	(7,685)	(33,947)	(16,046)	(18,159)
Decrease in feeding costs of 10% . .	17	7,685	33,947	16,046	18,159

Milk price sensitivity analysis for milkable cows

The following table demonstrates the sensitivity to a reasonably possible change in milk price, with all other variables held constant, of the Group's profit before tax (through the impact on changes in milk price).

Group

	Increase/(decrease) in profit before tax				
	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Increase in milk price of 10%	33	14,879	68,911	(32,738)	38,513
Decrease in milk price of 10% . . .	(33)	(14,879)	(68,911)	32,738	(38,513)

16. INVENTORIES

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Feeds.	46,847	115,431	130,623	82,412
Others	1,609	9,620	8,499	6,096
	48,456	125,051	139,122	88,508

17. TRADE RECEIVABLES

Group

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables.	—	46,343	70,886	70,444
Impairment.	—	—	—	—
	—	46,343	70,886	70,444

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. In view of the aforementioned and the fact that the Group's trade receivables relate to a few number of customers, there is no significant concentration of credit risk as disclosed in note 32 to the Financial Information. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

Group

	31 December			30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within one month	—	45,924	41,051	66,756
Over one month and within two months	—	—	15,363	3,688
Over two months	—	419	14,472	—
	—	46,343	70,886	70,444

No impairment of trade receivables for each of the Relevant Periods is provided.

At the end of each of the Relevant Periods, the aged analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

Group

	31 December			30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Neither past due nor impaired	—	45,924	41,051	66,756
Less than 1 month past due	—	—	15,363	3,688
1 month to 3 months past due	—	—	13,919	—
Over 3 months past due	—	419	553	—
	—	46,343	70,886	70,444

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

18. AMOUNTS DUE FROM/TO SHAREHOLDERS/RELATED COMPANIES

Particulars of the amounts due from a shareholder and related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

31 December 2011

Group

	31 December 2011	Maximum amount outstanding during the year	1 January 2011
	RMB'000	RMB'000	RMB'000
Due from a related company			
Heilongjiang Dinghe Modern Agricultural Company Limited (“Dinghe Modern”)	1,000	1,000	—

31 December 2012

Group

	31 December 2012	Maximum amount outstanding during the year	1 January 2012
	RMB'000	RMB'000	RMB'000
Due from related companies			
Dinghe Modern	—	2,000	1,000
Heilongjiang Dinghe Feeds Company Limited (“Dinghe Feeds”)	510	510	—
	510		1,000

30 June 2013

Group

	30 June 2013	Maximum amount outstanding during the period	1 January 2013
	RMB'000	RMB'000	RMB'000
Due from a shareholder			
Meng Fanqing	55,121	55,121	—
Due from a related company			
Dinghe Feeds	—	510	510

An analysis of the amounts due to shareholders is as follows:

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Due to shareholders				
Zhao Hongliang	300	103,900	59,360	—
Hu Yiyao	—	—	15,000	—
Zhang Dijun	—	—	10,000	—
Zhang Chaohui	—	—	25,000	—
Xiong Han	—	—	15,000	—
Song Miao	—	—	10,085	—
Xie Dehe	—	—	76	—
Meng Fanqing	—	—	—	53,247
	300	103,900	134,521	53,247
Less: non-current portion	—	—	—	(53,247)
	300	103,900	134,521	—

An analysis of the amounts due to related companies is as follows:

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Heilongjiang Beian Nongken Tianhe Trading Company Limited ("HLJ Beian")	15,900	163,563	281,609	—
Dinghe Modern	—	—	30,331	15,687
Heilongjiang Dinghe Feeds Company Limited ("Dinghe Feeds")	—	—	—	1,322
Heilongjiang Dinghe Qinggang Husbandry Company Limited ("Dinghe Qinggang")	—	2,057	—	2,802
Heilongjiang Beian Reclamation Area Sanhe Construction Co., Ltd. Zhaoguang Branch ("Sanhe")	78,472	67,471	54,166	21,906
	94,372	233,091	366,106	41,717

All the above related companies are controlled by Zhao Hongliang, the controlling shareholder.

Other than the balances with Meng Fanqing, which are repayable in two years, balances with shareholders are unsecured, interest-free and have no fixed terms of repayment.

Included in the balances due to related companies are trade payables of RMB2,057,000, RMB331,000 and RMB4,811,000 as at 31 December 2011 and 2012 and 30 June 2013, respectively, which are repayable within 90 days, which represented similar credit terms to those offered by the related companies to their major customers.

19. CASH AND CASH EQUIVALENTS

Group

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	73,882	17,419	7,748	407,969
Cash and cash equivalents denominated in:				
RMB	73,882	17,419	7,748	9,646
HK$	—	—	—	9,542
US$	—	—	—	388,781
	73,882	17,419	7,748	407,969

At 31 December 2010, 2011 and 2012 and 30 June 2013, the Group's cash and bank balances denominated in RMB amounted to RMB73,882,000, RMB17,419,000 and RMB7,748,000 and RMB9,646,000, respectively. The RMB is not freely convertible into other currencies, however, under the PRC'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. The bank balances are deposited with creditworthy banks with no recent history of default.

20. TRADE PAYABLES

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

Group

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 2 months	19,958	100,303	110,393	76,695
2 to 6 months	5,460	31,431	60,836	53,021
6 to 12 months	902	10,632	18,376	32,272
Over 1 year	—	220	18,050	14,842
	26,320	142,586	207,655	176,830

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

21. OTHER PAYABLES AND ACCRUALS

Group

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income	12,179	19,954	21,439	20,376
Other payables — construction	141,569	80,922	78,251	56,206
Other payables — equipment and materials	57,987	119,301	48,833	15,207
Others	142,875	814,473	681,006	474,947
	354,610	1,034,650	829,529	566,736
Non-current portion	—	(238,510)	—	(276,516)
Current portion	354,610	796,140	829,529	290,220

22. OTHER FINANCIAL LIABILITY

Group

	RMB'000
Present value of exercise price of written put option on ordinary shares of the Company, net of transaction costs	585,180
Interest therein	31,546
At 30 June 2013	616,726

On 28 March 2013, the Company has entered into Pre-IPO Subscription Agreements with three third parties ("Pre-IPO Investors") to subscribe for 15,289 ordinary shares of the Company with a total consideration of approximately RMB605,794,000. The directly attributable costs upon issuance was RMB20,614,000.

Pursuant to the terms of the Pre-IPO Subscription Agreements, each Pre-IPO Investor has been granted a put option (the "Put Option") to require the Company and the Controlling Shareholders, on a joint and several basis, to repurchase or purchase the shares held by such Pre-IPO Investor upon the occurrence of the event that an initial public offering of shares on a qualified exchange does not occur on 30 June 2014 which was then extended to 1 January 2015, as amended by put option side letters dated 28 October 2013.

The Pre-IPO Investments was accounted for as other financial liability and measured at amortised cost with an effective interest rate of 23.3%.

23. INTEREST-BEARING BANK BORROWINGS

Group

	Year ended 31 December									Six-month period ended 30 June		
	2010			2011			2012			2013		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current												
Secured bank loans	—	—	—	5.8–6.6	2012	60,000	6.3–6.6	2013	100,000	6.0–7.21	2013	100,000
Current portion of long term secured bank loans	5.3–5.8	2011	31,980	5.8–6.6	2012	66,497	6.3–6.6	2013	66,497	6.0–7.21	2013	86,755
			31,980			126,497			166,497			186,755
Non-current												
Secured bank loans	5.9–6.4	2015	127,920	6.4–7.8	2013–2019	364,973	6.8–7.8	2013–2019	298,477	6.0–7.21	2015–2019	262,228
			159,900			491,470			464,974			448,983

	31 December 2010	31 December 2011	31 December 2012	30 June 2013
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	31,980	126,497	166,497	186,755
In the second year	31,980	66,497	106,497	106,238
In the third to fifth years, inclusive	95,940	218,476	151,980	135,990
Beyond five years	—	80,000	40,000	20,000
	159,900	491,470	464,974	448,983

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) Property, plant and equipment situated in the PRC, with net carrying amounts of approximately RMB16,553,000, RMB15,257,000 and RMB13,960,000 and RMB13,313,000 at 31 December 2010, 2011, 2012 and 30 June 2013, respectively.

(ii) A certain number of dairy cows included in biological assets and situated in the PRC had been pledged in the Relevant Periods.

(b) The Group's bank borrowings were guaranteed by certain directors of the Company, namely Wang Shaogang and Fu Wenguo, and one of the Group's customers, Feihe International, Inc., and its subsidiaries (collectively the "Feihe Dairy Group").

24. SHARE CAPITAL

The Company is a limited liability company incorporated in the Bermuda on 1 May 2012. The authorised and issued share capital of the Company was HK$580 divided into 58,000 shares of HK$0.01 each.

There was no authorised and issued capital as at 31 December 2010 and 2011 since the Company has not yet been incorporated.

Company

	Notes	Number of ordinary shares of HK$0.01	Nominal value of ordinary shares Equivalent to HK$	RMB
Authorised, issued and fully paid:				
On incorporation	*(a)*	58,000	580	472
Issuance of new shares on 30 April 2013	*(b)*	15,289	153	123
		73,289	733	595

During the year ended 31 December 2012 and the six-month period ended 30 June 2013, the movement in share capital was as follows:

(a) Pursuant to an ordinary resolution passed on 4 May 2012, 58,000 ordinary shares of HK$0.01 were allotted, issued and credited as fully paid to the Company's initial subscribers.

(b) Pursuant to an ordinary resolution passed on 30 April 2013, 15,289 ordinary shares of HK$0.01 were allotted and issued to the Pre-IPO Investors for a total cash consideration of RMB605,794,000. The par value of the shares issued amounting to RMB123 was credited to share capital while the present value of the remaining balance was accounted for as other financial liability (note 22).

25. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity on page IA-6.

(b) The amounts of the Group's reserves are a capital contribution from Ms. SX Li by YST Heilongjiang for repayment of the total indebtedness.

(c) Company

	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
At date of incorporation, 31 December 2012 and 1 January 2011	—	—	—
Loss for the period	—	(45,910)	(45,910)
Exchange differences on translation of foreign operations	(2,029)	—	(2,029)
Total comprehensive loss for the period At 30 June 2013	(2,029)	(45,910)	(47,939)

26. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Major non-cash transactions

(a) During the years ended 31 December 2011 and 2012 and the six-month period ended 30 June 2012 and 2013, the Group delivered raw milk of RMB17,983,000, RMB91,673,000, RMB57,989,000 and RMB63,024,000 to Feihe Dairy Group for settlement of considerations for the acquisition of Ruixinda Gannan and YST Heping. For details, please refer to note 29 to the Financial Information.

(b) During the years ended 31 December 2011 and 2012 and the six-month period ended 30 June 2012 and 2013, the finance income and expenses arisen due to accounting treatment on non-interest-bearing financial treatment are non-cash items. For details, please refer to notes 4 and 5 to the Financial Information.

27. CAPITAL COMMITMENTS

The Group had the following commitments at the end of each of the Relevant Periods:

	31 December			30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for:				
— Construction in progress	129,438	122,067	73,392	59,205
— Property and equipment	11,619	5,156	1,688	8,096
	141,057	127,223	75,080	67,301

28. RELATED PARTY TRANSACTIONS

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

		Year ended 31 December			Six-month period ended 30 June	
		2010	2011	2012	2012	2013
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Advance from						
HLJ Beian	*(i)*	15,900	147,663	132,766	68,486	—
Dinghe Modern	*(i)*	—	—	30,000	—	—
Payment for construction costs						
Sanhe	*(iv)*	68,242	157,194	50,330	8,530	54,218
Purchase of feeds						
Dinghe Modern	*(ii), (iii)*	—	—	1,331	1,000	355
Dinghe Feeds	*(ii), (iii)*	—	1,000	17,519	11,213	1,640
Dinghe Qinggang	*(ii), (iii)*	—	2,707	3,243	12	1,059

Notes:

(i) The loans from a related company were non-interest-bearing. The above transactions were conducted in accordance with the terms and conditions mutually agreed by both parties.

(ii) The transactions were conducted in accordance with the terms and conditions mutually agreed by both parties.

(iii) The Controlling Shareholder is beneficial owner of these entities.

(iv) The Controlling Shareholder is a responsible person of this branch.

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

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Short term employee benefits	214	564	1,391	279	299
Post-employment benefits	—	9	—	—	—
Total compensation paid to key management personnel	214	573	1,391	279	299

Further details of directors and the chief executive's remunerations are included in note 8 to the Financial Information.

29. BUSINESS COMBINATION

On 28 and 29 September 2011, the Group acquired 100% interests in YST Heping and Ruixinda Gannan, respectively, from independent third parties, Feihe Dairy HLJ and Mr. Ma Jinyan. YST Heping and Ruixinda Gannan are engaged in raw milk production. The acquisition was made as part of the Group's strategy to expand its market share of dairy products in the PRC. The purchase consideration for the acquisition included a cash consideration of RMB114,520,000. The remaining purchase price of RMB691,244,000 is to be satisfied by the Group's delivery to Feihe Dairy HLJ, in six quarterly instalments, of raw milk with an aggregate value at amortised cost of RMB691,244,000 from YST Heping and Ruixinda Gannan to be settled by cash or delivery of milk at the option of the Group.

On 25 April 2013, the Group further entered into a supplementary agreement with Feihe Dairy International for the repayment of the outstanding purchase consideration of RMB532,254,000. Pursuant to the supplementary agreement, the outstanding purchase consideration would be settled in eleven quarterly installments of RMB48,387,000 per quarter from 1 April 2013 to 31 December 2015 by either cash or delivery of raw milk at the option of the Group.

The fair values of the identifiable assets and liabilities of YST Heping and Ruixinda Gannan as at the date of acquisition were as follows:

	Notes	**Fair value recognized on acquisition**
		RMB'000
Property, plant and equipment	*12*	466,773
Prepaid land lease payments	*13*	92,858
Biological assets	*15*	503,746
Inventories		27,981
Cash and bank balances		4,340
Trade receivables, prepayments and other receivables		173,615
Interest-bearing bank borrowings		(120,808)
Trade and other payables		(178,324)
Total identifiable net assets at fair value		970,181
Gain on bargain purchase recognized in the consolidated profit or loss	*4*	(164,417)
		805,764
Satisfied by		
Cash		114,520
Future delivery of raw milk or cash		691,244
Total consideration		805,764

The fair value and gross contractual amount of the trade receivables and other receivables as at the date of acquisition are the same, amounting to RMB41,308,000 and RMB6,130,000, respectively, of which no balance is expected to be uncollectible.

There are no transaction costs for this acquisition borne by the Group.

The gain on bargain purchase, amounting to RMB164.4 million, was recognized in the profit or loss for the year ended 31 December 2011, mainly representing the difference between the fair value and the sum of the book value of the net assets plus payables to Feihe Dairy Group of RMB734.5 million and certain reversal of depreciation and recognition of fair value of biological assets due to different accounting treatments.

Reconciliation in respect of the negative goodwill is as follows:

	RMB'000
Book value of YST Heping and Ruixinda Gannan as at 30 September 2011 (excluding an amount due to Feihe Dairy Group)	807,551
Adjustment related to the reversal of depreciation on biological assets	59,158
Adjustment related to the fair value change on biological assets	103,472
Total identifiable net assets at fair value of YST Heping and Ruixinda Gannan as at 30 September 2011	970,181

The book value is determined by the historical costs of the assets and, as agreed by both parties, is used as a benchmark for the purchase consideration. The purchase consideration was made with reference to the book value of the assets of YST Heping and Ruixinda Gannan, of which biological assets were presented at amortised historical value under the historical cost basis under PRC generally accepted accounting principles.

Upon the adoption of IFRS 3 (Revised), certain assets, in particular, the biological assets were measured at fair value at the date of business combination pursuant to which biological assets were presented at fair value as determined by an independent valuer, JLL.

Due to the different accounting treatments between the historical cost basis and the fair value basis, a significant gain on bargain purchase, representing the difference between the purchase consideration and the fair value of the acquired assets, was recorded in the Financial Information.

An analysis of cash flows in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	(114,520)
Cash and bank balances acquired	4,340
Net outflow of cash and cash equivalents included in cash flows from investing activities	(110,180)
Transaction costs of the acquisition included in cash flows from operating activities	—
	(110,180)

Since the acquisition, YST Heping and Ruixinda Gannan contributed RMB102,830,000 to the Group's turnover and RMB21,322,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year of 2011, the revenue of the Group and the profit of the Group for the year of 2011 would have been RMB358,994,000 and RMB180,072,000, respectively.

30. FINANCIAL INSTRUMENTS BY CATEGORY

As at the end of each of the Relevant Periods, all the financial assets and liabilities of the Group were loans and receivables and financial liabilities at amortised cost, respectively.

31. FAIR VALUE

The carrying amounts and fair values of the Group's financial instruments are as follows:

Group

	Carrying amounts				Fair values			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2010	2011	2012	2013	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets								
Deposits for property, plant and equipment	6,219	79,311	1,762	3,067	6,219	79,311	1,762	3,067
Amount due from a shareholder	—	—	—	55,121	—	—	—	55,121
Trade receivables	—	46,343	70,886	70,444	—	46,343	70,886	70,444
Financial assets included in prepayments, and other receivables	1,857	13,439	7,790	16,624	1,857	13,439	7,790	16,624
Amounts due from related companies	—	1,000	510	—	—	1,000	510	—
Cash and cash equivalents	73,882	17,419	7,748	407,969	73,882	17,419	7,748	407,969
	81,958	157,512	88,696	553,225	81,958	157,512	88,696	553,225

Group

	Carrying amounts				Fair values			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2010	2011	2012	2013	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities								
Trade payables	26,320	142,586	207,655	176,830	26,320	142,586	207,655	176,830
Financial liabilities included in other payables and accruals	342,431	1,014,696	808,090	546,360	342,431	1,014,696	808,090	546,360
Amounts due to shareholders. . . .	300	103,900	134,521	—	300	103,900	134,521	—
Amounts due to related companies	94,372	233,091	366,106	41,717	94,372	233,091	366,106	41,717
Other financial liability.	—	—	—	616,726	—	—	—	616,726
Interest-bearing bank borrowings	159,900	491,470	464,974	448,983	190,052	603,615	545,658	525,178
Amount due to a shareholder . . .	—	—	—	53,247	—	—	—	53,247
	623,323	1,985,743	1,981,346	1,883,863	653,475	2,097,888	2,062,030	1,960,058

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank and other borrowings. The Group has various other financial assets and liabilities such as trade receivables, prepayments and other receivables, trade payables, other payables and balances with shareholders and related companies.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances and bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		RMB'000
31 December 2010		
RMB	100	(860)
RMB	(100)	860
31 December 2011		
RMB	100	(4,741)
RMB	(100)	4,741
31 December 2012		
RMB	100	(4,572)
RMB	(100)	4,572

	Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		RMB'000
30 June 2013		
RMB	100	(585)
US$	100	175
RMB	(100)	585
US$	(100)	(175)

Credit risk

Credit risk of the Group's other financial assets, which comprise cash and bank balances, other receivables and amounts due from related companies, arise from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral.

At the end of each of the Relevant Periods, the Group had certain concentration of credit risk of 34%, 57% and 33%, 100%, 100% and 100% for the years ended 31 December 2011 and 2012 and the six-month period ended 30 June 2013 of the Group's trade receivables were due from the Group's largest customer and the four largest customers, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. The management determines there are minimal concentrations of credit risk within the Group as the customers of the Group's trade receivables are recognized and creditworthy.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the Financial Information.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of long term bank loans and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Group

	On demand or no later than 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2013				
Other financial liability	720,000	—	—	720,000
Interest-bearing bank borrowings	180,759	324,343	20,071	525,173
Trade payables	176,830	—	—	176,830
Other payables and accruals	339,194	290,320	—	629,514
Amount due to a shareholder	—	60,000	—	60,000
Amounts due to related companies	19,811	—	—	19,811
	1,436,594	674,663	20,071	2,131,328
31 December 2012				
Interest-bearing bank borrowings	198,784	326,803	20,071	545,658
Trade payables	207,655	—	—	207,655
Other payables and accruals	939,525	—	—	939,525
Amounts due to shareholders	134,521	—	—	134,521
Amounts due to related companies	311,940	—	—	311,940
	1,792,425	326,803	20,071	2,139,299
31 December 2011				
Interest-bearing bank borrowings	160,991	400,330	42,294	603,615
Trade payables	142,586	—	—	142,586
Other payables and accruals	1,128,107	122,418	—	1,250,525
Amount due to a shareholder	103,900	—	—	103,900
Amounts due to related companies	165,620	—	—	165,620
	1,701,204	522,748	42,294	2,266,246
31 December 2010				
Interest-bearing bank borrowings	41,983	148,399	—	190,382
Trade payables	26,320	—	—	26,320
Other payables and accruals	433,082	—	—	433,082
Amount due to a shareholder	300	—	—	300
Amount due to a related company	15,900	—	—	15,900
	517,585	148,399	—	665,984

Company

	On demand or no later than 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2013				
Other financial liability	720,000	—	—	720,000
Amounts due to subsidiaries	8,917	—	—	8,917
Other payables and accruals	5,945	—	—	5,945
	734,862	—	—	734,862
31 December 2012				
Amount due to a subsidiary	—	—	—	—
	—	—	—	—

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2010, 2011 and 2012 and the six-month period ended 30 June 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. Net debt is calculated as total bank borrowings as shown in the consolidated statements of financial position, less cash and cash equivalents.

Total capital is calculated as equity as shown in the consolidated statements of financial position plus net debt. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	31 December			30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Interest-bearing bank borrowings	159,900	491,470	464,974	448,983
Less: Cash and cash equivalents	(73,882)	(17,419)	(7,748)	(407,969)
Net debt	86,018	474,051	457,226	41,014
Total equity	190,876	380,729	590,470	1,143,130
Total capital	276,894	854,780	1,047,696	1,184,144
Gearing ratio	31.1%	55.5%	43.6%	3.5%

III. EVENTS AFTER THE RELEVANT PERIODS

Pursuant to a resolution passed on 7 November 2013, the authorized share capital of the Company was increased from HK$58,000 to HK$500,000,000, by the creation of 49,994,200,000 additional shares of HK$0.01 each, ranking *pari passu* in all respects with the existing shares of the Company.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2013.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong