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

14 November 2013

The Directors
Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.
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 pre-acquisition financial information relating to Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. (''Ruixinda Gannan'') for the year ended 31 December 2010 and the nine-month period ended 30 September 2011 (the ''Relevant Periods'') (the ''Ruixinda Gannan Pre-acquisition Financial Information''), and statement of comprehensive income, statement of changes in equity and statement of cash flows of Ruixinda Gannan for the nine-month period ended 30 September 2010 (the ''Interim Comparative Information'') for inclusion in the prospectus of YuanShengTai Dairy Farm Limited (the ''Company'') dated 14 November 2013 in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the ''Stock Exchange'') (the ''Prospectus'').

Ruixinda Gannan was established in the People's Republic of China (the ''PRC'') on 9 July 2007 as a private limited company. Pursuant to an acquisition agreement dated 1 August 2011 entered into between Heilongjiang Feihe Dairy Co., Ltd. (''Feihe Dairy HLJ'') and Harbin Ruixinda Dairy Farming Co., Ltd. (''Ruixinda''), Ruixinda will agree to acquire Ruixinda Gannan at a consideration of RMB470,401,000 (the ''Acquisition'').

The statutory financial year end date of Ruixinda Gannan is 31 December. Statutory financial statement for Ruixinda Gannan had been prepared for the year ended 31 December 2010, which have been 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.

For the purpose of this report, the directors of Ruixinda Gannan have prepared the financial statements of Ruixinda Gannan for the Relevant Periods in accordance with International Financial Reporting Standards (''IFRSs'') issued by the International Accounting Standards Board (the ''IASB'') (the ''Underlying Financial Statements''). The Underlying Financial Statements for each of the Relevant Periods were audited by us in accordance with Hong Kong Standards on Auditing (''HKSAs'') issued by the Hong Kong Institute of Certified Public Accountant (the ''HKICPA'').

The Ruixinda Gannan Pre-acquisition Financial Information as set out in this report has been prepared from the Underlying Financial Statements without adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, the Ruixinda Gannan Pre-acquisition 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 Ruixinda Gannan Pre-acquisition 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 Ruixinda Gannan Pre-acquisition 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 Ruixinda Gannan Pre-acquisition 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 Ruixinda Gannan Pre-acquisition 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 than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE RUIXINDA GANNAN PRE-ACQUISITION FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2.1 of Section II below, the Ruixinda Gannan Pre-acquisition Financial Information gives a true and fair view of the state of affairs of Ruixinda Gannan as at 31 December 2010 and 30 September 2011, and of the results and cash flows of Ruixinda Gannan 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 Ruixinda Gannan Pre-acquisition Financial Information.

I. FINANCIAL INFORMATION

(a) Statements of Comprehensive Income

		Year ended 31 December	Nine months ended 30 September	
		2010	2010	2011
	Notes	RMB'000	RMB'000 (Unaudited)	RMB'000
REVENUE	*5*	51,118	37,422	92,197
Cost of sales		(42,042)	(32,074)	(60,483)
Gross profit		9,076	5,348	31,714
Other income	*5*	5,741	5,668	458
Selling and distribution expenses		(460)	(267)	(1,646)
Administrative expenses		(4,290)	(3,357)	(3,003)
Changes in fair value less costs to sell of biological assets		(35,946)	(19,005)	5,345
PROFIT/(LOSS) BEFORE TAX	*6*	(25,879)	(11,613)	32,868
Income tax expense	*9*	—	—	—
PROFIT/(LOSS) FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		(25,879)	(11,613)	32,868

(b) Statements of Financial Position

	Notes	31 December 2010 RMB'000	30 September 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	251,880	269,303
Prepaid land lease payments	*12*	72,220	71,042
Deposits for property, plant and equipment	*16*	26,467	26,362
Biological assets	*13*	169,764	194,488
Total non-current assets		520,331	561,195
CURRENT ASSETS			
Inventories	*14*	26,067	15,609
Trade receivables	*15*	7,101	16,213
Prepayments and other receivables	*16*	10	1,119
Prepaid land lease payments	*12*	1,570	1,570
Cash and cash equivalents	*17*	3,813	472
Total current assets		38,561	34,983
CURRENT LIABILITIES			
Trade payables	*18*	32,846	24,005
Amount due to a fellow subsidiary	*20*	4,500	4,500
Other payables and accruals	*19*	521,888	391,013
Total current liabilities		559,234	419,518
NET CURRENT LIABILITIES		(520,673)	(384,535)
TOTAL ASSETS LESS CURRENT LIABILITIES		(342)	176,660
NON-CURRENT LIABILITIES			
Other payables	*19*	—	144,134
Net assets/(liabilities)		(342)	32,526
EQUITY			
Paid-in capital	*21*	38,000	38,000
Accumulated losses	*22*	(38,342)	(5,474)
Total equity/(deficiency in assets)		(342)	32,526

(c) Statements of Changes in Equity

	Paid-in capital RMB'000	Accumulated losses RMB'000	Total equity/ (deficiency in assets) RMB'000
At 1 January 2010	38,000	(12,463)	25,537
Loss for the year and total comprehensive loss for the year	—	(25,879)	(25,879)
At 31 December 2010 and 1 January 2011	38,000	(38,342)	(342)
Profit for the period and total comprehensive income for the period	—	32,868	32,868
At 30 September 2011	38,000	(5,474)	32,526

(d) Statements of Cash Flows

	Notes	Year ended 31 December 2010 RMB'000	Nine months ended 30 September 2010 RMB'000 (Unaudited)	Nine months ended 30 September 2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax		(25,879)	(11,613)	32,868
Adjustments for:				
Interest income	*5*	(16)	(13)	(16)
Depreciation	*11*	7,909	5,848	6,575
Recognition of prepaid land lease payments	*12*	1,570	1,178	1,178
Change in fair value less costs to sell of biological assets	*13*	35,946	19,005	(5,345)
		19,530	14,405	35,260
Decrease/(increase) in inventories		(3,502)	11,744	10,458
Increase in trade receivables		(5,948)	(9,598)	(9,112)
Decrease/(increase) in prepayments and other receivables		495	(103)	(1,109)
Increase/(decrease) in trade payables		8,780	(7,477)	(8,841)
Increase in other payables and accruals		94,715	83,258	13,259
Cash generated from operations		114,070	92,229	39,915
Interest received		16	13	16
Net cash flows from operating activities		114,086	92,242	39,931
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(20,589)	(4,415)	(24,066)
Additions to biological assets		(103,588)	(93,711)	(21,849)
Decrease in deposits for property, plant and equipment		1,766	120	105
Proceeds from disposal of biological assets		9,936	5,652	2,470
Proceeds from disposal of items of property, plant and equipment		—	—	68
Net cash flows used in investing activities		(112,475)	(92,354)	(43,272)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,611	(112)	(3,341)
Cash and cash equivalents at beginning of year/period		2,202	2,202	3,813
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		3,813	2,090	472

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Ruixinda Gannan is a limited liability company established in the People's Republic of China (the "PRC") and its registered office is located at Fanrong Street, Gannan, Qiqihar, Heilongjiang.

The principal activity of Ruixinda Gannan is the production and sale of raw milk. Pursuant to an agreement dated 1 August 2011 entered into between Ruixinda and Feihe Dairy HLJ, Ruixinda agreed to acquire Ruixinda Gannan at a consideration of RMB470,401,000 (the "Acquisition").

In the opinion of the Directors, after the Acquisition, Ruixinda is the immediate holding company of Ruixinda Gannan and its ultimate holding company is YuanShengTai Dairy Farm Limited.

The Ruixinda Gannan Pre-acquisition Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which Ruixinda Gannan operates (its functional currency).

2.1 BASIS OF PREPARATION

The Ruixinda Gannan Pre-acquisition Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for accounting periods commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the reporting entity in the preparation of the Ruixinda Gannan Pre-acquisition Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information. They have been prepared under the historical cost convention, except for biological assets, which have been measured at fair value. The Ruixinda Gannan Pre-acquisition Financial Information is presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

Ruixinda Gannan 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 Ruixinda Gannan's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reporting entity 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 reporting entity;

  (ii) has significant influence over the reporting entity; or

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

or

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

  (i) the entity and the reporting entity 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 reporting entity 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 reporting entity or an entity related to the reporting entity;

  (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 reporting entity 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 resultant 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 milk. 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 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 reporting entity is the lessor, assets leased by the reporting entity 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 reporting entity 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 reporting entity 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, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the reporting entity 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 in finance costs for loans and in administrative expenses in receivables.

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 reporting entity 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 reporting entity has transferred substantially all the risks and rewards of the asset, or (b) the reporting entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the reporting entity 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 reporting entity's continuing involvement in the asset. In that case, the reporting entity 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 reporting entity 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 reporting entity could be required to repay.

Impairment of financial assets

The reporting entity 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 reporting entity 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 reporting entity 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 reporting entity.

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 reporting entity 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 reporting entity's financial liabilities include trade payables, other payables and accruals.

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 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 reporting entity's cash management.

For the purpose of the statement 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 reporting entity 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 values 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 reporting entity and when the revenue can be measured reliably, on the following bases:

(a) from the sale of milk, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the reporting entity 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 reporting entity which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. The reporting entity is required to contribute 1% to 20% of its 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.

Fair value measures

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 Ruixinda Gannan. 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. Ruixinda Gannan uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of Ruixinda Gannan's financial statements 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 assumptions 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 reporting entity'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 prices at the end of each of the Relevant Periods adjusted with reference to the age and cost 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 prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuers 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 13 to the Ruixinda Gannan Pre-acquisition Financial Information.

4. OPERATING SEGMENT INFORMATION

Ruixinda Gannan is principally engaged in the production and sale of raw milk. Information reported to Ruixinda Gannan's management for the purpose of resources allocation and performance assessment, focuses on the operating results of Ruixinda Gannan as a whole as Ruixinda Gannan's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Ruixinda Gannan's revenue from external customers is derived solely from its operations in the PRC, and no assets of Ruixinda Gannan are located outside the PRC.

All external sales of milk produced of Ruixinda Gannan during the Relevant Periods are contributable to customers established in the PRC, the place of domicile of Ruixinda Gannan.

During the Relevant Periods, Ruixinda Gannan made sales to customers, which individually contributed to more than 10% of Ruixinda Gannan's total revenue for that year/period. The analysis for each of the Relevant Periods is as follows:

	Year ended 31 December	Nine months ended 30 September	
	2010	2010	2011
	RMB'000	RMB'000 (Unaudited)	RMB'000
Customer A	N/A	N/A	37,502
Customer B	45,660	37,422	32,789
Customer C	N/A	N/A	21,906
Others	5,458	—	—
	51,118	37,422	92,197

5. REVENUE AND OTHER INCOME

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

Sales of raw milk produced represented mainly the fair value of milk produced less costs to sell at the point of harvest.

An analysis of revenue and other income is as follows:

	Year ended 31 December	Nine months ended 30 September	
	2010	2010	2011
	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue			
Sales of raw milk	51,118	37,422	92,197
Other income			
Bank interest income	16	13	16
Government subsidies*	5,350	5,350	67
Sales of male calves	357	288	254
Others	18	17	121
	5,741	5,668	458

* *The amount received represented subsidies received from the relevant authorities in the PRC for Ruixinda Gannan's operation of construction and purchase of cattle.*

6. PROFIT/(LOSS) BEFORE TAX

Ruixinda Gannan's profit/(loss) before tax from operations is arrived at after charging/(crediting):

		Year ended 31 December	Nine months ended 30 September	
		2010	2010	2011
	Notes	RMB'000	RMB'000 (Unaudited)	RMB'000
Breeding costs to produce		32,318	24,893	48,496
Production costs for raw milk		9,724	7,181	11,987
Cost of sales		42,042	32,074	60,483
Depreciation	*11*	7,909	5,848	6,575
Recognition of prepaid land lease payments	*12*	1,570	1,178	1,178
Auditors' remuneration		—	—	8
Changes in fair value less costs to sell of biological assets	*13*	(35,946)	(19,005)	5,345
Employee benefit expenses (including directors' remuneration *(note 7)*):				
Wages and salaries		1,471	1,066	2,599
Pension scheme contributions		117	86	174
		1,588	1,152	2,773

7. DIRECTORS' REMUNERATION

Directors' 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, is as follows:

	Year ended 31 December	Nine months ended 30 September	
	2010	2010	2011
	RMB'000	RMB'000 (Unaudited)	RMB'000
Fees	—	—	—
Other emoluments:			
Salaries, bonuses, allowances and benefits in kind	—	—	—
Pension scheme contributions	—	—	—
	—	—	—

Executive directors

The remuneration of the executive directors for each of the Relevant Periods is set out below:

	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 director:					
Ma Jinyan	—	—	—	—	—
Period ended 30 September 2010 (unaudited)					
Executive director:					
Ma Jinyan	—	—	—	—	—
Period ended 30 September 2011					
Executive directors:					
Ma Jinyan	—	—	—	—	—
Wang Shaogang	—	—	—	—	—

8. FIVE HIGHEST PAID EMPLOYEES

During the year ended 31 December 2010, none of the five highest paid individuals were directors of Ruixinda Gannan. During the nine months ended 30 September 2010 and 2011, none of the five highest paid individuals were directors of Ruixinda Gannan.

Details of the remuneration of the non-director, highest paid individuals for the Relevant Periods are as follows:

	Year ended 31 December	Nine months ended 30 September	
	2010	2010	2011
	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, allowances and benefits in kind	277	208	412
Performance related bonuses	—	—	102
Pension scheme contributions	14	11	11
	291	219	525

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

	Year ended 31 December	Nine months ended 30 September	
	2010	2010	2011
	Number of employees	Number of employees (Unaudited)	Number of employees
Nil to HK$1,000,000	5	5	5

9. INCOME TAX

According to the prevailing tax rules and regulations, Ruixinda Gannan is operating in agricultural business and is exempted from enterprise income tax.

10. EARNINGS PER SHARE

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

11. PROPERTY, PLANT AND EQUIPMENT

	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	226,902	102	5,741	59	2,178	4,218	239,200
Additions	—	24	5,917	1,365	581	12,702	20,589
Transfers	8,735	—	—	—	—	(8,735)	—
Depreciation provided for the year	(6,833)	(23)	(607)	(312)	(134)	—	(7,909)
At 31 December 2010 and 1 January 2011, net of accumulated depreciation	228,804	103	11,051	1,112	2,625	8,185	251,880
Additions	—	11	4,512	75	730	18,738	24,066
Depreciation provided for the period	(5,321)	(20)	(772)	(194)	(268)	—	(6,575)
Disposals/write-off	—	—	—	—	(68)	—	(68)
At 30 September 2011, net of accumulated depreciation	223,483	94	14,791	993	3,019	26,923	269,303
At 1 January 2010:							
Cost	227,754	118	6,181	67	2,451	4,218	240,789
Accumulated depreciation	(852)	(16)	(440)	(8)	(273)	—	(1,589)
Net carrying amount	226,902	102	5,741	59	2,178	4,218	239,200
At 31 December 2010 and 1 January 2011:							
Cost	236,489	142	12,098	1,432	3,032	8,185	261,378
Accumulated depreciation	(7,685)	(39)	(1,047)	(320)	(407)	—	(9,498)
Net carrying amount	228,804	103	11,051	1,112	2,625	8,185	251,880
At 30 September 2011:							
Cost	236,489	153	16,610	1,507	3,694	26,923	285,376
Accumulated depreciation	(13,006)	(59)	(1,819)	(514)	(675)	—	(16,073)
Net carrying amount	223,483	94	14,791	993	3,019	26,923	269,303

At 30 September 2011, certain of Ruixinda Gannan's buildings and plants with a net carrying amount of approximately RMB178,313,000 were pledged to secure the acquisition of Ruixinda Gannan from Feihe Dairy HLJ by Ruixinda.

At 31 December 2010 and 30 September 2011, all the Ruixinda Gannan'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 Ruixinda Gannan.

12. PREPAID LAND LEASE PAYMENTS

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Carrying amount at beginning of the year/period	75,360	73,790
recognized during the year/period	(1,570)	(1,178)
Carrying amount at end of the year/period	73,790	72,612
Current portion included in prepayments and other receivables	(1,570)	(1,570)
Non-current portion	72,220	71,042

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

At 31 December 2010 and 30 September 2011, all Ruixinda Gannan's leasehold lands located in the PRC did not have land use right certificates as all are agricultural facilities lands. The directors of Ruixinda Gannan have sought for PRC legal advice and have confirmed that Ruixinda Gannan is eligible to use the lands though the formal titles to these lands will not be granted to Ruixinda Gannan.

13. BIOLOGICAL ASSETS

A — Nature of Activities

Dairy cows owned by Ruixinda Gannan are held to produce milk.

The quantity of dairy cows owned by Ruixinda Gannan at 31 December 2010 and 30 September 2011 is shown below. Ruixinda Gannan's dairy cows are primarily milkable cows held for milk production. Heifers and calves held at 31 December 2010 and 30 September 2011 are dairy cows that have not had their first calves.

	31 December 2010	30 September 2011
	heads	heads
Dairy cows		
Milkable cows	1,943	4,527
Heifers and calves	4,874	3,178
Total dairy cows	6,817	7,705

	Year ended 31 December	Nine months ended 30 September	
	2010	2010	2011
	Kilograms'000	Kilograms'000 (Unaudited)	Kilograms'000
Volume of sales of milk produced	13,965	10,471	23,292

Ruixinda Gannan is exposed to fair value risks arising from changes in price of dairy products. Ruixinda Gannan does not anticipate that the price of dairy products will decline significantly in the foreseeable future and the directors of Ruixinda Gannan are of the view that there is no available derivative or other contracts which Ruixinda Gannan can enter into to manage the risk of a decline in the price of 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 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 Ruixinda Gannan's principal activities and the proceeds are not included as revenue.

Ruixinda Gannan is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in Note 26, Ruixinda Gannan is exposed to the following operation risks:

(i) *Regulatory and environment risks*

Ruixinda Gannan is subject to laws and regulations in the location in which it operates breeding. Ruixinda Gannan 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*

Ruixinda Gannan's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. Ruixinda Gannan 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 2010	30 September 2011
	RMB'000	RMB'000
Dairy cows	169,764	194,488

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2010	63,844	48,214	112,058
Increase due to purchases	68,495	—	68,495
Increase due to raising (feeding costs and others)	35,093	—	35,093
Transfer in/(out)	(44,841)	44,841	—
Decrease due to sales	(3,782)	(6,154)	(9,936)
Loss arising from changes in fair value less costs to sell	(549)	(35,397)	(35,946)
Balance as at 31 December 2010 and 1 January 2011	118,260	51,504	169,764
Increase due to purchases	75	—	75
Increase due to raising (feeding costs and others)	21,774	—	21,774
Transfer in/(out)	(84,862)	84,862	—
Decrease due to sales	(517)	(1,953)	(2,470)
Gain/(loss) arising from changes in fair value less costs to sell	10,235	(4,890)	5,345
Balance as at 30 September 2011	64,965	129,523	194,488

Ruixinda Gannan'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 valuer not connected with Ruixinda Gannan, who has appropriate qualifications and recent experiences in the 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 historical breeding data of Ruixinda Gannan and its 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 of 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 rate used is 14% as at 30 September 2011.

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

- The valuation of fair value of biological assets has taken into consideration of the transportation cost following IFRS 13 "Fair value measurement". Because of the import and export control of livestock in the Mainland China, the directors are of the view that Mainland China 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 RMB14,149,000 and RMB9,534,000, as at 31 December 2010 and the period ended 30 September 2011, respectively.

The aggregate gains or losses arising during the year ended 31 December 2010 and the period ended 30 September 2011 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of dairy cows are analysed as follows:

	Year ended 31 December	Nine months ended 30 September	
	2010	2010	2011
	RMB'000	RMB'000 (Unaudited)	RMB'000
Sales of milk/fair value of milk produced less costs to sell	50,658	37,155	90,551
Gain/(loss) arising from changes in fair value less costs to sell of dairy cows	(64,833)	(47,892)	5,345
	(14,175)	(10,737)	95,896

C — Fair value hierarchy

Ruixinda Gannan 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	—	—	169,764	169,764
As at 30 September 2011	—	—	194,488	194,488

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 Ruixinda Gannan's profit or loss before tax (through the impact on changes in the feeding costs).

	Increase/(decrease) in profit before tax	
	31 December 2010	**30 September 2011**
	RMB'000	**RMB'000**
Increase in feeding costs of 10%	(3,232)	(4,849)
Decrease in feeding costs of 10%	3,232	4,849

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 Ruixinda Gannan's profit or loss before tax (through the impact on changes in the milk price).

	Increase/(decrease) in profit before tax	
	31 December 2010	**30 September 2011**
	RMB'000	**RMB'000**
Increase in milk price of 10%	(5,112)	(8,220)
Decrease in milk price of 10%	5,112	8,220

14. INVENTORIES

	31 December 2010	**30 September 2011**
	RMB'000	**RMB'000**
Feeds	23,716	13,787
Others	2,351	1,822
	26,067	15,609

15. TRADE RECEIVABLES

	31 December 2010	**30 September 2011**
	RMB'000	**RMB'000**
Trade receivables	7,101	16,213
Impairment	—	—
	7,101	16,213

Ruixinda Gannan's trading terms with its customers are mainly on credit. The credit period is generally one month. Ruixinda Gannan 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 Ruixinda Gannan's trade receivables relate to a few number of customers, there is no significant concentration of credit risk as disclosed in note 26 to Ruixinda Gannan Pre-acquisition Financial Information. Ruixinda Gannan 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:

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Within one month	7,101	16,213

No impairment of trade receivables for each of the Relevant Period 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:

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Neither past due nor impaired	7,101	16,213

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 Ruixinda Gannan. Based on past experience, the directors of Ruixinda Gannan are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in credit quality and the balance is still considered fully recoverable.

16. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Prepayments	26,474	27,300
Other receivables	3	181
	26,477	27,481
Non-current portion	(26,467)	(26,362)
Current portion	10	1,119

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.

17. CASH AND CASH EQUIVALENTS

At 31 December 2010 and 30 September 2011, all Ruixinda Gannan's cash and bank balances denominated in RMB amounted to RMB3,813,000 and RMB472,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, Ruixinda Gannan 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.

18. 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:

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Within 2 months	24,252	16,102
2 to 6 months	3,238	4,228
6 to 12 months	5,256	3,675
Over 12 months	100	—
	32,846	24,005

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

19. OTHER PAYABLES AND ACCRUALS

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Deferred income	1,402	1,335
Other payables	520,482	533,812
Accruals	4	—
	521,888	535,147
Non-current portion	—	(144,134)
Current portion	521,888	391,013

Included in Ruixinda Gannan's other payable and accruals are amount due to Feihe Dairy HLJ, Ruixinda Gannan's holding company, of RMB279,968,000 (2010: RMB423,273,000), which are repayable on similar credit terms to those granted by the major suppliers of Ruixinda Gannan.

20. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due to a fellow subsidiary was unsecured, interest-free and has no fixed terms of repayment.

21. PAID-IN CAPITAL

	RMB'000
Authorised, registered and fully paid:	
At 1 January 2010, 31 December 2010 and 30 September 2011	38,000

22. RESERVES

The amounts of Ruixinda Gannan's reserves and movements therein for each of the Relevant Periods are presented in the statements of changes in equity in Section I(c) of the Ruixinda Gannan Pre-acquisition Financial Information.

23. COMMITMENTS

Ruixinda Gannan had the following commitments at the end of each of the Relevant Periods:

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Contracted but not provided for:		
Construction in progress — buildings	6,489	2,263
Property and equipment	—	2,501
Total	6,489	4,764

24. FINANCIAL INSTRUMENTS BY CATEGORY

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

25. FAIR VALUE

The carrying amounts and fair values of Ruixinda Gannan's financial instruments are as follows:

	Carrying amounts		Fair values	
	31 December 2010	30 September 2011	31 December 2010	30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Deposits for property, plant and equipment and biological assets	26,467	26,362	26,467	26,362
Trade receivables	7,101	16,213	7,101	16,213
Financial assets included in prepayments, and other receivables	10	1,119	10	1,119
Prepaid land lease payments	1,570	1,570	1,570	1,570
Cash and cash equivalents	3,813	472	3,813	472
	38,961	45,736	38,961	45,736

	Carrying amounts		Fair values	
	31 December 2010	30 September 2011	31 December 2010	30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Trade payables	32,846	24,005	32,846	24,005
Financial liabilities included in other payables and accruals	520,486	533,812	520,486	533,812
Amount due to a fellow subsidiary	4,500	4,500	4,500	4,500
	557,832	562,317	557,832	562,317

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Ruixinda Gannan's principal financial instruments comprise cash and cash equivalents. Ruixinda Gannan has various other financial assets and liabilities such as trade receivables, other receivables, trade payables, other payables and accruals and balance with a fellow subsidiary.

The main risks arising from Ruixinda Gannan'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

Ruixinda Gannan only has bank and other borrowings with fixed interest rate and thus, the directors believe Ruixinda Gannan's exposure to interest rate risk is minimal.

Credit risk

Credit risk of Ruixinda Gannan's other financial assets, which comprise cash and bank balances and other receivables arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

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

At the end of each of the Relevant Periods, Ruixinda Gannan had certain concentration of credit risk as 44% and 27% of Ruixinda Gannan's trade receivables for the year ended 31 December 2010 and period ended 30 September 2011 were due from Ruixinda Gannan's largest customer, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines there are minimal concentrations of credit risk within Ruixinda Gannan as the customer of Ruixinda Gannan's trade receivables are recognized and creditworthy.

Further quantitative data in respect of Ruixinda Gannan's exposure to credit risk arising from trade receivables are disclosed in note 15 to the Ruixinda Gannan Pre-acquisition Financial Information.

Liquidity risk

Ruixinda Gannan's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The maturity principle of Ruixinda Gannan's financial liabilities as at the Relevant Period, based on the contractual undiscounted payments is as follows:

	On demand or less than 12 months	Over 1 year	Over 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2010				
Trade payables	32,846	—	—	32,846
Other payables and accruals	521,888	—	—	521,888
Amount due to a fellow subsidiary	4,500	—	—	4,500
	559,234	—	—	559,234
As at 30 September 2011				
Trade payables	24,005	—	—	24,005
Other payables and accruals	391,013	144,134	—	535,147
Amount due to a fellow subsidiary	4,500	—	—	4,500
	419,518	144,134	—	563,652

Capital management

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

Ruixinda Gannan 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, Ruixinda Gannan 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 year ended 31 December 2010, and the period ended 30 September 2011.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong