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.

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

14 November 2013

The Directors
Heilongjiang Kedong Heping YuanShengTai 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 Kedong Heping YuanShengTai Dairy Farming Co., Ltd. ("YST Heping") for the year ended 31 December 2010 and the nine-month period ended 30 September 2011 (the "Relevant Periods") (the "YST Heping Pre-acquisition Financial Information"), and statement of comprehensive income, statement of changes in equity and statement of cash flows of YST Heping 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").

YST Heping was established in the People's Republic of China (the "PRC") on 3 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 YST Heping at a consideration of RMB380,401,000 (the "Acquisition").

The statutory financial year end date of YST Heping is 31 December. Statutory financial statement for YST Heping 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 YST Heping have prepared the financial statements of YST Heping for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("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 YST Heping 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 YST Heping 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 YST Heping 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 YST Heping 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 YST Heping 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 YST Heping 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 opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE YST HEPING 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 YST Heping Pre-acquisition Financial Information gives a true and fair view of the state of affairs of YST Heping as at 31 December 2010 and 30 September 2011, and of the results and cash flows of YST Heping 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 YST Heping 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*	141,489	93,635	163,967
Cost of sales		(94,119)	(61,067)	(105,782)
Gross profit		47,370	32,568	58,185
Other income	*5*	766	615	1,150
Selling and distribution expenses		(891)	(596)	(4,242)
Administrative expenses		(4,822)	(3,707)	(4,771)
Finance costs	*6*	(5,756)	(5,361)	(5,244)
Changes in fair value less costs to sell of biological assets		(2,826)	2,652	50,839
PROFIT BEFORE TAX	*7*	33,841	26,171	95,917
Income tax expense	*10*	—	—	—
PROFIT FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		33,841	26,171	95,917

(b) Statements of Financial Position

	Notes	31 December 2010 RMB'000	30 September 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	192,898	197,468
Prepaid land lease payments	*13*	20,123	19,753
Deposits for property, plant and equipment	*17*	82,131	68,005
Biological assets	*14*	227,347	309,258
Total non-current assets		522,499	594,484
CURRENT ASSETS			
Inventories	*15*	32,886	12,372
Trade receivables	*16*	2,250	25,094
Prepayments and other receivables	*17*	64,838	36,824
Prepaid land lease payments	*13*	492	492
Amounts due from fellow subsidiaries	*22*	4,500	33,822
Cash and cash equivalents	*18*	5,087	3,868
Total current assets		110,053	112,472
CURRENT LIABILITIES			
Trade payables	*19*	32,030	24,230
Other payables	*20*	320,224	258,068
Interest-bearing bank borrowings	*21*	69,516	17,258
Total current liabilities		421,770	299,556
NET CURRENT LIABILITIES		(311,717)	(187,084)
TOTAL ASSETS LESS CURRENT LIABILITIES		210,782	407,400
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*21*	103,550	103,550
Other payables	*20*	—	100,701
Total non-current liabilities		103,550	204,251
Net assets		107,232	203,149
EQUITY			
Paid-in capital	*23*	76,520	76,520
Reserves	*24*	30,712	126,629
Total equity		107,232	203,149

(c) Statements of Changes in Equity

	Paid-in capital RMB'000	(Accumulated losses)/ retained profits RMB'000	Total equity RMB'000
At 1 January 2010	76,520	(3,129)	73,391
Profit for the year and total comprehensive income for the year	—	33,841	33,841
At 31 December 2010 and 1 January 2011	76,520	30,712	107,232
Profit for the period and total comprehensive income for the period	—	95,917	95,917
At 30 September 2011	76,520	126,629	203,149

(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 before tax		33,841	26,171	95,917
Adjustments for:				
Finance costs	*6*	5,756	5,361	5,244
Interest income	*5*	(31)	(21)	(34)
Depreciation	*12*	6,707	5,078	5,478
Recognition of prepaid land lease payments	*13*	442	217	370
Changes in fair value less costs to sell of biological assets	*14*	2,826	(2,652)	(50,839)
		49,541	34,154	56,136
Decrease in inventories		7,164	3,865	20,514
Decrease/(increase) in trade receivables		(2,227)	23	(22,844)
Decrease/(increase) in prepayments and other receivables		(60,931)	(7,542)	28,014
Decrease in trade payables		(2,657)	(5,807)	(7,800)
Decrease in amounts due from fellow subsidiaries		—	—	(29,322)
Increase in other payables		87,014	43,422	38,545
Cash generated from operations		77,904	68,115	83,243
Interest received		31	21	34
Interest paid		(5,756)	(5,361)	(5,244)
Net cash flows from operating activities		72,179	62,775	78,033
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(17,362)	(5,885)	(10,782)
Additions to biological assets		(48,220)	(37,438)	(35,697)
Decrease/(increase) in deposits for property, plant and equipment		(24,470)	(25,364)	14,126
Proceeds from disposal of biological assets		22,244	4,204	4,625
Proceeds from disposal of items of property, plant and equipment		2,373	2,373	734
Increase in land use rights		(676)	—	—
Net cash flows used in investing activities		(66,111)	(62,110)	(26,994)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from new bank loans		35,000	25,000	—
Repayment of interest-bearing bank borrowings		(41,934)	(25,800)	(52,258)
Net cash flows used in financing activities		(6,934)	(800)	(52,258)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(866)	(135)	(1,219)
Cash and cash equivalents at beginning of year/period		5,953	5,953	5,087
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		5,087	5,818	3,868

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

YST Heping is a limited liability company established in the People's Republic of China (the "PRC") and its registered office is located at Qing-Xiang Street, Kedong, Heilongjiang.

The principal activity of YST Heping is the production and sale of raw milk. Pursuant to a share transfer agreement dated 1 August 2011 entered into between Ruixinda and Feihe Dairy HLJ, Ruixinda agreed to acquire YST Heping at a consideration of RMB380,401,000 (the "Acquisition").

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

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

2.1 BASIS OF PREPARATION

The YST Heping 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 YST Heping 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 values. YST Heping 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

YST Heping 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

YST Heping 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 YST Heping'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. 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 its 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 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 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; and

(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.

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 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 YST Heping. 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. YST Heping 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 YST Heping'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-determined prices as 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 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 14 to the YST Heping Pre-acquisition Financial Information.

4. OPERATING SEGMENT INFORMATION

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

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

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

During the Relevant Periods, YST Heping made sales to customers, which individually contributed to more than 10% of YST Heping'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	94,941
Customer B	N/A	N/A	38,303
Customer C	134,735	89,974	24,007
Others	6,754	3,661	6,716
	141,489	93,635	163,967

5. REVENUE AND OTHER INCOME

Revenue, which is also YST Heping'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	141,489	93,635	163,967
Other income			
Bank interest income	31	21	34
Government subsidies*	—	—	283
Sales of male calves	695	566	787
Others	40	28	46
	766	615	1,150

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

6. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	Year ended 31 December	Nine months ended 30 September	
	2010	2010	2011
	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on secured bank borrowings wholly repayable within five years	5,756	5,361	5,244

7. PROFIT BEFORE TAX

YST Heping's profit 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		77,705	50,492	82,646
Production costs for raw milk		16,414	10,575	23,136
Cost of sales		94,119	61,067	105,782
Depreciation	*12*	6,707	5,078	5,478
Recognition of prepaid land lease payments	*13*	442	370	370
Auditors' remuneration		15	15	17
Changes in fair value less costs to sell of biological assets	*14*	2,826	(2,652)	(50,839)
Employee benefit expenses (including directors' remuneration *(note 8)*):				
Wages and salaries		2,770	1,858	5,765
Pension scheme contributions		254	188	475
		3,024	2,046	6,240

8. 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 director:					
Wang Shaogang	—	151	—	—	151

9. FIVE HIGHEST PAID EMPLOYEES

During the year ended 31 December 2010, none of the five highest paid individuals were directors of YST Heping. During the nine months ended 30 September 2011, one (30 September 2010: Nil) of the five highest paid individuals was a director of YST Heping.

Details of the remuneration of the remaining 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	586	439	673
Performance related bonuses	—	—	124
Pension scheme contributions	6	5	9
	592	444	806

The number of non-director, highest paid employees whose remuneration fell within the following bands 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	4

10. INCOME TAX

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

11. EARNINGS PER SHARE

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

12. 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	164,328	247	17,720	125	2,196	—	184,616
Additions	—	80	6,354	1,796	799	8,333	17,362
Depreciation provided for the year	(4,841)	(59)	(1,220)	(265)	(322)	—	(6,707)
Disposals/write-off	(2,103)	—	(270)	—	—	—	(2,373)
At 31 December 2010 and 1 January 2011, net of accumulated depreciation	157,384	268	22,584	1,656	2,673	8,333	192,898
Additions	—	38	963	17	307	9,457	10,782
Depreciation provided for the period	(3,686)	(55)	(1,199)	(263)	(275)	—	(5,478)
Disposals/write-off	—	—	(734)	—	—	—	(734)
At 30 September 2011, net of accumulated depreciation	153,698	251	21,614	1,410	2,705	17,790	197,468
At 1 January 2010:							
Cost	165,926	299	18,174	147	2,458	—	187,004
Accumulated depreciation	(1,598)	(52)	(454)	(22)	(262)	—	(2,388)
Net carrying amount	164,328	247	17,720	125	2,196	—	184,616
At 31 December 2010 and 1 January 2011:							
Cost	163,822	378	24,258	1,943	3,258	8,333	201,992
Accumulated depreciation	(6,438)	(110)	(1,674)	(287)	(585)	—	(9,094)
Net carrying amount	157,384	268	22,584	1,656	2,673	8,333	192,898
At 30 September 2011:							
Cost	163,822	416	24,487	1,960	3,565	17,790	212,040
Accumulated depreciation	(10,124)	(165)	(2,873)	(550)	(860)	—	(14,572)
Net carrying amount	153,698	251	21,614	1,410	2,705	17,790	197,468

At 30 September 2011, certain of YST Heping's buildings and plants with a net carrying amount of approximately RMB123,795,000 were pledged to secure the acquisition of YST Heping from Feihe Dairy HLJ by Ruixinda.

At 31 December 2010 and 30 September 2011, all the YST Heping'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 YST Heping is eligible to use the buildings though the formal title of these buildings will not be granted to YST Heping.

13. PREPAID LAND LEASE PAYMENTS

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Carrying amount at beginning of the year/period	20,381	20,615
Additions	676	—
recognized during the year/period	(442)	(370)
Carrying amount at end of the year/period	20,615	20,245
Current portion included in prepayments and other receivables	(492)	(492)
Non-current portion	20,123	19,753

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

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

14. BIOLOGICAL ASSETS

A — Nature of Activities

Dairy cows owned by YST Heping are held to produce milk.

The quantity of dairy cows owned by YST Heping at 31 December 2010 and 30 September 2011 is shown below. YST Heping'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	5,970	6,355
Heifers and calves	4,379	5,643
Total dairy cows	10,349	11,998

	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	37,463	24,729	40,199

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

In general, heifers are inseminated 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 cost on the date of transfer. The sale of dairy cows is not one of YST Heping's principal activities and the proceeds are not included as revenue. The sales of dairy cows are determined based on the actual selling price.

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	227,347	309,258

	Heifers and calves	Milkable cows	Total
Balance as at 1 January 2010	148,808	55,389	204,197
Increase due to purchases	—	—	—
Increase due to raising (feeding costs and others)	48,220	—	48,220
Transfer in/(out)	(128,886)	128,886	—
Decrease due to sales	(14,124)	(8,120)	(22,244)
Gain/(loss) arising from changes in fair value less costs to sell	14,772	(17,598)	(2,826)
Balance as at 31 December 2010 and 1 January 2011	68,790	158,557	227,347
Increase due to purchases	7,574	—	7,574
Increase due to raising (feeding costs and others)	28,123	—	28,123
Transfer in/(out)	(26,806)	26,806	—
Decrease due to sales	(691)	(3,934)	(4,625)
Gain arising from changes in fair value less costs to sell	29,520	21,319	50,839
Balance as at 30 September 2011	106,510	202,748	309,258

YST Heping'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 YST Heping, who have 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 the historical breeding data of YST Heping 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 years, 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 the 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 was 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 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 RMB12,712,000 and RMB16,929,000, as at 31 December 2010 and the period ended 30 September 2011, respectively.

As at 31 December 2010 and 30 September 2011, YST Heping has pledged a certain number of dairy cows to banks to secure the general banking facilities granted to YST Heping (note 21).

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 analyzed 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	140,598	93,039	159,725
Gain/(loss) arising from changes in fair value less costs to sell of dairy cows	(2,826)	2,652	50,839
	137,772	95,691	210,564

C — Fair value hierarchy

YST Heping 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	—	—	227,347	227,347
As at 30 September 2011	—	—	309,258	309,258

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 YST Heping's profit 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%	(7,771)	(8,359)
Decrease in feeding costs of 10%	7,771	8,359

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 YST Heping's profit 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%	(14,149)	(16,397)
Decrease in milk price of 10%	14,149	16,397

15. INVENTORIES

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Feeds	30,057	8,806
Others	2,829	3,566
	32,886	12,372

16. TRADE RECEIVABLES

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Trade receivables	2,250	25,094
Impairment	—	—
	2,250	25,094

YST Heping's trading terms with its customers are mainly on credit. The credit period is generally one month. YST Heping 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 YST Heping's trade receivables relate to a few number of customers, there is no significant concentration of credit risk as disclosed in note 28 to YST Heping Pre-acquisition Financial Information. YST Heping 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	2,250	24,094
Over one month and within two months	—	—
Over two months	—	1,000
	2,250	25,094

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:

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Neither past due nor impaired	2,250	24,094
Less than 1 month past due	—	—
1 month to 3 months past due	—	1,000
	2,250	25,094

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 YST Heping. Based on past experience, the directors of YST Heping 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.

17. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Prepayments	110,214	98,879
Other receivables	36,755	5,950
	146,969	104,829
Non-current portion	(82,131)	(68,005)
Current portion	64,838	36,824

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.

18. CASH AND CASH EQUIVALENTS

At 31 December 2010 and 30 September 2011, all YST Heping's cash and bank balances denominated in RMB amounted to RMB5,087,000 and RMB3,868,000, 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, YST Heping 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.

19. 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	21,191	17,300
2 to 6 months	10,611	4,818
6 to 12 months	126	1,681
Over 12 months	102	431
	32,030	24,230

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

20. OTHER PAYABLES

	31 December 2010	30 September 2011
	RMB'000	RMB'000
Deferred income	2,129	2,785
Other payables	318,095	355,984
	320,224	358,769
Non-current portion	—	(100,701)
Current portion	320,224	258,068

Included in YST Heping's other payable and accruals are amount due to Feihe Dairy HLJ, YST Heping's holding company, of RMB236,057,000 (2010: RMB Nil), which are repayable on similar credit terms to those granted by the major suppliers of YST Heping.

21. INTEREST-BEARING BANK BORROWINGS

	As at					
	31 December 2010			30 September 2011		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current						
Secured bank loans	5.3–5.6	2011	35,000	—	—	—
Current portion of long term secured bank loans	5.3–5.6	2011	34,516	5.8–6.6	2012	17,258
			69,516			17,258
Non-current						
Secured bank loans	5.9–6.4	2013–2014	103,550	6.4–7.1	2013–2014	103,550
			173,066			120,808

Notes:

(a) The bank borrowings were secured by the pledge of certain biological assets amounting to RMB136,377,000 in 2010 and RMB158,918,000 for the period ended 30 September 2011.

(b) Directors of YST Heping, namely Ma Jinyan and Wang Shaogang, have guaranteed the bank borrowings up to RMB35,000,000 as at 31 December 2010 and RMB3,000,000 as at 30 September 2011.

22. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries were unsecured, interest-free and have no fixed terms of repayment.

23. PAID-IN CAPITAL

	RMB'000
Authorised, registered and fully paid:	
At 1 January 2010 and 30 September 2011	76,520

24. RESERVES

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

25. COMMITMENTS

YST Heping 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	—	597
Property and equipment	1,517	7,109
Total	1,517	7,706

26. FINANCIAL INSTRUMENTS BY CATEGORY

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

27. FAIR VALUE

The carrying amounts and fair values of YST Heping'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	82,131	68,005	82,131	68,005
Amounts due from fellow subsidiaries	4,500	33,822	4,500	33,822
Trade receivables	2,250	25,094	2,250	25,094
Financial assets included in prepayments, and other receivables	36,755	5,950	36,755	5,950
Prepaid land lease payments	492	492	492	492
Cash and cash equivalents	5,087	3,868	5,087	3,868
	131,215	137,231	131,215	137,231

	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	32,030	24,230	32,030	24,230
Financial liabilities included in other payables and accruals	318,095	355,984	318,095	355,984
Interest-bearing bank borrowings	173,066	120,808	173,066	120,808
	523,191	501,022	523,191	501,022

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

YST Heping's principal financial instruments comprise cash and cash equivalents and interest-bearing bank and other borrowings. YST Heping has various other financial assets and liabilities such as trade receivables, other receivables, trade payables, other payables and balance with a fellow subsidiary.

The main risks arising from YST Heping'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

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

Credit risk

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

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

At the end of each of the Relevant Periods, YST Heping had certain concentration of credit risk as 100% and 71% of YST Heping's trade receivables for the year ended 31 December 2010 and the period ended 30 September 2011 were due from YST Heping's largest customer. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines there are minimal concentrations of credit risk within YST Heping as the customers of YST Heping's trade receivables are recognized and creditworthy.

Further quantitative data in respect of YST Heping's exposure to credit risk arising from trade receivables are disclosed in note 16 to the YST Heping Pre-acquisition Financial Information.

Liquidity risk

YST Heping's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and projected cash flows from operation. The maturity principle of YST Heping's financial liabilities as at the Relevant Period, based on the contractual undiscounted payment 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				
Interest-bearing bank borrowings	78,952	35,983	78,589	193,524
Trade payables	31,928	102	—	32,030
Other payables	320,224	—	—	320,224
	431,104	36,085	78,589	545,778
As at 30 September 2011				
Interest-bearing bank borrowings	24,170	41,499	69,006	134,675
Trade payables	23,799	431	—	24,230
Other payables	258,068	100,701	—	358,769
	306,037	142,631	69,006	517,674

Capital management

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

YST Heping 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, YST Heping 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