Stock Code : 06863

2013
Interim Report

中國輝山乳業控股有限公司

Huishan China Huishan Dairy Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yang Kai *(Chief Executive Officer)*
Ms. Ge Kun
Mr. So Wing Hoi
Mr. Xu Guangyi
Mr. Kwok Hok Yin

Non-Executive Directors

Mr. Cheng Chi Heng
Mr. Li Kar Cheung

Independent Non-Executive Directors

Mr. Francis Siu Wai Keung
Mr. Song Kungang
Mr. Gu Ruixia
Mr. Tsui Kei Pang

SENIOR MANAGEMENT

Mr. Yin Dongli
Mr. Wang Jinpeng
Ms. Wang Xinyu
Mr. Chou, Michael *(Company Secretary)*

STOCK CODE

Hong Kong Stock Exchange 6863

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The board (the "Board") of directors (the "Directors") of the Company has the pleasure in submitting the interim report together with the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended September 30, 2013 ("interim financial statements").

FINANCIAL HIGHLIGHTS

Results

	Six months ended September 30,					
	2013			2012		
	Results before biological fair value adjustments RMB'000	**Biological fair value adjustments RMB'000**	**Total RMB'000**	Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
Turnover	**1,533,919**	**–**	**1,533,919**	1,039,384	–	1,039,384
Gross profit	**890,297**	**(641,733)**	**248,564**	545,027	(400,109)	144,918
Gross margin	**58.0%**	**–**	**16.2%**	52.4%	–	13.9%
Operating profit	**575,433**	**49,167**	**624,600**	405,881	121,851	527,732
Equity-settled share option expenses (Non-cash)	**(77,450)**	**–**	**(77,450)**	–	–	–
Initial public offering expenses	**(31,329)**	**–**	**(31,329)**	–	–	–
Profit for the period	**466,654**	**49,167**	**515,821**	405,881	121,851	527,732
Earnings per share (RMB)[(1)]			**0.04**			0.05

Financial Position

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Cash and cash equivalents	**6,478,288**	825,673
Total assets	**17,929,703**	10,510,815
Bank loans	**3,927,369**	3,011,305
Debt ratio[(2)]	**24.0%**	33.9%

- Turnover increased by 47.6% to RMB1,533.9 million for the six months ended September 30, 2013 ("the Interim Period") from RMB1,039.4 million as compared with the corresponding period in 2012
- Gross margin before biological fair value adjustments improved to 58.0% for the Interim Period from 52.4% for the corresponding period in 2012
- Operating profit before biological fair value adjustments[(3)] increased by 41.8% to RMB575.4 million from RMB405.9 million for the corresponding period in 2012

(1) *Please refer to Note 8(a) on page 44 for calculation of earnings per share.*

(2) *Debt ratio is calculated by dividing total borrowings by total capitalization, which is the sum of total borrowings and shareholder's equity.*

(3) *Operating profit before biological fair value adjustments represents profit for the period before biological fair value adjustments, share option expenses and IPO expenses. Biological fair value adjustments and equity-settled share option expenses are non-cash in nature and initial public offering expenses are non-recurring in nature.*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a leading and the most vertically integrated dairy company in China. Our business model covers the entire dairy value chain from growing and processing of alfalfa and supplementary feeds, processing of concentrated feeds, dairy farming and manufacturing and sales of dairy products under the "Huishan" Brand, a trusted brand with impeccable product safety records that stands for premium product quality.

During the Interim Period, our turnover reached RMB1,533.9 million, representing a growth of 47.6% from RMB1,039.4 million in the corresponding period of 2012. The growth was achieved primarily due to significant increase of sales volume and average selling price of our products resulting from growth of our herd size, product mix enhancement and market expansion.

During the Interim Period, we operated three business segments[1]: (i) dairy farming business, under which we produced and sold raw milk; (ii) liquid milk business, under which we produced and sold liquid milk products; and (iii) milk powder business, under which we produced and sold infant milk formula ("IMF") products and dairy ingredient products.

[1] *We discontinued our grain processing business on January 25, 2011 and our grain trading business on March 28, 2013.*

Dairy Farming

- Herd size

	At September 30, 2013 Head	At March 31, 2013 Head
Milkable cows	**57,040**	49,889
Heifers and Calves	**71,312**	62,962
	128,352	112,851

As at September 30, 2013, we operated the largest number of dairy farms in China with 54 standardized dairy farms herding 128,352 heads of dairy cows in Liaoning Province compared to 50 standardized dairy farms as of March 31, 2013 with a total herd size of 112,851.

- Milk yield

We produced an aggregate of 230,309 tonnes of raw milk during the Interim Period, representing an increase of 49.5% from 154,036 tonnes for the corresponding period in 2012. Such results are attributable to the increase in number of milkable cows and effective herd management.

We achieved an average milk yield per milkable cow per annum of 8.6 tonnes during the Interim Period, which was consistent with the milk yield achieved in the corresponding period in 2012, however, it was slightly lower than the average milk yield per milkable cow per annum achieved during the year ended March 31, 2013 due to the seasonality of milking as dairy cows typically have a higher milk yield in winter than in summer.

- Average selling price of raw milk

During the Interim Period, the widening supply and demand gap for raw milk in China and in particular the demand for premium raw milk, drove the base price of our raw milk to RMB4,800 per tonne in May 2013, and further to RMB5,000 per tonne in October 2013.

- Feeds Growing and Processing

During the Interim Period, we expanded our existing alfalfa plantation field from 120,000 mu to an aggregate area of approximately 140,000 mu, solidifying the position of the largest commercial alfalfa plantation field in China. We typically harvest alfalfa three times in a year. Two harvests were completed during the Interim Period yielding a production volume of 97,208 tonnes. The cost of production alfalfa during the Interim Period was US$89 per tonne, representing a slight increase from US$70 per tonne for the corresponding period in 2012 due to higher rent paid for the newly added 20,000 mu of alfalfa plantation field, however it was still substantially lower than the CIF (cost, insurance and freight) price of imported alfalfa observed during the Interim Period which was approximately US$400 per tonne.

In June 2013, an on-site conference of "Plan of Dairy Industry Revitalization and Alfalfa Development" (振興奶業苜蓿發展行動現場會) organized by Ministry of Agriculture of China (農業部) took place at one of our alfalfa plantation fields in Jinzhou, Liaoning province. Our large-scale alfalfa plantation and unique vertically-integrated dairy business model received highly favorable remarks from conference participants that included vice-minister of Ministry of Agriculture, Mr. Gao Hongbin (高鴻賓).

In August 2013, we participated in a competition held at China's Alfalfa Development Convention (中國苜蓿發展大會) organized by CAAA (China Animal Agriculture

Association, 中國畜牧業協會). Alfalfa produced by Huishan was awarded "Premium" rating in accordance with China's quality standards for alfalfa hay. Our alfalfa also obtained the highest score amongst all participants.

Also during the Interim Period, we planted supplementary feeds on farmland of an aggregate area of approximately 100,000 mu with fixed rents.

Approximately 130,000 tonnes of concentrated feeds was processed by our two concentrated feeds plants during the Interim Period, which satisfied substantially all of our internal demand for concentrated feeds.

Liquid Milk

- Enhancing Liquid Milk Product Mix

  During the Interim Period, we continued to offer a variety of liquid milk products in four categories: pasteurized milk, ultra-high temperature milk ("UHT milk"), yoghurt and milk beverages. We pursued a strategy of enhancing our product mix by developing differentiated products which leveraged on our industry-leading upstream resources. These products were well received by the market. For example, for UHT milk products, as we currently have the largest Jersey cow herd in China, we introduced Jersey Farm series ("杰茜牧場"), an exclusive series of ultra-premium UHT products using the raw milk from our Jersey cows with protein level at 3.6%, we also developed organic and low-fat Jersey UHT products to satisfy increasingly diversified consumers' tastes. For yoghurt products, we introduced a series of premium yoghurt products named "Sharing Global Flavors" ("全球甄享").

- Market Expansion

  According to Frost and Sullivan, we had the largest market share in liquid milk products in Northeastern China in 2012. During the Interim Period, we expanded into markets beyond Northeastern China. As at September 30, 2013, our distribution network comprised 330 distributors and 341 supermarkets covering three provinces in Northeastern China, parts of Shandong, Beijing, Tianjin and Hebei. We have also commenced distribution network set up in Henan, Hunan, Hubei, Sichuan and Chongqing.

Further to our expansion to markets beyond Northeastern China, we also solidified our leading position within our home markets during the Interim Period. We have grown our home delivery customer base to approximately 100,000 households, a growth of nearly 150% compare from customer base as at March 31, 2013 under a new initiative named "Freshness Delivery" (新鮮送).

As a result of product mix enhancement and market expansion, our sales volume and average selling price were increased and our gross margin was improved for our liquid milk products during the Interim Period when compared against the corresponding period in 2012. Our sales revenue reached RMB1,002.3 million for the Interim Period, representing an increase of 40.1% from RMB715.2 million for the corresponding period in 2012. Our gross margin improved to 60.9% for the Interim Period from 52.2% for the corresponding period in 2012.

Milk Powder — IMF and Dairy Ingredients

- Distribution Network

  We began our commercial production of milk powder products in January 2013. During the Interim Period, we focused on identifying key markets with the greatest growth potential for domestic IMF brands and on building distribution network in these key markets. We have expanded our distribution network immensely since the beginning of the Interim Period and we currently have 207 distributors, of which 132 are located outside Northeastern China covering Shandong, Hebei, Henan, Hubei, Hunan, Sichuan, Chongqing, Anhui and Jiangxi as compared with only 69 distributors in total as at March 31, 2013.

- Dairy Ingredients

  We are the only company in China that has received the official approval for production and sales of D90 whey powder, a key ingredient for IMF products. Currently the D90 whey powder has been used internally to produce our own IMF products. However, we have plans to sell D90 whey powder externally in the future.

During the Interim Period, we developed other dairy ingredients products in addition to D90 whey powder such as non-dairy creamer, whole-milk powder as well as IMF base powder to our industrial customers which include a China's leading IMF brand, a leading food and beverage brand from Taiwan as well as Netherland-based dairy giant Friesland Campina.

Brand Building

In order to enhance our brand image, we launched an innovative TV advertising campaign named Safe New Power in China's Dairy Industry (中國乳業安全新力量), the campaign features four spokesmen who are popular TV anchors, Mr. HU Qiaohua and Ms. ZHU Dan (華少和朱丹) from Mainland, Ms. CHEN Luyu from Hong Kong (陳魯豫) and Mr. Kevin Tsai from Taiwan (蔡康永) reporting on our unique "grass to glass" business model as breaking news in China's dairy industry. We have placed the advertisement on several TV channels and through other media platforms in Liaoning, Chongqing, Shandong, Henan as well as Guangdong provinces. These four spokesmen are contracted exclusively to Huishan amongst other China's dairy brands for two years.

We also became the sole title sponsor for Chongqing Satellite TV's new reality programme "Miracle Audition" ("奇迹夢工廠"). This programme features non-professional acting enthusiasts auditioning before a panel of popular actors, actresses and directors. Since its launch in August 2013, the show attracted candidates from all over China as well as overseas with its enrollment stations located in eight cities, Beijing, Shanghai, Guangzhou, Chongqing, Shenyang, Jinan, Hong Kong and Los Angeles. The programme is expected to run 17 episodes with its finale taking place in January 2014. The title sponsorship is a first step in our branding strategy to make the "Huishan" brand a household name all over China.

FINANCIAL OVERVIEW

Turnover

The following table sets out the breakdown of our consolidated turnover by our four operating segments for six months ended September 30, 2013 and 2012:

	Six months ended September 30,					
	2013			2012		
	External Sales RMB'000	**Internal Supplies RMB'000**	**Subtotal RMB'000**	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000
Dairy farming business	**424,143**	**644,848**	**1,068,991**	273,894	382,597	656,491
Liquid milk business	**1,002,268**	**–**	**1,002,268**	715,153	–	715,153
Milk powder business	**107,508**	**–**	**107,508**	–	–	–
Grain processing and trading	**–**	**–**	**–**	50,337	–	50,337
Consolidated turnover	**1,533,919**			1,039,384		

Our turnover increased by 47.6% from RMB1,039.4 million for the six months ended September 30, 2012 to RMB1,533.9 million for the six months ended September 30, 2013 primarily due to significant increase in our sales of raw milk and liquid milk products. We also began to generate sales from our milk powder products and dairy ingredients products and recorded a turnover of RMB107.5 million in the Interim Period.

- Dairy farming business

Turnover from our dairy farming business increased substantially primarily due to strong growth of our cow herd and increase in average selling price of our premium raw milk as a result of the shortage of premium raw milk.

The following table sets out the sales amount, sales volume and average selling price per tonne of our raw milk for the periods indicated:

	Six months ended September 30,					
	2013			2012		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
Raw Milk						
External Sales	**424,143**	**88,341**	**4,801**	273,894	62,893	4,355
Internal Supplies	**644,848**	**133,289**	**4,838**	382,597	85,772	4,461
Total	**1,068,991**	**221,630**	**4,823**	656,491	148,665	4,416

Turnover attributable to the internal use of raw milk increased substantially due to strong growth of our liquid milk business and commencement of our milk powder and dairy ingredients business.

- Liquid milk business

Turnover from our liquid milk business increased by 40.1% from RMB715.2 million for the six months ended September 30, 2012 to RMB1,002.3 million for the six months ended September 30, 2013, which accounted for 68.8% and 65.3% of our consolidated turnover for the respective periods.

The strong growth of our liquid milk business was a result of strong market demand for our liquid milk products and change in the product mix. The total volume of liquid milk sold increased by 30.3% from 106,544 tonnes for the six months ended September 30, 2012 to 138,776 tonnes for the six months ended September 30, 2013, primarily due to strong demand of our pasteurized milk and UHT milk products. The following table sets out the breakdown of sales amount, sales volume and average selling price per tonne of our liquid milk products for the periods indicated:

	Six months ended September 30,					
	2013			2012		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
Liquid Milk Products	**1,002,268**	**138,776**	**7,222**	715,153	106,544	6,712

- Milk powder business

  We began to sell our milk powder products and dairy ingredients in January 2013 and recorded a turnover of RMB107.5 million for the six months ended September 30, 2013.

  The following table sets out the breakdown of sales amount, sales volume and average selling price per tonne of our milk powder products for the periods indicated:

	Six months ended September 30,					
	2013			2012		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
Milk powder products	107,508	1,315	81,755	–	–	–

Gross profit and gross margin

The following table sets forth the breakdown of our gross profit by our four operating segments, as well as their respective gross margin, for the periods indicated:

	Six months ended September 30,			
	2013		2012	
	Gross Profit RMB'000	Gross Margin	Gross Profit RMB'000	Gross Margin
Dairy farming				
Before elimination	636,516	59.5%	404,360	61.6%
After elimination	240,676	56.7%	168,529	61.5%
Liquid milk business				
Before elimination	225,269	22.5%	137,665	19.2%
After elimination	610,816	60.9%	373,496	52.2%
Milk powder business				
Before elimination	28,512	26.5%	–	–
After elimination	38,805	36.1%	–	–
Grain Processing and trading	–	–	3,002	6.0%

- Dairy farming business

  Gross profit of our dairy farming business (before elimination of internal supplies of raw milk) increased by 57.4% from RMB404.4 million for the six months ended September 30, 2012 to RMB636.5 million for the six months ended September 30, 2013. Gross profit of our dairy farming business (after elimination of internal supplies of raw milk) increased by 42.8% from RMB168.5 million for the six months ended September 30, 2012 to RMB240.7 million for the six months ended September 30, 2013. The increase was primarily due to the substantial increase in the sales volume and the average selling price of our raw milk.

  Gross margin of our dairy farming business (before elimination of internal supplies of raw milk) remained at a high level at 59.5% for the six months ended September 30, 2013 compared to 61.6% for the six months ended September 30, 2012. The slight decrease was primarily due to the increase of breeding costs of dairy cows, such as purchase cost of supplementary feeds, concentrated feeds and alfalfa production cost which was a result of expansion of alfalfa plantation field on farm land with higher rental cost.

- Liquid milk business

  Gross profit of our liquid milk business (before elimination of internal supplies of raw milk) increased by 63.6% from RMB137.7 million for the six months ended September 30, 2012 to RMB225.3 million for the six months ended September 30, 2013. Gross profit of our liquid milk business (after elimination of internal supplies of raw milk) increased by 63.5% from RMB373.5 million for the six months ended September 30, 2012 to RMB610.8 million for the six months ended September 30, 2013. The increase was primarily due to the increase in sales volume and increase in average selling price of our liquid milk products, as a result of our product mix enhancement.

  Gross margin of our liquid milk business (before elimination of internal supplies of raw milk) increased from 19.2% for the six months ended September 30, 2012 to 22.5% for the six months ended September 30, 2013. The increase was primarily due to the increase in average selling price as a result of product mix enhancement.

- Milk powder business

  We began to sell our milk powder products and dairy ingredients in January 2013 and recorded gross profit of RMB28.5 million and gross margin at 26.5% for the six months ended September 30, 2013 before the elimination of internal supplies of raw milk.

Initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

Our net gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased by 32.4% from RMB557.0 million for the six months ended September 30, 2012 to RMB737.4 million for the six months ended September 30, 2013, primarily due to the substantial increase in production volume of our raw milk.

Changes in fair value less costs to sell of biological assets

We recorded losses arising from changes in fair value less costs to sell of biological assets, which amounted to RMB46.5 million and RMB35.0 million for the six months ended September 30, 2013 and 2012, respectively, primarily due to the higher number of milkable cows culled. We culled 8,744 and 4,376 heads for the six months ended September 30, 2013 and September 30, 2012 respectively.

Other net income

Other net income includes government grants and other income. Government grants are generally provided in relation to our agricultural activities. Government grants we recognised for the six months ended September 30, 2013 and 2012 amounted to RMB5.1 million and RMB3.4 million, respectively.

Operating expenses

	Six months ended September 30,	
	2013	2012
	RMB'000	RMB'000
Distribution costs	**115,682**	37,101
Administrative expenses		
— Equity-settled share option expenses (Non-cash)	**77,450**	—
— Initial public offering expenses	**31,329**	—
— Others	**79,884**	30,918
Total operating expenses	**304,345**	68,019

Our operating expenses increased from RMB68.0 million for the six months ended September 30, 2012 to RMB304.3 million for the six months ended September 30, 2013, primarily due to the substantial increase in distribution, marketing expenses, which were included in the distribution costs and administrative expenses, as we continued to grow the sales of our raw milk and liquid milk products and began the sales of our milk powder products and dairy ingredients. On September 27, 2013, 680,085,000 share options were granted to our employees under employee share option scheme, the fair value associated with such options was estimated to be RMB77.5 million according to an independent valuation exercise conducted by the independent valuer CBRE Limited. The fair value of the equity-settled share option expenses and the initial public offering expenses of RMB31.3 million were recorded in administrative expenses during the Interim Period.

Net finance costs

Our net finance costs increased by 71.8% from RMB62.4 million for the six months ended September 30, 2012 to RMB107.2 million for the six months ended September 30, 2013 as a result of an increase in our interest expenses on bank loans, which was the result of higher outstanding balance of our bank loans during the six months ended September 30, 2013 primarily as result of our capital expenditure in the Interim Period.

Current Ratio and Gearing Ratio

As at September 30, 2013, the Group has current ratio (being current assets over current liabilities) of approximately 2.83 compared to that of 0.93 as at March 31, 2013. The gearing ratio was −23.0% as at September 30, 2013 compared to that of 34.6% as at March 31, 2013. The gearing ratio was measured by net debt (aggregated bank loans and other borrowings net of cash and cash equivalents, pledged deposits and restricted cash) over the equity attributable to owners of the Company.

Liquidity and capital resources

During the Interim Period, we financed our operations primarily through cash from our operations, investments from equity investors, and proceeds from bank loans. On September 27, 2013, proceeds of approximately RMB5,983.3 million were received upon the issuance of shares by initial public offering. As of September 30, 2013, we had RMB6,478.3 million in cash and cash equivalents, substantially all of which were denominated in Renminbi, HK dollars and US dollars. Our cash and cash equivalents primarily consist of cash on hand and bank deposits.

The following table sets forth a summary of our cash flows for the periods indicated:

	Six months ended September 30,	
	2013	2012
	RMB'000	RMB'000
Net cash generated from operating activities	**604,993**	247,059
Net cash used in investing activities	**(1,548,587)**	(686,976)
Net cash generated from financing activities	**6,610,036**	117,378
Net increase/(decrease) in cash and cash equivalents	**5,666,442**	(322,539)
Cash and cash equivalents at the beginning of the year	**825,673**	512,865
Effect of foreign exchange rate changes	**(13,827)**	4,823
Cash and cash equivalents at the end of the year	**6,478,288**	195,149

Capital Expenditures

We had capital expenditures of RMB1,114.1 million and RMB439.7 million for the six months ended September 30, 2013 and 2012, respectively. Our capital expenditures were used primarily to purchase fixed and intangible assets and heifers.

Working capital

As of September 30, 2013, we had net current assets of RMB5,336.9 million (March 31, 2013: net current liabilities of RMB151.0 million).

Indebtedness

As of September 30, 2013, our outstanding short-term bank loans, including the current portion of long-term loans and borrowings, amounted to RMB1,579.2 million. The interest rate on our short-term bank loans ranged from 1.56% to 8.53%. As of September 30, 2013, our outstanding long-term bank loans (net of amount due within one year) amounted to RMB2,348.2 million. The interest rate on our long-term bank loans ranged from 3.76% to 9.23%. Of all the bank loans, approximately RMB1,646 million were at fixed interest rates.

As at September 30, 2013, based on the scheduled repayments set out in the relevant loan agreements with banks, the maturity profile of the Group's total bank loans spread over eight years with RMB1,579.2 million repayable within one

year, RMB549.0 million in the second year, RMB1,638.5 million in the third to fifth year, and RMB160.7 million in the sixth to eighth year.

The Group's management believes that the existing financial resources will be sufficient to meet existing operations as well as existing and future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable terms. There is no material effect of seasonality on the Group's borrowing requirements.

For the six months ended September 30, 2013, the Group was not subject to any significant exposures to interest rate risk and hence, no financial instrument for hedging was employed.

The aggregate net book value of our land use rights and property, plant and equipment that were used to secure our long-term bank loans was RMB489.2 million as of September 30, 2013. In addition, some of our long-term bank loans were guaranteed by our related parties and/or other third parties. As of September 30, 2013, we have unused banking facilities of RMB1,898.9 million.

Contingent liabilities

As of September 30, 2013, we did not have significant contingent liabilities.

HUMAN RESOURCES

We had 8,874 employees in Mainland China and Hong Kong as at September 30, 2013. Total staff cost for the six months ended September 30, 2013, excluding Directors' fees, was approximately RMB152.30 million (the six months ended September 30, 2012: RMB76.89 million).

The Company's remuneration policy is designed to attract, retain and motivate talented individuals, to ensure the capability of the Company's workforce to carry out the business strategy of the Company and to maximize shareholder value. The Company will regularly review its remuneration policy and the benefits to its employees with reference to market practice and the performance of individual employees.

In order to improve skills of our workforce and to promote long-term career development for our employees, we launched a training system named "Huishan Online Academy" (輝山網絡學院) to provide professional trainings online.

In order to meet our ongoing managerial talent requirements, we partnered up with two Liaoning-based and one Netherland-based educational institutions in establishing a Huishan vocational education program. This program is specifically designed to include dairy farming courses. Graduates from this program are considered for positions within Huishan with a priority.

USE OF PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on September 27, 2013. The gross proceeds from global offering were approximately HK$7,544.6 million, which had not been utilised as of September 30, 2013. The Company currently does not have any intention to change its plan for the use of proceeds as stated in the prospectus of the Company dated September 13, 2013.

OUTLOOK

Consistent with our strategy of further strengthening our upstream resources, we are in the process of rapidly expanding our feeding materials plantation base in order to support our growth in the downstream business. So far, we are in the advance stage of securing another 200,000 mu of farmland in addition to our existing plantation base of approximately 240,000 mu.

In October 2013, our raw milk base price further increased to RMB5,000 per tonne. As raw milk's demand and supply gap widened further, particularly for premium raw milk, a phenomenon that we expect to continue into the foreseeable future as evidenced by our raw milk sales contracts executed in November 2013, in which our raw milk base prices for certain industrial customers reached RMB5,500 per tonne and RMB6,000 per tonne. Hence we have executed contracts to import over 16,000 heifers in addition to 9,754 heifers imported during the Interim Period. In the year ahead, we will increase the number of heifers to be imported from 25,000 heads in response to strong market demand as a result of insufficient supply. We currently have 12 dairy farms under construction and 54 dairy farms in operation.

We signed strategic cooperation agreements with Liaoning Rural Credit Cooperatives in July 2013, and with Bank of China and China Development Bank Liaoning Branch in November 2013. Under these agreements, we are given financing support with an aggregate amount of over RMB30 billion for land acquisition and leasing, importing dairy cows, constructing cow farms and processing facilities as well as trade and working capital. Such financial supports demonstrated full acknowledgement of our vertically-integrated business model and strengthened our financial ability for future developments.

In November 2013, China's Central Government published its "Decision on Major Issues Concerning Comprehensively Deepening Reforms" (《中共中央關於全面深化改革若干重大問題的決定》), in which existing restrictions on the "One Child" policy were further relaxed. Such decision is believed to have the effect of driving up number of new-born babies in China each year, hence creating market space for products for infants and toddlers such as IMF products. The effects are believed to be particularly strong in tier two and tier three cities, where we have an advantage with market penetration as a domestic IMF brand as evidenced by our recent market penetration into the pharmaceutical channel. We became the first IMF brand in Liaoning to distribute IMF products through pharmaceutical channels, a move encouraged by the Chinese government.

To further improve our product safety and quality, we obtained the Good Manufacturing Practice ("GMP") certification for our milk powder facility in Faku county in Liaoning province. We are in the process of making all our processing facilities GMP certified. Encouraged by the Ministry of Industry and Information Technology (工信部) of China, we have also embarked on a key initiative to build an industry leading dairy products traceability system.

In October 2013, we started to gradually adjust the selling prices of our liquid milk products upwards by lifting the prices of certain products and further enhancing the product mix in response to the strong market demand of our liquid milk products. We will continue to expand our liquid milk and milk powder businesses by further expanding our market presence across China and by deepening market penetration within existing markets. We will also launch further advertising campaigns to promote both our corporate image and our products. As China's most vertically-integrated dairy company with complete control over quality raw milk, Huishan is uniquely best positioned to capture unprecedented market opportunities in China's dairy industry.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended September 30, 2013 (the six months ended September 30, 2012: RMBNil).

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

As at September 30, 2013, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Long positions ("L") and Short positions ("S") in the shares of the Company/associated corporation:

(i) Interest in our Company

Name of Director	Nature of Interest	Numbers of Shares/ Underlying Shares	Approximate percentage of shareholding
Mr. Yang Kai [(1)(2)]	Interest in controlled corporation	7,386,138,388 (L)	51.26%
Ms. Ge Kun [(3)]	Interest in controlled corporation	7,386,138,388 (L)	51.26%
Mr. So Wing Hoi [(4)]	Beneficial owner	101,250,000 (L)	0.70%
Mr. Xu Guangyi [(4)]	Beneficial owner	101,250,000 (L)	0.70%
Mr. Kwok Hok Yin [(4)]	Beneficial owner	33,750,000 (L)	0.23%

(ii) Interest in associated corporation

Name of Director	Name of associated corporation	Number of shares	Percentage of shareholding of that associated corporation's issued share capital
Mr. Yang Kai [5]	Champ Harvest Limited ("Champ Harvest")	10,000 (L)	100%
Ms Ge Kun [5]	Champ Harvest	10,000 (L)	100%

Notes:

(1) As at September 30, 2013, Champ Harvest directly held 6,639,011,388 Shares. Mr. Yang Kai directly held 70% of the total issued share capital of Champ Harvest, and indirectly held 20% of the total issued share capital of Champ Harvest through King Pavilion Limited, a company wholly-owned by Mr. Yang Kai. Accordingly, Mr. Yang Kai is deemed to have interest in the 6,639,011,388 Shares held by Champ Harvest which is a substantial shareholder of our Company.

(2) As at September 30, 2013, Talent Pool directly held 747,127,000 Shares. Mr. Yang Kai indirectly held the entire issued share capital of Talent Pool through Mighty Global Limited, a company wholly-owned by Mr. Yang Kai. Accordingly, Mr. Yang Kai is deemed to have interest in the 747,127,000 Shares held by Talent Pool and the 6,639,011,388 Shares held by Champ Harvest.

(3) As at September 30, 2013, Ms. Ge Kun indirectly held 10% of the total issued share capital of Champ Harvest through Gain Excellence Limited, a company wholly-owned by Ms. Ge Kun. Ms. Ge Kun held the economic interest in such shares in Champ Harvest on Mr. Yang Kai's behalf. Ms. Ge Kun, being the concert party of Mr. Yang Kai, was deemed to have interest in 7,386,138,388 Shares which Mr. Yang Kai is deemed to have interest in.

(4) Mr. So Wing Hoi, Mr. Xu Guangyi and Mr. Kwok Hok Yin were granted an aggregate of 101,250,000, 101,250,000 and 33,750,000 Share Options respectively, on September 27, 2013. Upon exercise of the Share Options, Mr. So Wing Hoi, Mr. Xu Guangyi and Mr. Kwok Hok Yin will acquire an aggregate of 101,250,000, 101,250,000 and 33,750,000 Shares respectively.

(5) As at September 30, 2013, Mr. Yang Kai directly held 7,000 Shares in Champ Harvest, being 70% of its total issued share capital, and indirectly held 2,000 shares in Champ Harvest, being 20% of its total issued share capital. Ms. Ge Kun indirectly held 1,000 shares in Champ Harvest, being 10% of its total issued share capital and held the economic interest in such shares on behalf of Mr. Yang Kai. Ms. Ge Kun and Mr. Yang Kai, being the concert parties, are deemed to have interest in 10,000 shares in Champ Harvest.

Saved as disclosed above, as at September 30, 2013, none of the Directors and the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at September 30, 2013, the interests and short positions of substantial shareholders (other than the Directors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO were as follows:

Long positions ("L") and Short positions ("S") in the Shares

Name of substantial shareholder	Nature of Interest	Number of Shares	Approximate percentage of shareholding
Champ Harvest [1]	Beneficial owner	6,639,011,388 (L)	46.08%
Mighty Global Limited ("Mighty Global") [2]	Interest in controlled corporation	747,127,000 (L)	5.18%
Talent Pool Holding Limited ("Talent Pool") [2]	Beneficial owner	747,127,000 (L)	5.18%
HSBC Holdings plc [3]	Interest in controlled corporations	1,591,290,000 (L)	11.04%
	Jointly held interests with other corporations	568,141,000 (S)	3.94%
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	1,591,290,000 (L)	11.04%
		568,141,000 (S)	3.94%
Dato' Cheng Yu Tung [4]	Interest in controlled corporations	1,535,195,409 (L)	10.65%
		241,273,000 (S)	1.67%
Well Ease Limited ("Well Ease")[4]	Beneficial owner	1,535,195,409 (L)	10.65%
		241,273,000 (S)	1.67%

Notes:

(1) As at September 30, 2013, Champ Harvest directly held 6,639,011,388 Shares. Mr. Yang Kai directly held 70% of the total issued share capital of Champ Harvest and indirectly held 20% of the total issued share capital of Champ Harvest through King Pavilion Limited, a company wholly-owned by Mr. Yang Kai. Ms. Ge Kun indirectly held 1,000 shares in Champ Harvest, being 10% of its total issued share capital and held the economic interest in such shares on behalf of Mr. Yang Kai. Ms. Ge Kun and Mr. Yang Kai, being the concert parties, are deemed to have interest in 10,000 shares in Champ Harvest.

(2) As at September 30, 2013, Talent Pool directly held 747,127,000 Shares. Mr. Yang Kai indirectly held the entire issued share capital of Talent Pool through Mighty Global Limited, a company wholly-owned by Mr. Yang Kai.

(3) As at September 30, 2013, according to the information disclosed to the Company under Division 2 and Division 3 of Part XV of the SFO, 1,591,290,000 Shares were held directly by The Hongkong and Shanghai Banking Corporation Limited which is indirectly held as to 100% by HSBC Holdings plc through various wholly-owned corporations of HSBC Holdings plc. An aggregate of 568,141,000 Shares were held jointly by HSBC Holdings plc with various other corporations/funds.

(4) As at September 30, 2013, according to the information disclosed to the Company under Division 2 and Division 3 of Part XV of the SFO, Well Ease is 80% owned by Chow Tai Fook Nominee Limited which is wholly-owned by Dato' Dr. Cheng Yu Tung, and 20% owned by Crown Castle Investment Holdings Limited which is held under trust for the benefit of Ms. Law Mei Ling Katherine, the daughter of Mr. Law Siu Wah Eddie.

Save as disclosed above, as at 30 September 2013, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

GRANT OF SHARE OPTIONS

A total of 680,085,000 share options (the "Share Options") exercisable into the same number of ordinary shares of HK$0.1 each (the "Share(s)") in the share capital of the Company were granted to certain directors (as to 236,250,000 Share Options) and qualified employees (as to 443,835,000 Share Options) of the Company (the "Grantees"), subject to acceptances of the Grantees, under the share option scheme conditionally adopted by the Company on September 5, 2013. Summary of the Share Option(s) granted as follows:

Date of grant:	September 27, 2013
Total number Share Options granted:	680,085,000 Share Options (each Share Option shall entitle the holder of the Share Option to subscribe for one Share)
Exercise price of the Share Option granted:	HK$ 2.67 per Share, representing the higher of (i) HK$2.59, being the closing price of per Share as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited on the date of grant; (ii) HK$2.67, being the issued price of the Shares; and (iii) HK$0.1, being the nominal value of the Shares
Validity period of the Share Options:	Six years from the date of grant (i.e. September 27, 2013)
Vesting schedules:	i. 30% of the Share Option was vested from the date of grant ii. 20% of the Share Option will be vested upon the first anniversary of the date of grant iii. 15% of the Share Option will be vested upon the second anniversary of the date of grant iv. 15% of the Share Option will be vested upon the third anniversary of the date of grant v. 20% of the Share Option will be vested upon the forth anniversary of the date of grant

Name or Category of Participant	Number of share options: As at March 31, 2013	Exercised during the period	Lapsed during the period	As at September 30, 2013	Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share option HK$
So Wing Hoi	Nil	Nil	Nil	101,250,000	September 27, 2013	September 27, 2013 to September 27, 2019	2.67
Xu Guangyi	Nil	Nil	Nil	101,250,000	September 27, 2013	September 27, 2013 to September 27, 2019	2.67
Kwok Hok Yin	Nil	Nil	Nil	33,750,000	September 27, 2013	September 27, 2013 to September 27, 2019	2.67
Other Employees	Nil	Nil	Nil	443,835,000	September 27, 2013	September 27, 2013 to September 27, 2019	2.67

No participant of the Scheme was granted options in excess of the individual limit during the six months ended September 30, 2013. Save as disclosed above, no option was granted, exercised, cancelled or lapsed during the six months ended September 30, 2013.

Particulars of the Scheme are set out in Note 18 to the Unaudited Interim Financial Report.

Pledge of Assets

As at September 30, 2013, the aggregate net book value of the secured land use rights and property, plant of the Company was RMB489.17 million (March 31, 2013: RMB311.34 million). Details are set out in the respective notes to the Unaudited Interim Financial Report.

Capital Commitments

Details of capital commitments are set out in Note 20 to the Unaudited Interim Financial Report.

Contingent Liabilities

As of September 30, 2013, we did not have significant contingent liabilities.

Foreign currency risk

The Group's businesses are principally located in the Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment and dairy cows. As at September 30, 2013, substantially all of the Group's assets and liabilities were denominated in RMB except the cash and cash equivalents balances of approximately RMB651.5 million (March 31, 2013: RMB434.7 million) and RMB5,361.4 million (March 31, 2013: RMB0.3 million) which were denominated in US dollars and HK dollars respectively, the interest bearing bank loans of approximately RMB505.8 million (March 31, 2013: RMB534.4 million) which were denominated in US dollars. The Company mainly operates in the PRC. Save as disclosed above, the Company does not have any other material direct exposure to foreign exchange fluctuations. Substantially all of our revenue, cost of goods sold and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. The Company currently does not have a foreign currency hedging policy. However, the management monitors the foreign exchange exposures and will consider hedging the significant foreign currency exposure should the need arise.

For the six months ended September 30, 2013, the Group was not subject to any significant exposures to foreign exchange rate risk and hence, no financial instrument for hedging was employed.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules. Save as set out below, the Company has throughout the six months ended September 30, 2013 complied with the code provisions set out in the CG Code. Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yang Kai is the chairman of the Board and the Chief Executive Officer and he is principally responsible for the overall strategic planning and business development of the Group. The Board considers such structure beneficial to the Group as the Board believes that Mr. Yang Kai, who has extensive experience in the industry, can provide the Company with strong and consistent leadership and vision and also allows for effective and efficient planning and implementation of business decisions and strategies. He can also ensure timeliness of information flow between the Board and management. In addition, the Directors are of the view that the balanced composition of executive and non-executive Directors (including independent non-executive Directors) on the Board and the existence of various Committees of the Board (comprising all or a majority of independent Directors) in overseeing different aspects of the Company's affairs are adequate safeguards to ensure a balance of power and authority.

BOARD OF DIRECTORS

As at the date of this interim report, the board of directors of the Company comprises Yang Kai, Ge Kun, So Wing Hoi, Xu Guangyi and Kwok Hok Yin, as executive Directors; Cheng Chi Heng and Li Kar Cheung, as non-executive Directors; Francis Siu Wai Keung, Song Kungang, Gu Ruixia and Tsui Kei Pang, as independent non-executive Directors.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended September 30, 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended September 30, 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising three independent Non-executive Directors, namely Mr. Francis Siu Wai Keung (chairman), Mr. Song Kungang and Mr. Tsui Kei Pang, has reviewed the accounting principles and practices adopted by the Group and such matters as internal controls and financial reporting with the management of the Company, including the review of the interim results for the six months ended September 30, 2013.

INVESTOR RELATIONS AND COMMUNICATIONS

The Company adopts a proactive policy in promoting investor relations and communications. Regular meetings are held with institutional investors and financial analysts to ensure two-way communications on the Company's performance and development.

On behalf of the Board
China Huishan Dairy Holdings Company Limited
Yang Kai
Chairman and Chief Executive Officer

Shengyang, the PRC
November 27, 2013

INDEPENDENT REVIEW REPORT

Review report to the board of directors of
China Huishan Dairy Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 25 to 56 which comprises the consolidated statement of financial position of China Huishan Dairy Holdings Company Limited (the "Company") as at September 30, 2013 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at September 30, 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

November 27, 2013

CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2013 — unaudited
(Expressed in Renminbi ("RMB"))

	Note	**Six months ended September 30, 2013** Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000	Six months ended September 30, 2012 Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
Turnover	3	1,533,919	–	1,533,919	1,039,384	–	1,039,384
Cost of sales	3	(643,622)	(641,733)	(1,285,355)	(494,357)	(400,109)	(894,466)
Gross profit		890,297	(641,733)	248,564	545,027	(400,109)	144,918
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		–	737,427	737,427	–	556,971	556,971
Loss arising from changes in fair value less costs to sell of biological assets		–	(46,527)	(46,527)	–	(35,011)	(35,011)
Other net income	4	3,585	–	3,585	11,706	–	11,706
Distribution costs		(115,682)	–	(115,682)	(37,101)	–	(37,101)
Administrative expenses (including equity-settled share option expenses of RMB77,450,000 (Note 18(c)(ii)) and initial public offering expenses of RMB31,329,000 for the six months ended September 30, 2013, nil for the six months ended September 30, 2012)		(188,663)	–	(188,663)	(30,918)	–	(30,918)
Profit from operations		589,537	49,167	638,704	488,714	121,851	610,565
Net finance costs	5(a)	(107,187)	–	(107,187)	(62,383)	–	(62,383)
Profit before taxation		482,350	49,167	531,517	426,331	121,851	548,182
Income tax	6	(15,696)	–	(15,696)	(20,450)	–	(20,450)
Profit for the period		466,654	49,167	515,821	405,881	121,851	527,732
Attributable to:							
Equity shareholders of the Company				515,821			527,732
Non-controlling interests				–			–
Profit for the period				515,821			527,732
Earnings per share							
— Basic and diluted (RMB)	8			0.04			0.05

The notes on pages 32 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended September 30, 2013 — unaudited
(Expressed in RMB)

		Six months ended September 30,	
	Note	**2013**	2012
		RMB'000	RMB'000
Profit for the period		**515,821**	527,732
Other comprehensive income for the period			
Items that will not be reclassified to income statement:			
— Exchange differences on translation into presentation currency	*7*	**(4,036)**	(16,818)
Total comprehensive income for the period		**511,785**	510,914
Attributable to:			
Equity shareholders of the Company		**511,785**	510,914
Non-controlling interests		**–**	–
Total comprehensive income for the period		**511,785**	510,914

The notes on pages 32 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2013 — unaudited
(Expressed in RMB)

	Note	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Non-current assets			
Property, plant and equipment	9	**3,910,926**	3,636,753
Goodwill		**931,985**	931,985
Lease prepayments		**926,419**	521,309
Biological assets	10	**3,856,544**	3,241,872
Deferred tax assets		**51,958**	37,784
		9,677,832	8,369,703
Current assets			
Inventories		**568,981**	446,618
Trade receivables	11	**192,858**	172,583
Deposits, prepayments and other receivables	12	**1,011,744**	696,238
Cash and cash equivalents	13	**6,478,288**	825,673
		8,251,871	2,141,112
Current liabilities			
Bank loans	16(a)	**1,579,177**	908,534
Trade and bills payables	14	**779,288**	910,465
Receipts in advance		**38,715**	13,685
Accrued expenses and other payables	15	**504,107**	434,558
Amounts due to the controlling shareholder and his affiliates		**–**	14,702
Income tax payable		**13,715**	10,147
		2,915,002	2,292,091
Net current assets/(liabilities)		**5,336,869**	(150,979)
Total assets less current liabilities		**15,014,701**	8,218,724

The notes on pages 32 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At September 30, 2013 — unaudited
(Expressed in RMB)

	Note	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Non-current liabilities			
Bank loans	16(b)	**2,348,192**	2,102,771
Derivative financial liability	17	**–**	16
Deferred income		**228,983**	232,993
		2,577,175	2,335,780
NET ASSETS		**12,437,526**	5,882,944
CAPITAL AND RESERVES			
Share capital	18	**1,142,619**	74
Reserves	18	**11,294,907**	5,882,870
Total equity attributable to equity shareholders of the Company		**12,437,526**	5,882,944
Non-controlling interests		**–**	–
TOTAL EQUITY		**12,437,526**	5,882,944

The notes on pages 32 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2013 — unaudited
(Expressed in RMB)

	Equity attributable to equity shareholders of the Company								
	Share capital RMB'000	**Share premium** RMB'000	**Other reserves** RMB'000	**PRC statutory reserves** RMB'000	**Exchange reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
At April 1, 2012	65	–	110,694	20,885	62,475	688,305	882,424	–	882,424
Changes in equity for the six months ended September 30, 2012:									
Profit for the period	–	–	–	–	–	527,732	527,732	–	527,732
Other comprehensive income *(Note 7)*	–	–	–	–	(16,818)	–	(16,818)	–	(16,818)
Total comprehensive income	–	–	–	–	(16,818)	527,732	510,914	–	510,914
Acquisition of subsidiaries not under common control *(Note 18(b)(i))*	9	1,190,214	–	–	–	–	1,190,223	–	1,190,223
At September 30, 2012 and October 1, 2012	74	1,190,214	110,694	20,885	45,657	1,216,037	2,583,561	–	2,583,561
Changes in equity for the six months ended March 31, 2013:									
Profit for the period	–	–	–	–	–	417,638	417,638	–	417,638
Other comprehensive income *(Note 7)*	–	–	–	–	16,330	–	16,330	–	16,330
Total comprehensive income	–	–	–	–	16,330	417,638	433,968	–	433,968
Appropriation to reserves	–	–	–	42,488	–	(42,488)	–	–	–
Contributions by owners of the Company *(Note 18(b)(ii))*	–	907,446	–	–	–	–	907,446	–	907,446
Capitalisation of the advances from an affiliate of the controlling shareholder *(Note 18(b)(iii))*	–	1,994,167	–	–	–	–	1,994,167	–	1,994,167
Effect on equity arising from reorganisation *(Note 18(c)(i))*	–	–	(33,941)	–	–	(2,257)	(36,198)	–	(36,198)
Transactions with equity holders of the Group	–	2,901,613	(33,941)	42,488	–	(44,745)	2,865,415	–	2,865,415
At March 31, 2013	74	4,091,827	76,753	63,373	61,987	1,588,930	5,882,944	–	5,882,944

The notes on pages 32 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended September 30, 2013 — unaudited
(Expressed in RMB)

	Equity attributable to equity shareholders of the Company								
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At April 1, 2013	74	4,091,827	76,753	63,373	61,987	1,588,930	5,882,944	–	5,882,944
Changes in equity for the six months ended September 30, 2013:									
Profit for the period	–	–	–	–	–	515,821	515,821	–	515,821
Other comprehensive income *(Note 7)*	–	–	–	–	(4,036)	–	(4,036)	–	(4,036)
Total comprehensive income	–	–	–	–	(4,036)	515,821	511,785	–	511,785
Capitalisation issue *(Note 18(a)(i))*	911,486	(911,486)	–	–	–	–	–	–	–
Issuance of shares under initial public offering *(Note 18(a)(ii))*	231,059	5,938,216	–	–	–	–	6,169,275	–	6,169,275
Share issuance expenses *(Note 18(a)(ii))*	–	(203,928)	–	–	–	–	(203,928)	–	(203,928)
Equity-settled share-based transactions (share option) *(Note 18(c)(ii))*	–	–	77,450	–	–	–	77,450	–	77,450
At September 30, 2013	1,142,619	8,914,629	154,203	63,373	57,951	2,104,751	12,437,526	–	12,437,526

The notes on pages 32 to 56 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2013 — unaudited
(Expressed in RMB)

	Six months ended September 30,	
	2013	2012
	RMB'000	RMB'000
Cash generated from operations	**633,112**	264,895
Income tax paid	**(28,119)**	(17,836)
Net cash generated from operating activities	**604,993**	247,059
Net cash used in investing activities	**(1,548,587)**	(686,976)
Net cash generated from financing activities	**6,610,036**	117,378
Net increase/(decrease) in cash and cash equivalents	**5,666,442**	(322,539)
Cash and cash equivalents at the beginning of the period	**825,673**	512,865
Effect of foreign exchange rate changes	**(13,827)**	4,823
Cash and cash equivalents at the end of the period	**6,478,288**	195,149

The notes on pages 32 to 56 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB"). It was authorised for issue on November 27, 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the Accountants' Report included as Appendix I to the prospectus of China Huishan Dairy Holdings Company Limited ("the Company") dated September 13, 2013 in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending March 31, 2014. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively "the Group") since the period end of the above financial information. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 24.

The financial information relating to the financial year ended March 31, 2013 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from the Accountants' Report included as Appendix I to the prospectus of the Company dated September 13, 2013 in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- *Annual Improvements to IFRSs 2009–2011 Cycle*
- Amendments to IFRS 7 — *Disclosures — Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to the income statement in the future if certain conditions are met separately from those that would never be reclassified to the income statement. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements*, relating to the preparation of consolidated financial statements and SIC-12, *Consolidation — Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at April 1, 2013.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial report. The Group has provided those disclosures in Note 19. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to IFRSs 2009–2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (the "CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group has continued to disclose segment assets and segment liabilities in Note 3.

Amendments to IFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation*, and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

3 SEGMENT REPORTING

The Group manages its business by lines of products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments, which are Dairy Farming, Liquid Milk Products Production, Milk Powders Production, and Grain Processing and Trading segment. Each reportable segment is a separate business unit which offers different products, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

- Dairy Farming — planting, growing and harvesting alfalfa grass and other crops, processing feeds, and breeding dairy cows to produce and sell raw milk.
- Liquid Milk Products Production — producing and selling pasteurized milk, UHT milk, yoghurt and milk beverages.
- Milk Powders Production — producing and selling infant milk formula products.
- Grain Processing and Trading — processing and selling grain products.

3 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all assets with the exception of goodwill, deferred tax assets and other head office or corporate assets. Segment liabilities include all current and non-current liabilities with the exception of derivative financial liability and other head office or corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reportable segment cost of sales is "cost of sales before biological fair value adjustments", where "gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest" is excluded.

The measure used for reportable segment gross profit is "gross profit before biological fair value adjustments", which is calculated by subtracting the above "cost of sales before biological fair value adjustments" from revenue, where "gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest" is excluded.

The measure used for reportable segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including interest income and interest expenses, and "depreciation and amortisation" is regarded as including the depreciation and amortisation of and the impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' remuneration and other head office or corporate administration costs, and the gains and losses arising from the changes in fair value (including the changes arising from biological assets, agricultural produce and derivative financial liability) as management believes that such adjusted information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition to receiving segment information concerning the above items, management is provided with segment information concerning interest income, interest expenses, depreciation and amortisation expenses and changes in carrying amounts of non-current segment assets related to each segment and capital expenditure used by each segment in their operations. There are transfers of the raw milk produced by Dairy Farming segment to Liquid Milk Products Production and Milk Powders Production segments. The pricing is determined on an arm's length basis.

3 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended September 30, 2013 and 2012 is set out below.

	Six months ended September 30, 2013				
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powders Production RMB'000	Grain Processing and Trading RMB'000 *(Note (i))*	Total RMB'000
Revenue from external customers	424,143	1,002,268	107,508	–	1,533,919
Inter-segment revenue	644,848	–	–	–	644,848
Reportable segment revenue	1,068,991	1,002,268	107,508	–	2,178,767
Cost of sales related to revenue from external customers	183,467	776,999	78,996	–	1,039,462
Inter-segment cost of sales	249,008	–	–	–	249,008
Reportable segment cost of sales (cost of sales before biological fair value adjustments)	432,475	776,999	78,996	–	1,288,470
Reportable segment gross profit (gross profit before biological fair value adjustments)	636,516	225,269	28,512	–	890,297
Reportable segment profit/(loss) (adjusted EBITDA)	640,166	137,489	(12,277)	–	765,378
Interest income	520	443	366	–	1,329
Interest expenses	64,626	11,681	20,341	–	96,648
Depreciation and amortisation	37,459	4,512	18,830	–	60,801

Note:

(i) The Grain Processing and Trading business was previously conducted by one of the Group's entities incorporated in the People's Republic of China ("PRC"). As of September 30, 2013, such entity has ceased the processing and trading of various corn-based grain products and started to process corn-based cow's feeds to supply the intra-group dairy farming entities only. The results have been included in the Dairy Farming segment.

3 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

	Six months ended September 30, 2012				
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powders Production RMB'000	Grain Processing and Trading RMB'000	Total RMB'000
Revenue from external customers	273,894	715,153	—	50,337	1,039,384
Inter-segment revenue	382,597	—	—	—	382,597
Reportable segment revenue	656,491	715,153	—	50,337	1,421,981
Cost of sales related to revenue from external customers	105,365	577,488	—	47,335	730,188
Inter-segment cost of sales	146,766	—	—	—	146,766
Reportable segment cost of sales (cost of sales before biological fair value adjustments)	252,131	577,488	—	47,335	876,954
Reportable segment gross profit (gross profit before biological fair value adjustments)	404,360	137,665	—	3,002	545,027
Reportable segment profit/(loss) (adjusted EBITDA)	415,339	97,495	(4,651)	2,027	510,210
Interest income	198	2,085	28	35	2,346
Interest expenses	57,232	4,302	1,709	—	63,243
Depreciation and amortisation	19,759	5,084	3,596	469	28,908

3 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

	At September 30, 2013				
	Dairy Farming RMB'000	**Liquid Milk Products Production RMB'000**	**Milk Powders Production RMB'000**	**Grain Processing and Trading RMB'000 *(Note (i))***	**Total RMB'000**
Reportable segment assets	**9,206,770**	**4,730,369**	**2,155,708**	**–**	**16,092,847**
Increase/(decrease) in carrying amounts of non-current segment assets during the period	**1,233,492**	**(310,022)**	**369,705**	**–**	**1,293,175**
Capital expenditure	**1,001,327**	**64,595**	**48,180**	**–**	**1,114,102**
Reportable segment liabilities	**5,313,190**	**1,265,256**	**1,194,859**	**–**	**7,773,305**

	At March 31, 2013				
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powders Production RMB'000	Grain Processing and Trading RMB'000	Total RMB'000
Reportable segment assets	6,960,181	2,973,916	1,748,387	–	11,682,484
Increase/(decrease) in carrying amounts of non-current segment assets during the year	1,173,843	62,310	633,159	(4,443)	1,864,869
Capital expenditure	630,123	6,714	150,028	–	786,865
Reportable segment liabilities	4,014,001	680,497	1,139,839	1,280	5,835,617

Note:

(i) The Grain Processing and Trading business was previously conducted by one of the Group's entities incorporated in PRC. As of September 30, 2013, such entity has ceased the processing and trading of various corn-based grain products and started to process corn-based cow's feeds to supply the intra-group dairy farming entities only. The assets and liabilities have been included in the Dairy Farming segment.

3 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenue, cost of sales, gross profit, profit, assets and liabilities

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Revenue		
Reportable segment revenue	**2,178,767**	1,421,981
Elimination of inter-segment revenue	**(644,848)**	(382,597)
Consolidated turnover	**1,533,919**	1,039,384

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Cost of sales		
Reportable segment cost of sales	**1,288,470**	876,954
Inclusion of gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest charged to cost of sales	**641,733**	400,109
Elimination of inter-segment cost of sales	**(644,848)**	(382,597)
Consolidated cost of sales	**1,285,355**	894,466

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Gross profit		
Reportable segment gross profit	**890,297**	545,027
Inclusion of gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest charged to cost of sales	**(641,733)**	(400,109)
Consolidated gross profit	**248,564**	144,918

3 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenue, cost of sales, gross profit, profit, assets and liabilities (Continued)

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Profit		
Reportable segment profit	**765,378**	510,210
Interest income	**1,352**	2,346
Interest expenses	**(99,292)**	(64,939)
Depreciation and amortisation	**(60,917)**	(28,908)
Unallocated head office and corporate expenses	**(124,187)**	(426)
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest, net of the amount already charged to cost of sales	**95,694**	156,862
Loss arising from changes in fair value less costs to sell of biological assets	**(46,527)**	(35,011)
Changes in fair value of derivative financial liability	**16**	8,048
Consolidated profit before taxation	**531,517**	548,182

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Assets		
Reportable segment assets	**16,092,847**	11,682,484
Goodwill	**931,985**	931,985
Deferred tax assets	**51,958**	37,784
Unallocated head office and corporate assets	**6,794,657**	5,494,202
Elimination between segments	**(5,941,744)**	(7,635,640)
Consolidated total assets	**17,929,703**	10,510,815

3 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenue, cost of sales, gross profit, profit, assets and liabilities (Continued)

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Liabilities		
Reportable segment liabilities	**7,773,305**	5,835,617
Derivative financial liability	**–**	16
Unallocated head office and corporate liabilities	**3,654,915**	2,103,428
Elimination between segments	**(5,936,043)**	(3,311,190)
Consolidated total liabilities	**5,492,177**	4,627,871

4 OTHER NET INCOME

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Government grants	**5,111**	3,402
Loss from sales of raw materials	**(1,201)**	–
Changes in fair value of derivative financial liability	**16**	8,048
Net loss on disposal of non-current assets	**(181)**	(550)
Others	**(160)**	806
	3,585	11,706

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs:

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Interest expenses on bank loans and other borrowings	**111,848**	84,506
Less: interest expenses capitalised	**(12,556)**	(19,567)
Interest income	**(1,352)**	(2,346)
Bank charges and other finance costs	**3,809**	482
Net foreign exchange loss/(gain)	**5,438**	(692)
	107,187	62,383

(b) Staff costs:

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Salaries, bonuses and allowances	**60,135**	16,679
Pension insurance	**8,544**	3,021
Other social insurances	**8,660**	2,862
Fees charged for hiring workers from labour dispatching companies	**40,728**	20,131
Staff welfare	**5,412**	3,103
	123,479	45,796

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Depreciation and amortisation	**60,917**	28,908
Initial public offering expenses	**31,329**	—
Equity-settled share option expenses *(Note 18(c)(ii))*	**77,450**	—

6 INCOME TAX

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Current taxation		
PRC income tax	**29,870**	22,430
Deferred taxation		
Origination and reversal of temporary differences	**(14,174)**	(1,980)
	15,696	20,450

The Company and its subsidiaries incorporated in the British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations.

No provision was made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the six months ended September 30, 2013 and 2012, respectively.

All the PRC subsidiaries of the Company are subject to PRC Enterprise Income Tax rate of 25% during the six months ended September 30, 2013 and 2012, respectively.

According to the PRC Enterprise Income Tax Law, the Group's income arising from agricultural activities such as dairy farming and grass and crops growing is exempt from income tax.

7 OTHER COMPREHENSIVE INCOME

The results of the operations which have a functional currency other than the Group's presentation currency, RMB, are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The assets and liabilities of the operations which have a functional currency other than RMB are translated into RMB at the closing foreign exchange rates at the reporting period end date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

8 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended September 30, 2013 is based on the profit attributable to equity shareholders of the Company of RMB515,821,000 (six months ended September 30, 2012: profit of RMB527,732,000) and the weighted average of 11,557,937,803 ordinary shares of the Company in issue during the period (six months ended September 30, 2012: 11,494,254,000 ordinary shares).

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the six months ended September 30, 2013 and 2012.

9 PROPERTY, PLANT AND EQUIPMENT

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Balance as at April 1	**3,636,753**	2,839,528
Additions	**357,703**	287,801
Increase through acquisition of subsidiaries	**–**	610,825
Depreciation	**(70,173)**	(92,000)
Disposals	**(13,357)**	(9,401)
Impairment loss	**–**	–
Balance as at September 30/March 31	**3,910,926**	3,636,753

(Expressed in RMB unless otherwise indicated)

10 BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

The biological assets of the Group are dairy cows held to produce raw milk and alfalfa grass and other crops grown for feeding dairy cows.

The quantity of the dairy cows owned by the Group as at September 30, 2013 and March 31, 2013 are shown below. The Group's dairy cows are milkable cows held for raw milk production and heifers and calves that have not reached the age to produce raw milk.

	At September 30, 2013 Head	At March 31, 2013 Head
Milkable cows	**57,040**	49,889
Heifers	**55,159**	49,964
Calves	**16,153**	12,998
	128,352	112,851

In general, the heifers are inseminated when they reach approximately 14 months old. After the gestation period of approximately 10 months, a calf is born and the heifers begin to produce raw milk and the lactation periods begin. The heifers, at this time, will be transferred to the group of milkable cows. The male calves newly born will be sold while the female calves will be bred for 6 months and then transferred to the group of heifers for preparation of insemination.

Alfalfa is a perennial flowering plant of pea family, which is usually sown in spring. When the stem of alfalfa grows up, it will be reaped for feeding cows. After the harvest, alfalfa roots will generally grow up new stems in about 60–70 days. Generally, alfalfa has a sustainable growth for seven years with each growth period lasts about 60–70 days.

Other crops, primarily corns and sugar beets, are usually sown in spring and harvested in autumn every year for feeding cows.

10 BIOLOGICAL ASSETS (Continued)

(b) Value of the Group's biological assets

The amounts of the dairy cows and alfalfa grass and other crops are as below:

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Milkable cows	**2,003,363**	1,690,524
Heifers	**1,373,264**	1,369,490
Calves	**199,926**	176,254
Alfalfa grass and other crops	**279,991**	5,604
	3,856,544	3,241,872

The fair values of the Group's dairy cows and alfalfa grass and other crops as at September 30, 2013 were estimated by using the same valuation techniques as adopted in the Accountants' Report included as Appendix I to the prospectus of the Company dated September 13, 2013 in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

11 TRADE RECEIVABLES

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Trade receivable due from third parties	**192,858**	172,583
Less: allowance for impairment of doubtful debts	**—**	—
	192,858	172,583

11 TRADE RECEIVABLES (Continued)

Ageing analysis

Included in trade receivables are debtors with the following ageing analysis as at September 30, 2013 and March 31, 2013:

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Less than 3 months	**170,636**	151,933
More than 3 months but less than 6 months	**10,793**	11,594
More than 6 months but less than 12 months	**11,429**	9,056
	192,858	172,583

Trade receivables are due within 15-90 days from the date of billing.

12 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Deposits with banks to secure bills payables	**99,524**	128,874
Deposits with banks to secure letters of credit	**205,368**	20,287
Prepayments for acquisition of property, plant and equipment		
— Third parties	**371,319**	190,143
— Affiliates of the controlling shareholder	**—**	5,000
Prepayments for purchase of raw materials	**150,556**	196,306
Downpayments for acquisition of lands held under operating leases	**18,012**	57,932
Advances to staff	**19,463**	7,168
Deductible value added tax	**78,498**	64,569
Prepaid advertising expenses	**27,673**	—
Prepayments for costs incurred in connection with the proposed initial public offering of the Company's shares	**—**	2,748
Others	**41,331**	23,211
	1,011,744	696,238
Less: allowance for impairment of doubtful debts	**—**	—
	1,011,744	696,238

All of the deposits, prepayments and other receivables are expected to be recovered or recognised in the income statement or to other items in the statement of financial position within one year.

13 CASH AND CASH EQUIVALENTS

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Cash at bank and in hand	**6,478,288**	825,673

14 TRADE AND BILLS PAYABLES

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Trade payable for purchase of raw materials		
— Third parties	**519,831**	544,162
— Affiliates of the controlling shareholder	**86**	44,118
	519,917	588,280
Bills payable	**259,371**	322,185
	779,288	910,465

All of the trade and bills payables are expected to be settled within one year.

Included in trade and bills payables are creditors with the following ageing analysis as at September 30, 2013 and March 31, 2013:

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Due within 1 month or on demand	**307,792**	214,624
Due after 1 month but within 3 months	**273,794**	271,920
Due after 3 months but within 6 months	**184,054**	338,155
Due after 6 months but within 1 year	**7,740**	63,425
Due after 1 year but within 2 years	**5,898**	20,523
Due after 2 years	**10**	1,818
	779,288	910,465

15 ACCRUED EXPENSES AND OTHER PAYABLES

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Payables to affiliates of the controlling shareholder for acquisition of subsidiaries under common control	**–**	33,601
Payables for acquisition of property, plant and equipment	**151,202**	138,896
Payables for operating leases		
— Third parties	**900**	2,960
— Affiliates of the controlling shareholder	**5,305**	3,129
Payables for receiving technical supporting services	**6,230**	6,035
Payables for taxes related to acquisition of lands held under operating leases	**22,304**	23,121
Payables for audit and consulting services	**6,002**	7,970
Employee benefits payables	**20,716**	14,696
Accrued advertising and promotion expenses	**16,309**	21,604
Payables for interest expenses	**15,961**	9,082
Payables for value added tax and other taxes	**9,824**	7,091
Conditional government grants received not yet recognised	**142,853**	143,253
Payables for expenses incurred in connection with the proposed initial public offering of the Company's shares	**34,912**	2,748
Accrued plantation costs for growing alfalfa grass and other crops	**33,308**	—
Payables for freight charges	**12,996**	5,194
Others	**25,285**	15,178
	504,107	434,558

All of the accrued expenses and other payables are expected to be settled or recognised in the income statement or to other items in the statement of financial position within one year.

16 BANK LOANS

(a) The Group's short-term bank loans are analysed as follows:

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Short-term bank loans	**1,224,897**	545,872
Add: current portion of long-term bank loans	**354,280**	362,662
	1,579,177	908,534

As at September 30, 2013 and March 31, 2013, the Group's short-term bank loans (excluding the current portion of long-term bank loans) were secured as follows:

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Secured bank loans	**172,868**	211,849
Guaranteed bank loans	**695,029**	234,023
Unguaranteed and unsecured bank loans	**357,000**	100,000
	1,224,897	545,872

16 BANK LOANS (Continued)

(b) The Group's long-term bank loans are analysed as follows:

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Long-term bank loans	**2,702,472**	2,465,433
Less: current portion of long-term bank loans	**(354,280)**	(362,662)
	2,348,192	2,102,771

As at September 30, 2013 and March 31, 2013, the Group's long-term bank loans (including the current portion of long-term bank loans) were secured as follows:

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Secured bank loans	**2,159,277**	2,249,399
Guaranteed bank loans	**543,195**	216,034
	2,702,472	2,465,433

Note:

(i) As at September 30, 2013 and March 31, 2013, the aggregate net book value of the secured land use rights and property, plant and equipment of the Group was RMB489.17 million and RMB311.34 million respectively.

All of the non-current interest-bearing borrowings are carried at amortised cost, and are not expected to be settled within one year.

17 DERIVATIVE FINANCIAL LIABILITY

The Group's derivative financial liability at March 31, 2013 represented the credit derivatives that were embedded in a share charge agreement reached between the entities of the Group and the holders of the exchangeable bonds (the "Bonds") issued by the Company's parent company, Champ Harvest Limited. The Bonds are redeemable at maturity or on the event of default and bear an optional exchange right for the bondholders to exchange the Bonds into the ordinary shares of the Company then issued (the "exchange shares") at any time from the issue date to the maturity date, and are to be mandatorily exchanged to the exchange shares upon the qualified initial public offering of the Company's shares. According to the share charge agreement, the Company and its subsidiaries charged their shares legally and beneficially owned and the related assets in favour of the bondholders in consideration of the bondholders subscribing for the Bonds issued by the Company's parent company. When there is an event of default of the Company's parent company, the bondholders will have the right to have the secured shares and the related assets of the Company and its subsidiary to compensate their losses.

These credit derivatives have been settled upon the initial public offering of the Company's shares on The Stock Exchange of Hong Kong Limited on September 27, 2013.

The Group's derivative financial liability as at March 31, 2013 was independently valued by the independent valuer CBRE Limited. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in Note 19.

18 CAPITAL AND RESERVES

(a) Share capital

Movement of issued share capital during the six months ended September 30, 2013 is as follows:

	September 30, 2013	
	No. of shares	**Amount** RMB'000
At March 31, 2013 (11,494,254 ordinary shares of US$0.001 each then converted to 896,552 ordinary shares of HK$0.10 each on September 5, 2013)	896,552	74
Capitalisation issue *(Note (i))*	11,493,357,448	911,486
Issuance under initial public offering *(Note (ii))*	2,913,534,000	231,059
At September 30, 2013	14,407,788,000	1,142,619

(i) Capitalisation issue

Pursuant to the board resolution dated on September 5, 2013, an amount of HK$1,149,335,744.82 (equivalent to approximately RMB911,486,000) standing to the credit of the share premium account has been applied in paying up in full 11,493,357,448 ordinary shares of HK$0.10 each, which have been allotted and distributed as fully paid to then existing shareholders.

18 CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

(ii) Issuance of shares under initial public offering

On September 27, 2013, 2,913,534,000 ordinary shares of HK$0.10 each were issued and offered for subscription at a price of HK$2.67 each upon the listing of the shares in the Company on The Stock Exchange of Hong Kong Limited. The proceeds of HK$291,353,400 (equivalent to approximately RMB231,059,000), representing the par value, have been credited to the Company's share capital. The remaining proceeds of approximately HK$7,487,782,380 (equivalent to approximately RMB5,938,216,000) and the share issuance expenses of RMB203,928,000 have been recorded in the share premium account.

(b) Share premium

(i) On August 30, 2012, the Company acquired 100% equity interests in a group of companies engaged in production and sale of milk powder products (China Huishan Dairy Investments International Limited and its subsidiaries, China Huishan Dairy Investments (Hong Kong) Limited, Liaoning Cheungrui Trading Company Limited and Liaoning Huishan Group (Xiushui) Co., Ltd.) controlled by a third party by issuing 1,494,252 shares of US$0.001 each. The surplus of the fair value of the above newly issued shares over their par values was credited to equity as share premium.

(ii) Pursuant to the board resolution dated March 30, 2013, the controlling shareholder, through an affiliate 100% held by him, Talent Pool, injected US$144.31 million cash into the Company. In return, the Company issued 1 new share with the par value of US$0.001 to the affiliate. The surplus of the amount of the cash injected over the par value of the share issued was credited to equity as share premium.

(iii) Pursuant to the board resolution dated March 30, 2013, an amount of US$317.19 million standing advances from the Company's parent company, Champ Harvest Limited, a wholly-owned affiliate of the controlling shareholder, was applied in paying up in full 1 share of the Company with the par value of US$0.001, which was allotted and distributed as fully paid to Champ Harvest Limited. The surplus of the amount of the advances capitalised over the par value of the share issued was credited to equity as share premium.

(Expressed in RMB unless otherwise indicated)

18 CAPITAL AND RESERVES (Continued)

(c) Other reserves

(i) This represented the surplus of the carrying values of the controlling equity interests in the subsidiaries under common control acquired over the considerations paid under reorganisation.

(ii) Equity-settled share-based transactions (share option)
The Company adopted a share option scheme on September 5, 2013, whereby the directors of the Company are authorised, at their discretion, to invite certain directors and qualified employees of the Company, to take up options at nil consideration to subscribe for the shares in the Company. On September 27, 2013, 680,085,000 share options were granted, among which, 204,025,500 share options will vest immediately from the date of grant, 136,017,000 share options will vest after one year from the date of grant, 102,012,750 share options will vest after two years from the date of grant, 102,012,750 share options will vest after three years from the date of grant, and the remaining 136,017,000 share options will vest after four years from the date of grant. The above share options granted will lapse on September 27, 2019. Each option gives the holder the right to subscribe for one ordinary share in the Company at an exercise price of HK$2.67 per share. No options were exercised during the six months ended September 30, 2013.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted which was valued by an independent valuer, CBRE Limited, by using the Binomial model. The details are as follows:

Fair value at the date of grant per share	HK$0.4739
Closing price per share on the date of grant	HK$2.59
Exercise price per share	HK$2.67
Expected volatility	35.21%
Contractual life of the options	6 years
Expected dividends	0%
Risk-free interest rate (based on the Hong Kong Exchange Notes)	1.22%
Expected price increase of exercise	35%

The expected volatility is based on the historic volatility of a set of comparable companies, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management's assumption and the expected price increase of exercise is estimated based on the inquiries of the holders. Changes in the subjective input assumptions could materially affect the fair value estimate.

The fair value of the services received from employees in return for the share options granted to employees is recognised as a staff cost with a corresponding increase in other reserves within equity. During the six months ended September 30, 2013, the Group has charged RMB77.45 million share option expense in "Administrative expenses" with the same amount credited to "Other reserves".

19 FAIR VALUE MEARSUREMENT OF FINANCIAL INSTRUMENTS

At March 31, 2013, the Group's derivative financial liability (see Note 17) was measured at the fair value determined based on the solvency of the bond issuer, the Company's parent company, which in turn, based on the solvency of the Group, by using the KMV-Merton model (Level 3). The key unobservable inputs include the maturity date of the bond, the total liabilities excluding the amount of the derivative financial liability of the Group, the total equity of the Group and the net profit of the Group. As disclosed in Note 17, this derivative financial liability has been settled upon initial public offering of the Company's shares on The Stock Exchange of Hong Kong Limited on September 27, 2013.

Except for the above, the carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at September 30, 2013 and March 31, 2013.

20 CAPITAL COMMITMENTS

Capital commitments that related to the acquisition of lands, property, plant and equipment, and biological assets outstanding at the end of the reporting period not provided for in the unaudited interim financial report were as follows:

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Contracted for	**99,431**	276,647
Authorised but not contracted for	**6,044,463**	—
	6,143,894	276,647

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with the controlling shareholder and his affiliates

	Six months ended September 30, 2013 RMB'000	2012 RMB'000
Sale of dairy products	–	218
Purchase of materials	2,058	2,884
Consignment production expenses	14,250	30,483
Operating leases of dairy farms and office buildings	3,901	3,832
Net increase in advances granted to the controlling shareholder and his affiliates	–	15,566
Net decrease in advances granted by the controlling shareholder and his affiliates	(18,738)	(39,676)

(b) Balances due from/(to) the controlling shareholder and his affiliates

	At September 30, 2013 RMB'000	At March 31, 2013 RMB'000
Prepayments	–	5,000
Trade payables	(86)	(44,118)
Accrued expenses and other payables	(5,305)	(36,730)
Amounts due to the controlling shareholder and his affiliates	–	(14,702)