YuanShengTai Dairy Farm Limited

原生態牧業有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1431

YST Dairy Farm Limited

原生态牧业

YuanShengTai

Annual Report 2013

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Hongliang (趙洪亮)
(Chairman)
Mr. Wang Shaogang (王紹崗)
(Vice-chairman)
Mr. Fu Wenguo (付文國)
(Chief Executive Officer)
Ms. Su Shiqin (蘇士芹)
(Chief Financial Officer)

Non-executive Directors

Mr. Sun Wei (孫瑋)
Mr. Lau Ho Fung (劉浩峰)

Independent Non-executive Directors

Mr. Wu Chi Keung (胡志強)
Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)

JOINT COMPANY SECRETARIES

Mr. Liu Gang (劉剛)
Mr. Kwok Siu Man (郭兆文)

AUTHORISED REPRESENTATIVES

Mr. Wang Shaogang (王紹崗)
Mr. Liu Gang (劉剛)

AUDIT COMMITTEE

Mr. Wu Chi Keung (胡志強) *(Chairman)*
Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)

REMUNERATION COMMITTEE

Mr. Zhang Yuezhou (張月周) *(Chairman)*
Mr. Zhu Zhanbo (朱戰波)
Mr. Wu Chi Keung (胡志強)
Mr. Zhao Hongliang (趙洪亮)

NOMINATION COMMITTEE

Mr. Zhu Zhanbo (朱戰波) *(Chairman)*
Mr. Wu Chi Keung (胡志強)
Mr. Zhang Yuezhou (張月周)
Mr. Fu Wenguo (付文國)

INDEPENDENT AUDITOR

Ernst & Young

PRINCIPLE BANKERS

Agricultural Development Bank of China
Agricultural Bank of China

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN THE PRC

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
PRC

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

COMPLIANCE ADVISER

Baron Global Financial Services Limited

LEGAL ADVISORS

As to Hong Kong Laws
Chiu & Partners

As to U.S. Laws
Troutman Sanders LLP

As to PRC Laws:
Jingtian & Gongcheng

As to Bermuda Laws
Conyers, Dill & Pearman

STOCK CODE

1431

BOARD LOTS

1,000

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS,

I am pleased to present the annual results of YuanShengTai Dairy Farm Limited ("YuanShengTai" or the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2013 to our shareholders.

The macro economy environment of China was complicated in 2013, by the government vigorously encouraging domestic consumption, the overall economy recorded a steady growth, and gross domestic product remained a growth of 7.7%. Following urbanization implemented in phases, there was transformation of consumption mode and the improvement of national disposable income, and high-end dairy products recorded a significant growth.

CHAIRMAN'S STATEMENT (CONTINUED)

Meanwhile, 2013 was a key year for the Chinese dairy industry, which was in the progress of high-speed transformation and received vigorous support from the government. Local governments provided supports, including tax preference and government subsidy in order to stimulate the development of farms with standardized scale, so as to accelerate the supply of raw milk. The whole industry is also being put in a better order in a more intensified monitoring environment to move forward with a trend of high quality and branding.

Benefiting from the increase of milk price and raw milk production, the results of the Group recorded a satisfying growth in 2013. Our total sales of raw milk increased to 183,702 tons from 168,070 tons in 2012, with an average selling price of approximately RMB4,795 per ton. The Group's annual yield per cow increase from 8.9 tons in 2012 to 9 tons in 2013. The Group recorded RMB880.8 million of revenue as of 31 December 2013, representing a significant increase of 28% as compared with RMB689.1 million in the last year. The gross profit margin recorded a further growth from 37.8% in the last year to 42.6%. Profit attributable to the owners of the Company was RMB217.7 million.

Since July 2013, the intense supply of raw milk has brought constantly increasing price, which not only directly enhanced the income of existing dairy farming companies, but also stimulated the whole milk industry to accelerate the transformation from extensive quantity growth to focusing on intensive quality efficiency, so as to advance the high-speed development of the milk industry.

Increase in
Gross Profit Margin
42.6%

The experiences of developed countries in milk industry have shown that standardized scale dairy farming is the inevitable path of development in the milk industry and the inevitable demand for Chinese dairy farming industry when it reaches certain stage of development. After years of development, it has been proved that standardized scale farming is the key point in solving the current development problems and accelerating the modernization progress for the Chinese dairy industry. YuanShengTai should follow the development trend in the industry, focus on developing large farms. As of 31 December 2013, the Group owned four large farms locating in Heilongjiang and Jilin of China respectively, with a total of 40,396 cows, which made the Group ranked among the largest farms of China. Moreover, the Group adopts simple design and layout, standardized operation procedure, center management function and automated information system, which can ensure both high milk yield and lower costs to bring efficient management and low management costs for the Group.

CHAIRMAN'S STATEMENT (CONTINUED)

Meanwhile, the Group intends to construct five new farms in Songnen plain within three years, of which one for educational tours, one for raising reserve cows and three for commercial production. In March 2014, we were in the course of preparation for the construction of such new farms.

The Group is well aware that, quality is the crucial factor of raw milk. YuanShengTai starts with each phase, including breeding, feeding, raising management and herd management to enhance the comprehensive monitoring of quality, which, coupled with the superior location of dairy farms and advanced management philosophy, enable the Group to consistently produce premium, safe and reliable raw milk for our customers.

Looking into the future, the constant improvement of consumption ability and increasing attention on the health of Chinese residents will stimulate the domestic demand for high-end superior raw milk. Our country enhanced the standard of the dairy products industry, which also further builds a good environment for the development of high-end raw milk.

Leveraging on such opportunity, the Group will continue to follow its previous successful commercial mode through unified farm layouts, standardized operation, breeding, raising, quality control of production and reserve and transportation, advanced information platform, favorable management system, and continue to produce best raw milk to Chinese consumers. In addition, the Group endeavors to raise its brand recognition in China's dairy sector, exploit high-end dairy products market, enhance feeding, breeding and production technologies to maximize our production efficiency, extend businesses of upstream and continuously promote the long-term and steady development of the Group's business.

On behalf of the board of directors (the "Board"), I would like to thank all the shareholders for their continuing belief and substantial support to the Group, and express my gratitude to the Board, management team and our staff for their hard efforts and valuable contribution in the last year. In the coming year, the Group will seize the intense demand for high-end raw milk, endeavor to achieve another favorable result and bring more significant returns for our shareholders.

Zhao Hongliang
Chairman
Hong Kong, 24 March 2014

MANAGEMENT DISCUSSION *and* ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

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

BUSINESS REVIEW

In terms of herd size and production volume in 2012, the Group is a leading group of dairy farming companies in China. In 2013, benefiting from Chinese consumers' growing demand for high-end dairy products and continuous expansion in overall herd size which led to the increase in production, our business recorded a significant growth. The total

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

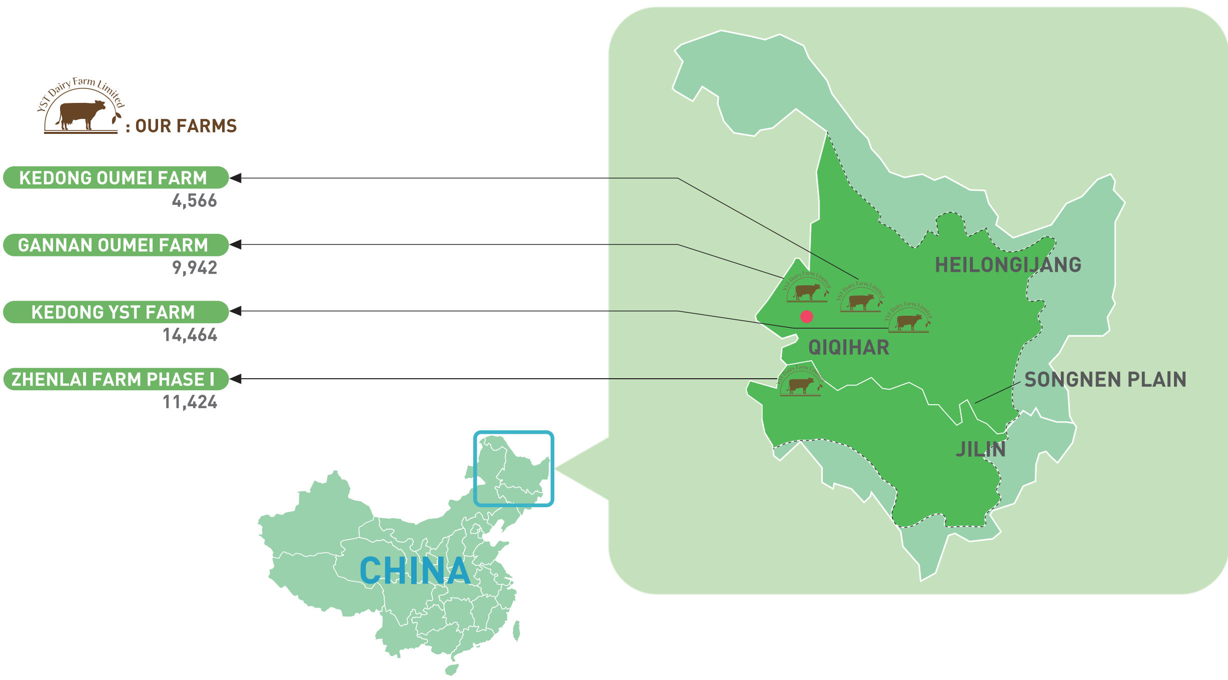
sales volume increased by 9% from 168,070 tons in 2012 to 183,702 tons in 2013, while the revenue increased 28% from RMB689.1 million in 2012 to RMB880.8 million in 2013. As a result, the total gross profit increased 44% from RMB260.5 million to RMB374.9 million in 2013.

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

Construction of Farms

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

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



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Milk yield

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

Size of our herd

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

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

Price of raw milk

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook

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

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

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

Our Revenue

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Cost of sales

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

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

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

Gross Profit

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

Other Income

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Listing expenses

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

Selling and distribution expenses

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

Administrative expenses

The table below summarizes the components of our administrative expenses:

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

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

Finance costs

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Changes in fair value less cost to sell of biological assets

Changes in fair value less cost to sell of biological assets was a loss of RMB13.7 million in fiscal year 2013 as compared to a gain of RMB17.7 million in 2012. The difference was due to parameter changes.

Profit for the year of the Group

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

CAPITAL STRUCTURE

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

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

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares in the Company first became listed on the Stock Exchange on 26 November 2013. The Prospectus in connection with the listing and the public offering dated 14 November 2013 was issued by the Company. Gross proceeds raised from the global offering in such connection amounted to about HK$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company) amounted to about HK$2,564 million. Up to 31 December 2013, about HK$180.4 million of such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which as to HK$147.8 million on construction of new farms, and as to HK$32.6 million on working capital and general corporate purpose. The remaining balance was kept in banks and approved financial institutions in Hong Kong and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

PLEDGE OF ASSETS

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

FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as the U.S. dollar and Hong Kong dollars. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as of the end of 2013 and 2012 were RMB62.4 million and RMB75.1 million, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2013.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, the Group had approximately 1,000 employees (2012: 800 employees), all of whom are located in the People's Republic of China (the "PRC").

The salaries of the Group's employees largely depend on their type and level of work as well as length of service with the Company. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Company participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhao Hongliang (趙洪亮)

Mr. Zhao, aged 47, is an executive Director and the chairman of the Group. He is primarily responsible for the overall strategic development of the Group. He is also a member of the remuneration committee of the Company. Mr. Zhao completed his high school education in the People's Republic of China (the "PRC") in July 1983.

Mr. Zhao is the founder of the Group. He has past experience in raising dairy cows and cattle management in Heilongjiang Province, the PRC. In 1995, he started to invest in various sectors in the PRC including real properties, trading of construction materials and mining. Simultaneously, he had been all along paying close attention to the dairy farming industry in the PRC. In 2008, he was awarded as one of the "Outstanding Private Entrepreneurs" * (優秀民營企業家), and in the following year, he was awarded as one of "Top Ten Outstanding Young Entrepreneurs of the Farming District of Heilongjiang" (黑龍江墾區十大傑出青年企業家). Mr. Zhao has accumulated substantial experience in making investments in the PRC and has maintained a sound financial capability.

In 2008, Mr. Zhao invested in the dairy farming industry in the PRC and as a result, the Company's first operating entity, namely Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.*, was established in September 2008.

Mr. Zhao is a Director and the sole shareholder of a controlling shareholder (as defined by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) of the Company. Mr. Zhao is a director of each of the following subsidiaries of our Company: Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.* (黑龍江克東瑞信達原生態牧業股份有限公司) ("YST Heilongjiang"), Qiqihar Sifang YuanShengTai Dairy Farming Joint Stock Co., Ltd.* (齊齊哈爾四方原生態牧業股份有限公司) ("YST Sifang"), Qiqihar Honghai YuanShengTai Dairy Farming Joint Stock Co., Ltd.* (齊齊哈爾紅海原生態牧業股份有限公司) ("YST Honghai"), Royal Dairy Farm Limited ("Royal Dairy Farm") and Natural Dairy Farm ("Natural Dairy Farm").

Mr. Wang Shaogang (王紹崗)

Mr. Wang, aged 51, is an executive Director and the vice chairman of the Group. Mr. Wang is a director of each of the following subsidiaries of our Company: Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (黑龍江克東和平原生態牧業有限公司), Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd.* (鎮賚瑞信達原生態牧業有限公司), YST Sifang, YST Honghai, Qiqihar Ruixinda ShengTai Dairy Farming Co., Ltd.* (齊齊哈爾瑞信達生態養殖有限公司), Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for the overall corporate and business policies of the Group. Mr. Wang graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute of Technology* (上海應用技術學院)) in 1989, majoring in food engineering.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Wang joined the Group since its establishment in September 2008 as the general manager thereof and was then in charge of the supervision of the daily business management of the Group (including the operation of the Group's farms). In June 2012, he was appointed as the vice chairman of the Group. He is also a member of the senior management of the Group. Mr. Wang has over 23 years of experience in the dairy farming industry.

Mr. Fu Wenguo (付文國)

Mr. Fu, aged 46, is an executive Director, the chief executive officer and the general manager of the Group. Mr. Fu is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for overseeing the overall operations of the Group. He is also a member of the Nomination Committee of the Company. Mr. Fu graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute Technology* (上海應用技術學院)) in 1989.

Mr. Fu joined the Group in December 2011 and was then in charge of overseeing the overall operations of the Group. Since January 2012, Mr. Fu has been assuming the office of general manager of the Group. He is also a member of the senior management of the Group. Mr. Fu has over 23 years of experience in the dairy farming industry.

Ms. Su Shiqin (蘇士芹)

Ms. Su, aged 48, is an executive Director and the chief financial officer of the Group. Ms. Su is a director of YST Heilongjiang, Royal Dairy Farm and Natural Dairy Farm. She is primarily responsible for financial reporting and business planning of the Group. She graduated from Changchun Finance College* (長春金融高等專科學院) in 1998, majoring in accounting and finance. She is also a holder of the certificate of accounting professional.

Ms. Su joined the Group in September 2011 and was then in charge of financial reporting and business planning of the Group. Since then, Ms. Su has been assuming the office of chief financial officer of the Group. She is also a member of the senior management of the Group. Ms. Su has over 25 years of experience in financial reporting in the dairy farming industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

NON-EXECUTIVE DIRECTORS

Mr. Sun Wei (孫瑋)

Mr. Sun, aged 35, was appointed a non-executive Director with effect from 30 April 2013. Mr. Sun is a director of Royal Dairy Farm and Natural Dairy Farm. Mr. Sun is one of the managing directors in the Ares Private Equity Group. He joined Ares Management LLC in July 2010 from AIG Global Investment where he had been employed since February 2005 in its Shanghai office. From November 2003 to February 2005, Mr. Sun was with KPMG in its corporate finance department as an assistant manager in KPMG's Shanghai office. He graduated with merits from the London School of Economics in 2003 with a master's degree in accounting and finance after he had graduated from the Shanghai International Studies University* (上海外國語大學) in 2001 with a bachelor of arts in economics, majoring in international finance.

Mr. Lau Ho Fung (劉浩峰)

Mr. Lau, aged 32, was appointed a non-executive Director with effect from 30 April 2013. Mr. Lau is a director of Royal Dairy Farm and Natural Dairy Farm. Mr. Lau is a Vice President — Private Equities of VMS Investment Group where he is mainly engaged in deal screening, due diligence, and execution of private equities transactions in the greater China region. He has been a Chartered Financial Analyst charter-holder since 2009 and received a bachelor's degree in information system and software engineering from the University of Hong Kong in 2005. Mr. Lau has around seven years of experience in the private equities and asset management industries. Prior to joining VMS Investment Group, he worked as a research analyst trainee at Phoenix Capital Asia Limited during October 2005 and October 2006 and received training on a broad range of fundamental analysis. From November 2006 to May 2010, Mr. Lau worked at Tempus Investment Group where he joined as an assistant analyst and was later promoted to a research analyst. During that period, Mr. Lau's responsibilities included conducting industry and company analyses in Hong Kong and China markets and recommending investments.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDs")

Mr. Wu Chi Keung (胡志強)

Mr. Wu, aged 57, was appointed an INED with effect from 7 November 2013. He is the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. He was a partner of Deloitte Touche Tohmatsu, until he retired in December 2008. Mr. Wu is currently the managing director of a family-owned private company engaging in property and other investment activities.

Mr. Wu is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants in the United Kingdom. He graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1980 with a high diploma in accountancy.

Currently, Mr. Wu is an INED of Huabao International Holdings Limited (stock code: 336), Jinchuan Group International Resources Co., Ltd. (stock code: 2362), GreaterChina Professional Services Limited (stock code: 8193), Zhong Fa Zhan Holdings Limited (stock code: 475), China Renji Medical Group Limited (stock code: 648) and China Medical System Holdings Limited (stock code: 867), all listed on the Stock Exchange. He was also an INED of JF Household Furnishings Limited (stock code: 776), a company listed on the Stock Exchange, from 16 August 2011 until 5 October 2012.

Mr. Zhang Yuezhou (張月周)

Mr. Zhang, aged 50, was appointed an INED with effect from 7 November 2013. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Currently, Mr. Zhang is engaged in the provision of dairy farm management consultancy services in the PRC. He was awarded a bachelor's degree in animal husbandry in July 1987 and a master's degree in agricultural extension in 2006 from the Nanjing Agricultural University (南京農業大學). Mr. Zhang obtained the qualification of animal husbandry expert in the PRC in May 1995. Mr. Zhang has over 20 years of experience in the dairy products industry and since March 2010, Mr. Zhang was the general manager of Shanghai Yuanfan Farming Technology Co. Ltd.* (上海源凡牧業科技有限公司) and responsible for overseeing its overall operations.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Zhu Zhanbo (朱戰波)

Mr. Zhu, aged 44, was appointed an INED with effect from 7 November 2013. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Company. Mr. Zhu has experience in teaching and scientific research for 20 years. He graduated from the Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學) in veterinary science in July 1993, and obtained a master's degree from the Department of Animal Science and Technology of the same university in July 2004. He further obtained a doctorate degree from the Jilin University (吉林大學) in July 2012.

By profession, he is a university professor. Mr. Zhu started his full-time work in July 1993. Since then, he served as a working staff at Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學).

SENIOR MANAGEMENT

In addition to Mr. Wang Shaogang, Mr. Fu Wenguo and Ms. Su Shiqin, all being executive Directors, the following individuals are also members of the senior management of the Group:

Mr. Wang Yongxin (王永信)

Mr. Wang, aged 36, is the deputy general manager of the Group. Mr. Wang is a director of YST Sifang and YST Honghai. Currently, he is primarily responsible for the health care of cattle of the Company's farms and production and operations management of the Group. He graduated from the Southwest Agricultural University* (西南農業大學) in veterinarian science in 2001. He also obtained a certificate of middle-level veterinary from in 2006.

Mr. Wang joined the Group in December 2009 and was then in charge of the supervision and overall management of the Company's Kedong YST Farm. Mr. Wang has over 12 years of experience in the dairy farming industry. During the period of his office with the Group, Mr. Wang assumed the following offices and was then in charge of the functions mentioned below:

Period of Time	**Office**	**Principal functions**
December 2009 to March 2012	Head of farm	Supervision and overall management of Kedong YST Farm
From March 2012 onwards	Deputy general manager	Monitoring the health of cattle and production and operations management of the operating subsidiaries of the Company

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Luo Qinghua (羅清華)

Mr. Luo, aged 34, is the deputy technical manager of the Group. Mr. Luo is a director of YST Sifang and YST Honghai. Currently, he is primarily responsible for technical support and technology project management of the Group. Mr. Luo was awarded a bachelor's degree in animal science from the Sichuan Agricultural University (四川農業大學) in 2004.

Mr. Luo joined the Group in April 2009 as directors of Qiqihar Honghai YuanShengTai Dairy Farming Joint Stock Co., Ltd*('齊齊哈爾紅海原生態牧業股份有限公司) and Qiqihar Sifang YuanShengTai Dairy Farming Joint Stock Co., Ltd.*(齊齊哈爾四方原生態牧業股份有限公司) (which are in the preparation stage of dairy farming operations). Mr. Luo has over 10 years of experience in the dairy farming industry. Since September 2011, Mr. Luo has assumed the following offices and is now in charge of the functions mentioned below:

Period of Time	Office	Principal functions
September 2011 to March 2012	Head of enterprise management department	Supervision and assessment of dairy farm management of the Group
From March 2012 onwards	Deputy technical manager	Technical support and technology project management of the Group

JOINT COMPANY SECRETARIES

Mr. Liu Gang (劉剛)

Mr. Liu, aged 40, was appointed as one of the Company's joint company secretaries on 7 November 2013. He was awarded a bachelor's degree in automation, majoring in measuring and control technology and instrumentations, from the Yanshan University* (燕山大學) in July 1999. Mr. Liu joined the Group in January 2012 and has been mainly responsible for providing assistance to the chairman of the Group. Prior to joining our Group, Mr. Liu has accumulated about 8 years of experience in the investment sector.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Kwok Siu Man (郭兆文)

Mr. Kwok, aged 55, another joint company secretary of the Company (who has been appointed by the Board since 7 November 2013). Currently, he is the Head of Corporate Secretarial, Boardroom Corporate Services (HK) Limited ("BCS"). Prior to joining the Group, he had over 25 years' legal, corporate secretarial and management experience gained from company secretary and other senior positions of reputable listed companies in Hong Kong (including Hang Seng Index Constituent and Hang Seng Mid-Cap 50 Index stock companies) and overseas. He was the managing director of a top-notch financial printer in Hong Kong with international affiliation and a director of a property management company for residential properties and has been a director of a charity fund since its incorporation in 1992 and a sponsoring body manager of a primary school since 8 March 2013.

Mr. Kwok is a fellow of The Institute of Chartered Secretaries and Administrators and The Institute of Financial Accountants in England and The Hong Kong Institute of Chartered Secretaries ("HKICS") and a member of the Hong Kong Securities and Investment Institute. He also possesses professional qualifications in arbitration, taxation, financial planning and human resources management. In addition, he matriculated from Hong Kong Queen's College, holds a bachelor's degree of arts (with honors) and a post-graduate diploma (with credit) in laws and has passed the Common Professional Examinations in England and Wales. In 1999, he received induction into the International WHO's WHO of Professionals, an international organization which establishes a network of international elite professionals. He was one of the adjudicators for the "Best Annual Reports Awards" organized by the Hong Kong Management Association in the early 1990's and the late 2000's.

Having been the reviewer and the chief examiner of the "Hong Kong Company Secretarial Practice/Corporate Secretaryship' of the international qualifying examinations of the HKICS and participated in the review of the Hong Kong law variant modules thereof for about a decade, Mr. Kwok holds the record of being the HKICS's longest-serving council member and director (i.e. for 18 years). Moreover, he was a founding member of the Company Secretaries Panel and the vice-chairman of the Technical Committee thereof. Further, he was a member of the Board of Review appointed by the Hong Kong government under the Inland Revenue Ordinance and has been acting as an external examiner/adviser/member of the validation panel of corporate management courses organized by recognized academic and vocational institutions for tertiary education in Hong Kong since the mid-1990's.

Mr. Kwok is not in full-employment with the Company and currently also serves as the company secretary/joint company secretary of a number of companies listed on the Main Board and the Growth Enterprise Market of the Stock Exchange.

* Denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes only

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The Company is committed to fulfil its responsibilities to the Company's shareholders and protect and enhance shareholder value through good corporate governance.

CORPORATE GOVERNANCE PRACTICES

As the Company was listed on the Main Board of the Stock Exchange on 26 November 2013 (the "Listing Date"), the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") was not applicable to the Company for the period from 1 January 2013 to 25 November 2013, being the date immediately before the Listing Date. The Company applied the principles and complied with all applicable code provisions as set out in the CG Code during the period from the Listing Date to 31 December 2013 (the "Period").

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company (the "Directors") on terms no less exacting than the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules. Following the specific enquiries made by the Company, each of the Directors confirmed that he/she had complied with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the Period.

BOARD OF DIRECTORS

The board of Directors (the "Board") is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Company and its subsidiaries, (the "Group"). The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to formulating the Group's business plans and strategies, reviewing the Company's financial results and performance and approving its interim and annual results; approving appointment, removal or reappointment of the Board members upon the recommendation of the nomination committee of the Board; approving the remuneration package of the Directors and senior management of the Company upon the recommendation of the remuneration committee established by the Board, deciding all significant financial (including major capital expenditure) and operational issues, developing, monitoring and reviewing the Group's corporate governance, and all other functions reserved to the Board under the Company's Bye-Laws (the "Bye-Laws"). The Board may from time to time delegate certain functions to senior management of the Group if and when considered appropriate. The senior management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time.

Currently, the Board comprises the following nine Directors:

Executive Directors

Mr. Zhao Hongliang *(Chairman)*
Mr. Wang Shaogang *(Vice-chairman)*
Mr. Fu Wenguo *(Chief Executive Officer)*
Ms. Su Shiqin *(Chief Financial Officer)*

Non-executive Directors

Mr. Sun Wei
Mr. Lau Ho Fung

Independent Non-executive Directors (the "INEDs")

Mr. Wu Chi Keung
Mr. Zhang Yuezhou
Mr. Zhu Zhanbo

The biographical details of each of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

There was no financial, business, family or other material relationship among the Directors.

The four executive Directors are responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances and are collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The non-executive Directors participate in Board meetings to bring in an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts and scrutinize the Company's performance in achieving agreed corporate goals and objectives.

The three INEDs are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as providing a balance in the Board in order to effectively exercise independent judgment on the corporate actions of the Company so as to protect shareholders' interest and the overall interest of the Group.

Throughout the Period, the Company had three INEDs and at all times met the requirement of the Listing Rules that the number of INEDs must represent at least one-third of the Board members and at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise.

Each of the INEDs has made an annual confirmation of independence by reference to Rule 3.13 of the Listing Rules and the Board is satisfied that all the INEDs were independent and met the independent guidelines set out in Rule 3.13 of the Listing Rules from the Listing Date to the date of this annual report.

Directors' Induction and Continuing Professional Development

Each newly appointed Director received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure a proper understanding of the Company's operations and business and full awareness of the Director's responsibilities under the statues and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

A training seminar on responsibilities of directors of listed companies was delivered by the Company's legal advisers as to Hong Kong laws to the Directors and senior management of the Company in June 2013 (the "Training Seminar").

The Company will from time to time provide briefings to all Directors to develop and refresh the Directors' duties and responsibilities. All Directors are also encouraged to attend relevant training courses at the Company's expense. Effective from the Listing Date, all Directors have been required to provide the Company with their training records.

Meetings of Board and Board Committees and Directors' Attendance Records

The Board is scheduled to meet four times a year at approximately quarterly intervals with notice given to the Board of Directors at least 14 days in advance. For additional Board meetings which require discussion and resolution of significant issues arising during the operation of the Company, notice is given in a reasonable time in advance. Before each Board meeting, a draft agenda is sent out to all Directors at least three days or such other period as agreed in advance in order to allow the Directors to include any other matters in the agenda that is required for discussion and resolution in the meeting. To enable the Directors to make informed decisions, Board papers together with all appropriate and relevant information in relation to the matters of the meeting are sent to all Directors three days or such other period as agreed before each Board meeting. The joint company secretaries of the Company are responsible for keeping all Board meetings minutes. Draft minutes are normally circulated to the Directors for comments within a reasonable time after each meeting and the final version is open for the Directors' inspection. According to the Listing Rules, any Directors and their associates (as defined in the Listing Rules) with a material interest in the transactions to be discussed in the Board meetings will abstain from voting on resolutions approving such transactions and are not to be counted in the quorum at meetings.

Each of Mr. Zhao Hongliang, (being the Chairman and an Executive Director), Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited (collectively, the "Controlling Shareholders") has executed a deed of non-compete and other undertakings (the "Non-compete Undertakings") in favour of the Company (for itself and for the benefit of its subsidiaries) on 7 November 2013, pursuant to which, each of the Controlling Shareholders has undertaken not to engage in, or be interested in any business which, directly or indirectly, competes or may compete with the Group's business. In order to properly manage any potential or actual conflict of interests between the Company and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertakings, the Company has adopted the following measures:

(a) all INEDs will review, at least on an annual basis, compliance and enforcement of the terms of the Non-Compete Undertakings by the Controlling Shareholders;

(b) the Company will disclose any decisions on matters reviewed by the INEDs relating to compliance and enforcement of the Non-Compete Undertakings either through the annual report or by way of announcement;

(c) the Company will disclose in the corporate governance report in its annual report on how the terms of the Non-Compete Undertakings have been complied with and enforced; and

(d) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to compliance and enforcement of the Non-Compete Undertakings, he may not vote on the resolutions of the Board approving the matter and will not be counted towards the quorum for the voting pursuant to the applicable provisions in the Bye-laws.

The Directors considered that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Company's shareholders, in particular, the minority shareholders.

During the Period, no meeting of the Board or any Board Committee was held.

Board Diversity Policy

The Board has adopted a board diversity policy on 7 November 2013 and discussed all measurable objectives set for implementing the policy.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and the Chief Executive Officer are separated and assumed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one individual of the Board. Mr. Zhao Hongliang, the Chairman, is responsible for overseeing the functions of the Board while Mr. Fu Wenguo, the Chief Executive Officer, is responsible for managing the Group's business and overall operations. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer.

BOARD COMMITTEES

The Board has established, with written terms of reference, three Board committees, namely the audit committee, the remuneration committee and the nomination committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

The written terms of reference for each Board committee are in line with the Listing Rules and they are posted on the respective websites of the Stock Exchange and the Company.

Audit Committee

The Board established an audit committee on 7 November 2013 with written terms of reference in compliance with the CG Code. The audit committee consists of three INEDs, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. Mr. Wu Chi Keung is the chairman of the audit committee.

The principal responsibilities of the audit committee include, among others:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and discussion with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

- developing and implementing a policy on engaging an external auditor to supply non-audit services and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;

- reviewing and monitoring the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them;

- reviewing the Company's financial controls, internal control and risk management systems;

- discussing the internal control system with management to ensure that management has performed its duty to have an effective internal control system;

- considering major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- ensuring co-ordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;

- reviewing the Group's financial and accounting policies and practices;

- reviewing the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- reporting to the Board on the matters in the CG Code; and

- considering other topics as defined by the Board.

During the Period, no audit committee meeting was held.

The audit committee has reviewed the Company's audited consolidated results for the year ended 31 December 2013 (the "Year"), including the accounting principles and practice adopted by the Group and recommended to the Board for consideration the same and the re-appointment of Ernst & Young, Certified Public Accountants as the Company's independent auditor at the forthcoming annual general meeting of the Company (the "AGM") to be held on 6 June 2014 at its meeting held on 24 March 2014.

Remuneration Committee

The Board established a remuneration committee on 7 November 2013 with written terms of reference in compliance with the CG Code. The remuneration committee consists of three INEDs, namely Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Mr. Wu Chi Keung and Mr. Zhao Hongliang, an executive Director. Mr. Zhang Yuezhou is the chairman of the remuneration committee. The principal responsibilities of the remuneration committee include, among others:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing a remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management and such packages include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- making recommendations to the Board on the remuneration of non-executive Directors;
- considering salaries paid by comparable companies, time commitment, responsibilities and employment conditions elsewhere in the Group;
- reviewing and approving compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to the dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- ensuring that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration; and
- consulting the Chairman and/or Chief Executive Officer (where applicable) about their remuneration proposals for other Executive Directors.

During the Period, no remuneration committee meeting was held.

The remuneration committee reviewed and recommended to the Board certain remuneration-related matters of the Directors and senior management at its meeting held on 24 March 2014.

Nomination Committee

The Board has established a nomination committee on 7 November 2013 with written terms of reference in compliance with the CG Code. The nomination committee consists of three INEDs, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo and Mr. Fu Wenguo, an executive Director. Mr. Zhu Zhanbo is the chairman of the nomination committee. The principal responsibilities of the nomination committee include, among others:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of the INEDs;
- reviewing the Board diversity policy of the Company, as appropriate; and reviewing the measurable objectives that the Board has set for implementing such policy, and the progress on achieving the objectives; and make disclosure of its review results in the corporate governance report contained in the Company's annual report; and
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for the Directors, in particular, the Chairman and the chief executives.

During the Period, no nomination committee meeting was held.

The nomination committee met on 24 March 2014 and recommended the re-appointment of all the retiring Directors as Directors at the forthcoming AGM.

Board's Corporate Governance Functions

The Board is responsible for performing the corporate governance functions of the Company, which are set out in the written terms of reference. The Board has reviewed this corporate governance report in discharge of its corporate governance functions, ensuring compliance with the Listing Rules.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 1 November 2013.

Each of the non-executive Directors has been appointed for an initial term of three years commencing on 1 November 2013.

Each of the INEDs has been appointed for an initial term of three years commencing on 7 November 2013.

Save as disclosed aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

All the Directors, including INEDs, are subject to retirement by rotation and eligible for re-election in accordance with the Bye-Laws. At each AGM, one-third of the Directors for the time being (or if their number is not three (3) or a multiple of three (3), then the number nearest to but not exceeding one third (1/3)), will retire from office by rotation provided that every Director will be subject to retirement at least once every three (3) years. A retiring Director will be eligible for re-election and will continue to act as a Director throughout the meeting at which he retires. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation will include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire will be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

The Bye-Laws further provides that the Company may from time to time in general meeting by ordinary resolution elect any person to be a director either to fill a casual vacancy or as an additional Director. Any Director so appointed will hold office only until the next following AGM of the Company and will then be eligible for re-election at the meeting but will not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.

Any Director appointed by the Board to fill a casual vacancy will hold office until the first general meeting of shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board will hold office only until the next following AGM and will then be eligible for re-election.

Remuneration of Directors and Senior Management

Particulars of the Directors' remuneration for the Year are set out in note 8 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Biographical Details of Directors and Senior Management" in this annual report for the Year by band is set out below:

Remuneration band *(in RMB)*	**Number of individuals**
Nil to 1,000,000	3
1,000,001 to 1,500,000	Nil

INDEPENDENT AUDITOR'S REMUNERATION

For the Year, apart from the provision of annual audit services, Ernst & Young, the Group's independent auditor was also the reporting accountant of the Company in relation to the listing of the Company's 3,908,747,000 issued ordinary shares of HK$0.01 each on the Main Board of the Stock Exchange (the "Listing").

The fees charged by Ernst & Young in respect of the audit, reporting accountant and non-auditing services for the Year amounted to approximate RMB3,000,000, RMB5,250,000 and HK$3,282,000, respectively.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements for the Year, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and are properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

In addition, Ernst & Young has stated its reporting responsibility in the independent auditor's report of the Company's consolidated financial statements for the Year.

CORPORATE GOVERNANCE REPORT (CONTINUED)

INTERNAL CONTROL

The Board has an overall responsibility for maintaining an adequate and effective internal control system of the Group. The Group's internal control system includes a well-defined management structure with limits of authority which is designed for the achievement of business objectives and to safeguard the Group's assets against unauthorised use and disposition, ensure compliance with relevant legislation and regulations and protect the interests of shareholders of the Company.

In order to maintain a sound internal control system and to prevent the occurrence of non-compliance incidents in the future, the Company has adopted the following measures:

(i) Arranged: (a) an internal control training session conducted by the PRC legal advisers in respect of the compliance with applicable PRC laws and regulations to its Directors and management; and (b) a training program for those of the Company's Directors, senior management and employees who have responsibilities related to the compliance process under the Listing Rules;

(ii) Engaged a reputable internal control consultant firm to conduct an assessment on the internal control system and procedures and to advise on relevant matters. Taking into consideration the recommendations by the internal control consultants, the Company has established a set of policies and adopted the internal control measures;

(iii) Engaged a qualified PRC law firm as the Company's compliance officer to assist the Board to identify and manage the legal risks associated with the daily operations and advise the Company on relevant regulatory matters to ensure due compliance with the PRC laws, rules and regulations applicable to the Group;

(iv) Established an audit committee with written terms of reference in compliance with code provision C.3 of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules, led by Mr. Wu Chi Keung. The audit committee and Mr. Wang Shaogang, an executive Director, will supervise the implementation of the internal control measures in order to better monitor the daily operations from the perspective of compliance with applicable rules and regulations;

(v) Established: (a) a set of policies and procedures for operational processes, including production, investment and financial management, (b) a sales contract registration system to better manage the sales contracts and to prevent future breaches of the sales contracts, and (c) a corporate policy on compliance matters, which had been reviewed and approved by the Company's management; and

(vi) Appointed a compliance adviser to advise the Company on compliance matters pursuant to Rules 3A.19 of the Listing Rules.

The Directors are of the view that the enhanced internal control measures are adequate and effective.

In order to maintain a sound internal control system, the Company has established and maintained stringent internal control procedures including the adoption of a corporate governance manual. Internal reporting guidelines have been developed at all department levels of the Company for identifying potential events of non-compliance, and all employees have been encouraged by management to report promptly any potential or actual non-compliance. A professional independent consultant has been engaged to provide internal audit/control review. The internal legal department of the Group is also responsible for coordinating ongoing trainings for the staff by selecting and recommending suitable courses for the Directors, the management level and other employees of the Group. Periodic review of the Company's human resources policies has also been carried out to ensure sufficient manpower for the implementation of internal control measures. The Board has regularly evaluated the internal control procedures in order to prevent and detect any internal control procedural errors.

JOINT COMPANY SECRETARIES

The Company has appointed Mr. Liu Gang ("Mr. Liu") as one of the joint company secretaries of the Company on 7 November 2013. Mr. Liu joined the Group in January 2012 with sound understanding of the operations of the Board and the Company. He has been closely involved in the preparation of the Company's Listing and hence is familiar with the legal and the Listing Rules' requirements in this regard. He also attended the Training Seminar. However, he does not possess the specified qualifications for a company secretary as required by Rule 3.28 under the Listing Rules.

Given the important role of the company secretary in the corporate governance of the Company, particularly in assisting the Company as well as the Directors in complying with the Listing Rules and other relevant laws and regulations, the Company has also appointed Mr. Kwok Siu Man ("Mr. Kwok"), who meets the requirements under Note 1 to Rule 3.28 under the Listing Rules, as the other joint company secretary to work closely with and provide assistance to Mr. Liu in discharge of the latter's duties and responsibilities as a joint company secretary of the Company. Mr. Kwok was nominated by Boardroom Corporate Services (HK) Limited ("BCS") to assume such office and BCS has been providing certain corporate secretarial services to the Company pursuant to an engagement letter entered into between the Company and BCS. The primary person at the Company with whom Mr. Kwok has been contacting in respect of company secretarial matters is Ms. Song Miao, assistant to President.

As Mr. Kwok was first appointed as the company secretary of a Hong Kong Hang Seng Index constituent stock company in 1991 and has been acting in such capacity for a number of other reputable companies listed on the Stock Exchange at substantial times since then, he is not required to have at least 15 hours of relevant continuous professional development training in the Year under the Listing Rules.

CORPORATE GOVERNANCE REPORT (CONTINUED)

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a special general meeting ("SGM")

Shareholders who hold not less than 10% of the paid-up capital of the Company as at the date of depositing the requisition can convene a SGM by serving a written requisition notice to the Board or the company secretary of the Company for the purpose of requesting for convening a SGM. The written requisition shall be deposited to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong and to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda for the attention of the Board or the company secretary of the Company.

If the requisition is well-founded, the Board will, according to the applicable rules and regulations, issue sufficient notice to all Shareholders for convening the SGM. If the requisition is improper, the Company will notify the relevant requesting shareholders of the objection and no SGM will be convened.

Procedures for shareholders to send enquires to the Board

Shareholders can forward their questions about shareholding, share transfer, registration and dividend payment to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited whose contact particulars are as follows:

Email address:	hkinfo@computershare.com.hk
Address:	Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
Tel. No.:	(852) 2862 8555
Fax. No.:	(852) 2865 0990/2529 6087

For enquiries about the Company's information, Shareholders can contact Mr. Kwok, one of the joint company secretaries of the Company, whose contact particulars are as follows:

Email address:	seaman.kwok@boardroomlimited.com
Address:	31st Floor, 148 Electric Road, North Point, Hong Kong.
Tel. No.:	(852) 2598 5234
Fax. No.:	(852) 2598 7500

or direct the enquiries to the Company's principal place of business in Hong Kong located at 31st Floor, 148 Electric Road, North Point, Hong Kong.

To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detailed contact information to the joint company secretaries of the Company at the Company's registered office.

The request will be verified with the Company's branch share registrar in Hong Kong and upon its confirmation that the request is proper and in order, the joint company secretaries of the Company will ask the Board to include the resolution in the agenda for the general meeting.

Moreover, the notice period concerning the notice to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to Bye-law 66 of the Bye-laws:

(a) for an annual general meeting, it shall be called by not less than 21 clear days' notice and not less than twenty (20) clear business days and any special general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days; and

(b) for all other special general meetings, they may be called by not less than 14 clear days' notice and not less than ten (10) clear business days.

Procedures for shareholders to propose a person for election as a Director

Shareholders of the Company can propose a person for election as a Director of the Company at a general meeting in accordance with Bye-law 111 of the Bye-laws. By doing so, the Shareholder should deposit (i) a written notice (the "Proposal Notice") of the intention to propose the person (the "Candidate") for election as a Director; and (ii) a written notice (the "Consent Notice") by the Candidate of his/her willingness to be elected at the address of the Company's (a) Principal place of business in Hong Kong or (b) Hong Kong branch share registrar and transfer office mentioned above at least seven (7) clear days before the date of the general meeting and the period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and shall be at least seven (7) clear days in length.

The Proposal Notice (i) must be accompanied by the information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Shareholder proposing the Candidate for election as a Director.

The Consent Notice (i) must indicate the Candidate's willingness to be elected and consent of the publication of his/her information as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Candidate.

CORPORATE GOVERNANCE REPORT (CONTINUED)

In order to allow the Shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, Shareholders who wish to make the proposal are urged to submit and lodge the Proposal Notice and the Consent Notice as early as practicable.

To enable the Shareholders to make an informed decision on their election at a general meeting, the Company shall publish an announcement or issue a supplementary circular as soon as practicable after the receipt of the Proposal Notice and the Consent Notice. The Company shall include particulars of the Candidate in the announcement or supplementary circular. The Company shall assess whether or not it is necessary to adjourn the meeting of the election to give members at least ten(10) business days to consider the relevant information disclosed in the announcement or supplementary circular.

The relevant procedures are available on the websites of the Company at www.ystdfarm.com and www.ystdairyfarm.com.

COMMUNICATION WITH SHAREHOLDERS

The Company has adopted a shareholders' communication policy on 7 November 2013 with the objective of ensuring that the shareholders, both individual and institutional (collectively, the "Shareholder(s)") of the Company and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments and governance), for the purpose of enabling the Shareholders to exercise their rights in an informed manner, and to allow them and the investment community to engage actively with the Company.

Information about the Company will be communicated to the Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications on the respective websites of the Stock Exchange and the Company.

CONSTITUTIONAL DOCUMENTS

Except for the adoption of new Bye-Laws by the Company to comply with the applicable legal and regulatory requirements (including the Listing Rules) on 7 November 2013 in anticipation of the Listing, there were no changes in the constitutional documents of the Company during the Year.

Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its memorandum of association and Bye-Laws on the respective websites of the Stock Exchange and the Company.

DIRECTORS' REPORT

The directors of the Company (the "Directors") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 (the "Year").

REORGANIZATION AND GLOBAL OFFERING

The Company was incorporated in Bermuda as an exempted company with limited liability on 1 May 2012. Pursuant to a reorganization to rationalize the group structure in preparation for the listing of the issued ordinary shares of HK$0.01 each (the "Shares") in the capital of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange" and the "Listing", respectively), the Company became the holding company of the Group. Details of the reorganization are set out in the "Reorganization" paragraph in the section headed "History, Development and Reorganization" of the Company's prospectus dated 14 November 2013 (the "Prospectus") and note 1 to the consolidated financial statements.

Following the initial public offering of 1,221,484,000 Shares of the Company (the "Global Offering"), the Company was listed on the Main Board of the Stock Exchange on 26 November 2013 (the "Listing Date").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. During the Year, the Company's subsidiaries were principally engaged in the production and sale of raw milk in the People's Republic of China (the "PRC").

RESULTS

The results of the Group for the Year and the state of affairs of the Company and of the Group as at 31 December 2013 are set out in the consolidated financial statements and their accompanying notes on pages 55 to 111 of this annual report.

ANNUAL GENERAL MEETING ("AGM")

The AGM for the Year is scheduled to be held on Friday, 6 June 2014. A notice convening the AGM will be issued and dispatched to the Shareholders in due course.

DIVIDEND

The board of Directors (the "Board") does not recommend the payment of any final dividend in respect of the Year (2012: Nil).

DIRECTORS' REPORT (CONTINUED)

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 4 June 2014 to Friday, 6 June 2014 (both days inclusive). In order to qualify for attending the AGM, all transfers documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 3 June 2014.

USE OF PROCEEDS FROM GLOBAL OFFERING

Based on the offer price of HK$2.7 per offer Share and 977,187,000 new Shares offered by the Company, the net proceeds received by the Company from the Global Offering, after deducting the underwriting commission, fixed listing preparation fee and other relevant expenses, amounted to approximately HK$2,564 million. For details of the use of proceeds, please refer to the "Use of Proceeds" paragraph under the section headed "Management Discussion and Analysis" on page 16 of this annual report.

FINANCIAL SUMMARY

A summary of the results as well as the assets and liabilities of the Group for the last four financial years is set out on page 112 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 25 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Year are set out in note 26 to the consolidated financial statements and the consolidated statement of changes in equity on pages 101 and 57, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserves available for distribution to equity holders, comprising the share premium, exchange fluctuation reserve and accumulated loss, amounted to approximately RMB2,492 million.

Under the Companies Act 1981 of Bermuda (as amended), the share premium account of the Company in the amount of RMB2,621 million may be applied for paying distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company (the "Bye-laws") and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the Year are set out in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales attributable to the Group's largest customer and the five largest customers accounted for approximately 36% and 100% respectively of the Group's total revenue for the Year. The purchases made by the Group from its the largest supplier and the five largest suppliers accounted for approximately 16.3% and 31.4% of the Group's total purchases for the Year, respectively.

None of the Directors or any of their associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS' REPORT (CONTINUED)

BOARD

The Directors who were in office during the Year and up to the date of this report are named as follows:

Executive Directors

Mr. Zhao Hongliang (趙洪亮) *(Chairman)* [R]
Mr. Wang Shaogang (王紹崗) *(Vice-Chairman)*
Mr. Fu Wenguo (付文國) *(Chief Executive Officer)* [N]
Ms. Su Shiqin (蘇士芹) *(Chief Financial Officer)*

Non-executive Directors

Mr. Sun Wei (孫瑋)	(appointed on 30 April 2013)
Mr. Lau Ho Fung (劉浩峰)	(appointed on 30 April 2013)

Independent Non-executive Directors ("INEDs")

Mr. Wu Chi Keung (胡志強) [A/R/N]	(appointed on 7 November 2013)
Mr. Zhang Yuezhou (張月周) [A/R/N]	(appointed on 7 November 2013)
Mr. Zhu Zhanbo (朱戰波) [A/R/N]	(appointed on 7 November 2013)

A: Member of the audit committee
R: Member of the remuneration committee
N: Member of the nomination committee

In accordance with Bye-law 108(A) of Bye-laws, Mr. Fu Wenguo and Ms. Su Shiqin, will retire from office by rotation at the AGM. Pursuant to Bye-law 111 of the Bye-laws, Mr. Sun Wei, Mr. Lau Ho Fung, Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo will retire from office at the AGM. All the above retiring Directors, being eligible, have offered themselves for re-election thereat.

CONFIRMATION OF INDEPENDENCE OF INEDS

The Company has received from each of the INEDs, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. At the date of this report, the Company considers all of them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical information of the Directors and senior management of the Group are set out on pages 18 to 24 of this annual report. Directors' other particulars are contained elsewhere in this report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zhao Hongliang, Mr. Wang Shaogang, Mr. Fu Wenguo and Ms. Su Shiqin, being all the executive Directors, entered into a service contract with the Company, pursuant to which each of them has agreed to act as an executive Director of the Company for an initial term of three years with effect from 1 November 2013. Details of each of the respective service contracts of the executive Directors are set out in the "*Directors' service contracts and appointment letters*" paragraph in section C headed "Further Information about our Directors and Substantial Shareholders" of Appendix IV to the Prospectus.

Each of the non-executive Directors entered into a letter of appointment with the Company, pursuant to which each of them has been appointed for an initial term of three years commencing on 1 November 2013.

Each of the INEDs entered into a letter of appointment with the Company, under which each of them has been appointed for an initial term of three years commencing on 7 November 2013.

None of the Directors proposed for re-election at the AGM as stated in the section headed "Board" above has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the executive Directors and the five individuals with the highest emoluments are set out in notes 8 and 9 to the consolidated financial statements, respectively.

Each of the non-executive Directors is not entitled to any Director's fee. Each of Mr. Zhang Yuezhou and Mr. Zhu Zhanbo, INEDs is entitled to a Director's fee of HK$125,000 per annum and Mr. Wu Chi Keung, an INED, is entitled to a Director's fee of HK$200,000 per annum.

DIRECTORS' REPORT (CONTINUED)

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

As at 31 December 2013, the interests of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Shares

Name of Director	Capacity/Nature of interest	Number of issued Shares held	Appropriate percentage of shareholding
Mr. Zhao Hongliang *(Note)*	Interest in a controlled corporation	1,333,600,000	34.12%

Note: 1,163,400,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao Hongliang, an executive Director and the Chairman. Therefore, Mr. Zhao Hongliang is deemed or taken to be interested in all the Shares beneficially owned by ZHL Asia Limited by virtue of the SFO.

170,200,000 Shares were beneficially owned by ZHY Asia Limited which is solely owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang.

ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao Hongliang and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao Hongliang is also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu, representing an aggregate of approximately 34.12% interest in the issued share capital of the Company.

Save as disclosed above, as at 31 December 2013, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares of the Company or any of its subsidiaries as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Listing Rules.

DIRECTORS' REPORT (CONTINUED)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2013, so far as it was known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) which had 5% or more interests in the Shares and the underlying Shares as recorded in the register kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

Name of Shareholders	Capacity/Nature of interest	Number of Shares/ Underlying Shares held	Appropriate percentage of shareholding
ZHL Asia Limited *(Note 1)*	Beneficial Owner	1,333,600,000	34.12%
Ms. Li Shuxia *(Note 2)*	Interest of spouse	1,333,600,000	34.12%
ZHY Asia Limited *(Note 1)*	Beneficial Owner	1,333,600,000	34.12%
Mr. Zhao Hongyu *(Note 1)*	Interest in a controlled corporation	1,333,600,000	34.12%
Credit Suisse (Hong Kong) Limited ("CSHK") *(Note 4)*	Beneficial owner	211,976,000 183,222,000(S) *(Note 3)*	5.42% 4.69%(S)
Credit Suisse AG ("CSAG") *(Note 4)*	Interest in controlled corporations	287,300,569 185,782,000(S) *(Note 3)*	7.35% 4.75%(S)

Notes:

1. Please refer to the note under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Share and Debentures" above.

2. Ms. Li Shuxia is the wife of Mr. Zhao Hongliang. Accordingly, Ms. Li Shuxia is deemed or taken to be interested in all the Shares in which Mr. Zhao Hongliang is interested for the purpose of the SFO.

3. The letter "S" denotes the entity's short position in the Shares.

4. CS AG beneficially owned 200,000 shares.

   CS HK beneficially owned 211,976,000 shares, representing approximately 5.42% of the total issued share capital of the Company and had a short position of 183,222,000 shares, representing approximately 4.69% of the total issued share capital of the Company. As CS HK is a direct wholly-owned subsidiary of CS AG, CS AG is deemed to be interested in the 211,976,000 shares owned by CS HK and is deemed to have a short position of the said 183,222,000 shares.

   Credit Suisse Securities (Europe) Limited ("CS Europe") beneficially owned 58,234,000 shares, representing approximately 1.49% of the total issued share capital of the Company and had a short position of 2,560,000 shares, representing approximately 0.065% of the total issued share capital of the Company. As CS Europe is an indirect wholly-owned subsidiary of CS AG, CS AG is deemed to be interested in the 58,234,000 shares owned by CS Europe and is deemed to have a short position of the said 2,560,000 shares.

   Credit Suisse Securities (USA) LLC ("CS USA") beneficially owned 16,890,569 shares, representing approximately 0.43% of the total issued share capital of the Company. As CS USA is a wholly-owned subsidiary of Credit Suisse (USA), Inc. which in turn is a wholly-owned subsidiary of Credit Suisse Holdings (USA), Inc. whose issued share capital is owned as to 57% by CS AG, CS AG is deemed to be interested in the 16,890,569 shares owned by CS USA.

   Therefore, CS AG is interested and is deemed to be interested in a total of 287,300,569 shares, representing approximately 7.35% of the total issued share capital of the Company and is deemed to have a short position of 185,782,000 shares, representing approximately 4.75% of the total issued share capital of the Company.

DIRECTORS' REPORT (CONTINUED)

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. The Share Option Scheme was adopted by the Company on 7 November 2013 (the "Adoption Date"), the principal terms of which are set out in section D headed "Share Option Scheme" in Appendix IV to the Prospectus and note 33 to the consolidated financial statements. No share options have been granted, exercised, cancelled or lapsed under the Share Option Scheme since the Adoption Date and there were no outstanding share options under the Share Option Scheme as at 31 December 2013.

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES

At no time during the Year was the Company nor any of its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as otherwise disclosed in the paragraph headed "Continuing Connected Transactions", no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year and up to the date of this report, none of the Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interest, as required to be disclosed under the Listing Rules.

NON-COMPETITION UNDERTAKINGS

As disclosed in the Prospectus, Mr. Zhao Hongliang, Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited (collectively, the "Controlling Shareholders") executed a deed of non-compete and other undertakings (the "Non-Compete Undertakings") in favour of the Company (for itself and for the benefits of its subsidiaries) on 7 November 2013. Pursuant to the Non-Compete Undertaking, each of the Controlling Shareholders has, amongst other matters, irrevocably undertaken to the Company on a joint and several basis that at any time during the Relevant Period (as defined therein), each of them will not, directly or indirectly, compete or may compete with the Company's business. A summary of the principal terms of the Non-Compete Undertakings is set out in the section headed "Relationship with our Controlling Shareholders" of the Prospectus.

The INEDs have reviewed the compliance by each of the Controlling Shareholders with the Non-Compete Undertakings. Each of the Controlling Shareholders has made an annual declaration as to the compliance with the terms of the Non-Compete Undertakings.

Save as the transactions between Dinghe Group (comprising Dinghe Modern, Dinghe Feeds and Dinghe Qinggang), and the Company in the paragraph headed "Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 29 to the consolidated financial statements, and saved as disclosed in the paragraph headed "Continuing Connected Transactions" below, none of them constitutes a connected transaction as defined under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Company entered into certain transactions with connected persons (as defined under the Listing Rules) of the Company and the Group also sold raw milk to the Feihe Dairy Group (as defined in the Prospectus) which has been deemed by the Stock Exchange to be the Company's connected person after the Listing pursuant to Rule 14A.06 of the Listing Rules. The latter transactions which continued after the Listing Date constituted continuing connected transactions of the Company under the Listing Rules. Brief details of these continuing connected transactions are as follows:-

Name of connected person	Relationship with the Company	Nature of transaction	Term	Applicable Listing Rules	Waiver sought
1(a) Heilongjiang Dinghe Modern Agricultural Company Limited*(黑龍江頂鶴現代農業股份有限公司 ("Dinghe Modern")	A company whose 66.7% equity interest is owned by Mr. Zhao Hongliang (a Controlling Shareholder, the Chairman and an executive Director), and hence his associate (as defined in the Listing Rules)	Supply of feeds to the Group for dairy cows	26 months from 1 November 2013 to 31 December 2015	Rule 14A.47 to 14A.54	Applied for and granted under Rule 14A.42
1(b) Heilongjiang Dinghe Feeds Company Limited* (黑龍江頂鶴飼料有限責任公司) ("Dinghe Feeds")	A company whose 90% equity interest is owned by Dinghe Modern				
1(c) Heilongjiang Dinghe Qinggang Husbandry Company Limited* (黑龍江頂鶴青崗草業有限公司) ("Dinghe Qinggang")	A company wholly owned by Dinghe Modern				
2. Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司) ("Feihe Dairy HLJ")#	One of the Group's customers and an independent third party	Purchase of raw milk from the Group	26 months from 1 November 2013 to 31 December 2015	Rule 14A.47 to 14A.54	Applied for and granted under Rule 14A.42

Connected Persons

1. **Dinghe Group**
   Mr. Zhao Hongliang is one of the Controlling Shareholders, an executive Director and the Chairman of the Company. He owns 66.7% equity interest in Dinghe Modern which in turn owns 90% and 100% of the equity interest in Dinghe Feeds and Dinghe Qinggang, respectively. Being an associate of Mr. Zhao Hongliang, each of Dinghe Modern, Dinghe Feeds and Dinghe Qinggang is a connected person of the Company under Rule 14A.11(4) of the Listing Rules following the Listing.

2. **Feihe Dairy Group**
   Feihe Dairy Group (comprising Feihe Dairy HLJ and its subsidiaries) is not a connected person of the Company for the purpose of Rule 14A.11 of the Listing Rules. However, due to the past relationship and transactions with Feihe Dairy Group, being one of the Group's customers, as disclosed in "Our Relationship with Feihe Dairy Group" paragraph in the section headed "History, Development And Reorganization" of the Prospectus, it has been deemed by the Stock Exchange as the Company's connected person after the Listing pursuant to Rule 14A.06 of the Listing Rules. As such, the Company has agreed to undertake to comply with Chapter 14A of the Listing Rules' requirements in respect of the transactions with the Feihe Dairy Group from the Listing Date.

Master Agreements

1. **Dinghe Master Agreement**
   For the purpose of complying with Rule 14A.35 of the Listing Rules, on 1 November 2013, (a) Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司) ("Ruixinda") and Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司) ("Ruixincheng"), both indirect wholly-owned subsidiaries of the Company, on the one part and (b) Dinghe Modern, Dinghe Feeds and Dinghe Qinggang (for themselves and on behalf of their subsidiaries from time to time) on the other part entered into a master agreement (the "Dinghe Master Agreement") for the supply of various feeds (including corn silage, alfalfa, corn starch, wet corn, flaked corn, oaten hay and oat), respectively. Before the Listing, the Directors estimated that the transaction amount for the relevant feeds sold by the Dinghe Group to the Group for the Year under the Dinghe Master Agreement would not exceed RMB30 million.

2. **Feihe Master Agreement**
   For the purpose of complying with Rule 14A.35 of the Listing Rules, on 1 November 2013, (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) on the other part entered into a master agreement (the "Feihe Master Agreement") for the purchase of raw milk. Before the Listing, the Directors estimated that the transaction amount for the purchase of raw milk by the Feihe Dairy Group from the Group for the Year would not exceed RMB320 million.

   Details of both of the Dinghe Master Agreement and the Feihe Master Agreement are set out in the section headed "Continuing Connected Transactions" of the Prospectus.

   During the Year, the Company sourced feeds from the Dinghe Group (comprising Dinghe Modern, Dinghe Feeds, Dinghe Qinggang and/or their respective subsidiaries) and sold raw milk to the Feihe Dairy Group. The aggregate purchase by the Company from the Dinghe Group amounted to RMB7.7 million. The aggregate sales of the Company to Feihe Dairy Group amounted to RMB319 million.

The Directors (including the INEDs) have confirmed that the above continuing connected transactions undertaken during the Year had been entered into in the ordinary and usual course of the Group's business, on normal commercial terms or on terms no less favorable to the Company than those available from independent third parties, and were fair and reasonable and in the best interests of the Company and its shareholders as a whole.

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules regarding the above continuing connected transactions.

Ernst & Young, Certified Public Accountants, the Company's independent auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on *Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Hong Kong Listing Rules"* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued their letter to the Board containing its findings and, unqualified conclusions in respect of the Group's continuing connected transactions disclosed above in accordance with the Listing Rules and qualified conclusions as to certain procurement of milk powder for indent sales from a deemed connected person. Details of the qualification are shown below:

Annual cap for procurement of milk powder for indent sales from a deemed connected person

Based on the information provided to Ernst & Young by the directors of the Company, in June 2013, Harbin Ruixincheng Trading Co., Ltd. ("RXC"), one of subsidiaries of the Group, entered into an agreement with 黑龍江飛鶴福萊恩商貿有限公司 (Heilongjiang Feihe Fulaien Trading Co., Ltd., "FLE Trading") under which RXC agreed to provide milk powder sourcing services to FLE Trading for the period from 1 July 2013 to 30 June 2014.

Upon sourcing the milk powder, RXC is eligible to receive a commission income from FLE Trading based on approximately 1% of the total indent sales.

During the period from 1 July 2013 to 31 December 2013, the Group identified Feihe Dairy Group as the milk powder supplier for FLE Trading. During the six months ended 31 December 2013, the total amount of milk powder procured from Feihe Dairy Group for indent sales to FLE Trading amounted to RMB406,860,000, on which the Group received a total commission income of RMB3,111,000 from FLE Trading.

Feihe Dairy Group is deemed to be a connected person of the Group after Listing by the Hong Kong Stock Exchange pursuant to Rule 14A.06 of the Listing Rules. Accordingly, the procurement of milk powder from Feihe Dairy Group constitute deemed continuing connected transactions of the Group. However, such transactions were not disclosed in the Company's prospectus dated 26 November 2013 nor other announcements made by the Company. In this respect, Ernst & Young are unable to determine whether a maximum annual cap is applicable to these transactions.

The Directors considered that FLE Trading is an independent third party, which is not connected with the Company or any of its connected persons. So far as the Company understands, Feihe Dairy Group has no shareholding or management relationship with FLE Trading. As the commission income is payable by FLE Trading to the Group, the Directors consider that such commission income did not constitute connected transactions.

DIRECTORS' REPORT (CONTINUED)

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that the Company has maintained a sufficient public float (i.e. at least 25% of the issued Shares were held by the public) as required by the Listing Rules from the Listing Date up to the date of this report.

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

Since the issued Shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date, the Company did not redeem any of its listed Shares nor did the Company or any of such subsidiaries purchase or sell any of such Shares during the Year.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 25 to 40 of this annual report.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company comprises all the three INEDs, namely Mr. Wu Chi Keung (*committee chairman*), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. It has reviewed with management the audited financial statements of the Company for the Year.

INDEPENDENT AUDITOR

The consolidated financial statements of the Company for the Year have been audited by Ernst & Young which will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having approved by the Board upon the audit committee's recommendation, a resolution to re-appoint Ernst & Young as the independent auditor and to authorise the Directors to fix its remuneration will be proposed at the AGM.

On behalf of the Board

Zhao Hongliang
Chairman

Hong Kong, 24 March 2014

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the shareholders of YuanShengTai Dairy Farm Limited
(Incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statements of YuanShengTai Dairy Farm Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 55 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F Citic Tower, 1 Tim Mei Avenue, Central,
Hong Kong
24 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	4	**880,760**	689,113
Cost of sales		**(505,835)**	(428,630)
Gross profit		**374,925**	260,483
Other income	4	**28,162**	17,513
Gain from non-interest-bearing financial arrangements	4	**50,938**	—
Listing expenses		**(27,629)**	—
Selling and distribution expenses		**(19,248)**	(17,383)
Administrative expenses		**(40,200)**	(22,843)
Finance costs	5	**(135,151)**	(45,742)
Changes in fair value less costs to sell of biological assets	17	**(13,678)**	17,713
PROFIT BEFORE TAX	6	**218,119**	209,741
Income tax expense	7	**(385)**	—
PROFIT FOR THE YEAR		**217,734**	209,741
Other comprehensive expense to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(4,878)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**212,856**	209,741
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT/COMPANY			
Basic and diluted	12	**RMB8.8 cents**	RMB9.0 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,341,360**	1,299,119
Prepaid land lease payments	14	**112,599**	117,747
Deposits for property, plant and equipment and biological assets	16	**51,065**	1,762
Biological assets	17	**1,088,318**	941,620
Amount due from a beneficial owner of a former shareholder	20	**55,618**	—
Total non-current assets		**2,648,960**	2,360,248
CURRENT ASSETS			
Inventories	18	**200,877**	139,122
Trade receivables	19	**64,633**	70,886
Prepayments and other receivables	16	**22,295**	10,195
Prepaid land lease payments	14	**4,546**	4,546
Amounts due from related companies	20	**—**	510
Cash and cash equivalents	21	**2,026,204**	7,748
Total current assets		**2,318,555**	233,007
CURRENT LIABILITIES			
Trade payables	22	**212,091**	207,655
Other payables and accruals	23	**351,182**	829,529
Amounts due to shareholders	20	**—**	134,521
Amounts due to related companies	20	**32,707**	366,106
Interest-bearing bank borrowings	24	**220,000**	166,497
Total current liabilities		**815,980**	1,704,308
NET CURRENT ASSETS/(LIABILITIES)		**1,502,575**	(1,471,301)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,151,535**	888,947
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**—**	298,477
Other payables	23	**185,829**	—
Amount due to a beneficial owner of a former shareholder	20	**54,950**	—
Total non-current liabilities		**240,779**	298,477
Net assets		**3,910,756**	590,470
EQUITY			
Issued capital	25	**30,727**	—
Reserves	26	**3,880,029**	590,470
Total equity		**3,910,756**	590,470

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2013

		Attributable to owners of the Company						
	Notes	Issued capital RMB'000	Merger reserve RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2012		—	186,000	—	—	—	194,729	380,729
Profit for the year and total comprehensive income for the year		—	—	—	—	—	209,741	209,741
At 31 December 2012 and 1 January 2013		—	186,000	—	—	—	404,470	590,470
Profit for the year		—	—	—	—	—	217,734	217,734
Other comprehensive expense for the year:								
Exchange differences on translation of foreign operations		—	—	—	—	(4,878)	—	(4,878)
Contributions from a shareholder	26(a)	—	—	—	455,505	—	—	455,505
Issuance of shares (pre-IPO Investors)	25	—	—	627,724	—	—	—	627,724
Share issue expenses	25	—	—	(16,814)	—	—	—	(16,814)
Capitalisation issue of shares	25	23,042	—	(23,042)	—	—	—	—
Issuance of shares on 26 November 2013	25	7,685	—	2,033,330	—	—	—	2,041,015
At 31 December 2013		30,727	186,000*	2,621,198*	455,505*	(4,878*)	622,204*	3,910,756

* These reserve accounts comprise the consolidated reserves of RMB3,880,029,000 (2012: RMB 590,470,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**218,119**	209,741
Adjustments for:			
Finance costs	5	**135,151**	45,742
Interest income	4	**(247)**	(116)
Depreciation	6	**50,718**	36,138
Recognition of prepaid land lease payments	6	**5,148**	4,049
Changes in fair value less costs to sell of biological assets	17	**13,678**	(17,713)
Gain from non-interest bearing financial arrangement		**(50,938)**	—
		371,629	277,841
Increase in inventories		**(61,755)**	(14,071)
Decrease/(increase) in trade receivables		**6,253**	(24,543)
Decrease/(increase) in prepayments and other receivables		**(12,100)**	26,737
Decrease in amounts due from related companies		**510**	490
Decrease in other payables and accruals		**(177,705)**	(217,771)
Increase in trade payables		**4,436**	65,069
Increase/(decrease) in amounts due to related companies		**(51,790)**	14,969
Exchange realignment		**(2,744)**	—
Cash generated from operations		**76,734**	128,721
Interest received		**247**	116
Tax paid		**(385)**	—
Net cash flows from operating activities		**76,596**	128,837

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(160,772)	(98,108)
Prepayment of land lease payments		—	(4,067)
Additions to biological assets		(193,535)	(142,659)
Deposits paid for property, plant and equipment		(49,303)	—
Proceeds from disposal of biological assets		33,159	23,762
Proceeds from disposal of items of property, plant and equipment		226	267
Receipt of government grants		1,375	1,485
Net cash flows used in investing activities		(368,850)	(219,320)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment to shareholders		(195,137)	(44,540)
Advance from a beneficial owner of a former shareholder		62,100	75,161
(Decrease)/increase in amounts due to related companies		(281,609)	118,046
Decrease in other payables		—	(17,463)
New bank borrowings raised		245,000	100,000
Repayments of interest-bearing bank borrowings		(489,974)	(126,496)
Interest paid		(23,395)	(23,896)
Proceeds from issue of shares		2,555,051	—
Capital contributions from a shareholder		455,488	—
Share issue expenses		(16,814)	—
Net cash flows from financing activities		2,310,710	80,812
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,018,456	(9,671)
Cash and cash equivalents at beginning of year		7,748	17,419
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,026,204	7,748

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2013

	Notes	2013 RMB	2012 RMB
NON-CURRENT ASSET			
Investments in subsidiaries	15	631	631
CURRENT ASSETS			
Amount due from subsidiary	15	893,025,497	—
Bank balances		1,645,876,276	—
Total current assets		2,538,901,773	—
CURRENT LIABILITIES			
Amounts due to subsidiaries	15	7,112,003	159
Other payables and accruals		9,311,055	—
Total current liabilities		16,423,058	159
NET CURRENT ASSETS/(LIABILITIES)		2,522,478,715	(159)
Net assets		2,522,479,346	472
EQUITY			
Issued capital	25	30,726,727	472
Reserves	26	2,491,752,619	—
Total equity		2,522,479,346	472

Zhao Hongliang
Director

Su Shiqin
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND REORGANISATION

YuanShengTai Dairy Farm Limited (the "Company") is a limited liability company incorporated in Bermuda and its registered office is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

During the year ended 31 December 2013, the Company and its subsidiaries (together, the "Group") are principally engaged in the production and sale of milk in the the People's Republic of China (the "PRC").

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 November 2013 (the "Listing Date").

On 4 May 2012, the Company was incorporated with authorised share capital of HK$580 divided into 58,000 ordinary shares of HK$0.01 each. To rationalise the corporate structure in preparation for the listing of its shares on the Stock Exchange (the "Listing"), the Company underwent a group reorganisation (the "Reorganisation"), further details of which are set out in the Company's prospectus dated 14 November 2013.

Upon the completion of the Reorganisation on 26 October 2012, the Company became the holding company of the companies then comprising the Group.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies then comprising the Group on 26 October 2012. Since the Company and the companies then comprising the Group were under common control of the controlling shareholders of the Company (the "Controlling Shareholders") both before and after the Reorganisation, the Reorganisation was accounted for using the principles of merger accounting.

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

2.1 BASIS OF PRESENTATION (Continued)

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"). They have been prepared under the historical cost convention, except for biological assets and agricultural produce, which have been measured at fair values less cost to sell. The financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (the "functional currency") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

Merger method

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

Acquisition method

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

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

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

2.1 BASIS OF PRESENTATION (Continued)

Acquisition method (Continued)

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

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

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

Fair value measurement

The Group measures its biological assets and agricultural produce at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	—	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

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

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

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

Biological assets

Dairy cows

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agricultural produce

Milk

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

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

Subsequent measurement

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated and Company's statement of financial position) when:

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)
The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

Revenue recognition

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

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

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

(c) commission income was recognised when the service is performed.

Employee benefits

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

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

Borrowing costs

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss .

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.4 SIGNIFICANT ACCOUNTING ESTIMATE

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

Estimation uncertainty

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

2.4 SIGNIFICANT ACCOUNTING ESTIMATE (Continued)

Estimation uncertainty (Continued)

Fair value of dairy cows

The Group's dairy cows are valued at fair value less cost to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of each reporting period adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 17 to the financial statements.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw milk. For the purpose of resources allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

The Group's revenue from external customers is derived solely from its operations in Mainland China.

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

All non-current assets were located in Mainland China.

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

During the year, the Group made sales to customers, which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2013 and 2012 is as follows:

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

4. REVENUE, OTHER INCOME AND GAIN

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

An analysis of revenue and other income is as follows:

	2013 RMB'000	2012 RMB'000
Revenue		
Sales of raw milk	880,760	689,113
Other income		
Government subsidies	19,623	14,391
Interest income from bank deposits	247	116
Sales of male calves	4,945	2,426
Commission Income	3,111	—
Others	236	580
	28,162	17,513
Gain		
Gain from non-interest-bearing financial arrangements with:		
— Feihe Dairy Group (Note 23(a))	48,786	—
— Meng Fanqing	2,152	—
	50,938	—

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

	2013 RMB'000	2012 RMB'000
Fair value of milk produced less costs to sell	861,512	671,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. FINANCE COSTS

An analysis of finance costs from operations is as follows:

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

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

6. PROFIT BEFORE TAX

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

	Notes	2013 RMB'000	2012 RMB'000
Breeding costs to produce		**394,866**	339,341
Production costs for raw milk		**110,969**	89,289
Cost of sales		**505,835**	428,630
Depreciation	13	**50,718**	36,138
Recognition of prepaid land lease payments	14	**5,148**	4,049
Auditors' remuneration		**3,282**	323
Changes in fair value less costs to sell of biological assets	17	**13,678**	(17,713)
Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**28,941**	21,917
Pension scheme contributions		**3,496**	1,719
		32,437	23,636
Foreign exchange differences, net		**4,088**	—

7. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2013 as the Group did not generate any assessable profits arising in Hong Kong during the year (2012: Nil) Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued the Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, a uniform income tax rate of 25% has been imposed for both domestic and foreign-invested enterprises from 1 January 2008.

According to the prevailing tax rules and regulations, certain subsidiaries of the Group are operating in the agricultural business and is exempted from enterprise income tax.

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

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

	2013		2012	
	RMB'000	**%**	RMB'000	%
Profit before tax	**218,119**		209,741	
Tax at the statutory tax rate	**54,530**	**(25.0)**	52,435	(25.0)
Effect of tax exemptions granted to agricultural entities	**(54,145)**	**(24.8)**	(52,435)	(25.0)
Tax charge at the Group's effective rate	**385**		—	

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executives' remuneration during the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2013 **RMB'000**	2012 RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**1,814**	970
Pension scheme contributions	**—**	—
	1,814	970

(a) Independent non-executive directors

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

	Fees RMB'000	**Salaries, allowances and benefits in kind** RMB'000	**Performance related bonuses** RMB'000	**Pension scheme contributions** RMB'000	**Total remuneration** RMB'000
2013					
Wu Chi Keung	**25**	**—**	**—**	**—**	**25**
Zhang Yuezhou	**17**	**—**	**—**	**—**	**17**
Zhu Zhanbo	**17**	**—**	**—**	**—**	**17**
	59	**—**	**—**	**—**	**59**
2012					
Wu Chi Keung	—	—	—	—	—
Zhang Yuezhou	—	—	—	—	—
Zhu Zhanbo	—	—	—	—	—
	—	—	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2013					
Executive directors:					
Fu Wenguo*	—	**99**	**502**	—	**601**
Wang Shaogang	—	**99**	**302**	—	**401**
Su Shiqin	—	**99**	**53**	—	**152**
Zhao Hongliang	—	**99**	**502**	—	**601**
	—	**396**	**1,359**	—	**1,755**
Non-executive directors:					
Sun Wei	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—
	—	—	—	—	—
2012					
Executive directors:					
Fu Wenguo*	—	595	—	—	595
Wang Shaogang	—	242	—	—	242
Su Shiqin	—	133	—	—	133
Zhao Hongliang	—	—	—	—	—
	—	970	—	—	970
Non-executive directors:					
Sun Wei	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—
	—	970	—	—	970

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

There was no agreement under which a director or the chief executive waived or agreed to waive any remuneration during 2013 and 2012.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors and the chief executive officer (2012: one directors and the chief executive officer), details of whose remuneration are set out in note 8 above.

The aggregate of the remuneration in respect of the individuals who are neither a director nor chief executives is as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	**423**	637
Performance related bonuses	**—**	—
Pension scheme contributions	**—**	11
	423	648

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

	2013 Number of employees	2012 Number of employees
Nil to HK$1,000,000	**2**	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2013 includes a loss of RMB113,336,000 (2012: Nil) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT/ COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2013 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB217,734,000 (2012: RMB209,741,000) and the weighted average number of ordinary shares in issue of 2,476,698,334 (2012: 2,320,000,000), on the assumption that the Reorganisation and the capitalisation issue (note 25(c)) had been completed on 1 January 2012.

No adjustment has been made to the basic earnings per share amount for the years ended 31 December 2013 and 2012 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during that year.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012, net of accumulated depreciation	596,088	600	86,527	2,398	43,213	424,259	1,153,085
Additions	13	273	44,100	3,717	6,954	127,382	182,439
Transfers	461,949	—	—	—	—	(461,949)	—
Depreciation provided during the year	(22,816)	(167)	(6,866)	(784)	(5,505)	—	(36,138)
Disposals/write-off	(40)	(5)	(167)	(4)	(51)	—	(267)
At 31 December 2012 and 1 January 2013, net of accumulated depreciation	1,035,194	701	123,594	5,327	44,611	89,692	1,299,119
Additions	70	2,399	4,753	5,261	6,598	74,556	93,637
Transfers	121,899	—	—	—	—	(121,899)	—
Depreciation provided during the year	(33,140)	(364)	(9,260)	(2,071)	(5,883)	—	(50,718)
Disposals/write-off	(452)	—	(46)	(1)	(179)	—	(678)
At 31 December 2013, net of accumulated depreciation	1,123,571	2,736	119,041	8,516	45,147	42,349	1,341,360
At 1 January 2012:							
Cost	604,705	661	89,529	2,586	46,810	424,259	1,168,550
Accumulated depreciation	(8,617)	(61)	(3,002)	(188)	(3,597)	—	(15,465)
Net carrying amount	596,088	600	86,527	2,398	43,213	424,259	1,153,085
At 31 December 2012 and 1 January 2013:							
Cost	1,089,758	1,147	138,101	7,360	54,903	89,692	1,380,961
Accumulated depreciation	(54,564)	(446)	(14,507)	(2,033)	(10,292)	—	(81,842)
Net carrying amount	1,035,194	701	123,594	5,327	44,611	89,692	1,299,119
At 31 December 2013:							
Cost	1,210,837	3,529	142,770	12,618	61,051	42,349	1,473,154
Accumulated depreciation	(87,266)	(793)	(23,729)	(4,102)	(15,904)	—	(131,794)
Net of accumulated depreciation	1,123,571	2,736	119,041	8,516	45,147	42,349	1,341,360

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

At 31 December 2013, certain of the Group's property, plant and equipment with carrying amounts of approximately RMB219,415,000 (2012: RMB13,396,000), were pledged to secure general bank loans granted to the Group (note 24).

All the Group's buildings located in mainland China did not have building ownership certificates. The directors of the Company have sought for PRC legal advice and have confirmed that the Group is eligible to use the buildings though the formal title to these buildings will not be granted to the Group.

14. PREPAID LAND LEASE PAYMENTS

Group

	2013 RMB'000	2012 RMB'000
Carrying amount at beginning of the year	122,293	122,275
Additions	—	4,067
Recognised during the year	(5,148)	(4,049)
Carrying amount at end of the year	117,145	122,293
Current portion	(4,546)	(4,546)
Non-current portion	112,599	117,747

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

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

15. INVESTMENTS IN SUBSIDIARIES

	2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	**631**	631

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB893,025,000 (2012: Nil) and RMB7,112,000 (2012: RMB159), respectively, as at 31 December 2013 are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Natural Dairy Farm Limited	BVI/Mainland China	USD100	100	—	Investment holding
Royal Dairy Farm Limited	Hong Kong/ Mainland China	HK$100	—	100	Investment holding
黑龍江甘南瑞信達原生態牧業有限公司 Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. ("Ruixinda Gannan")[#*]	Mainland China	RMB38,000,000	—	100	Production and sale of milk
黑龍江克東和平原生態牧業有限公司 Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. ("YST Heping")[#*]	Mainland China	RMB76,520,000	—	100	Production and sale of milk
黑龍江克東瑞信達原生態牧業股份有限公司 Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.[#*]	Mainland China	RMB186,850,000	—	100	Production and sale of milk
鎮賚瑞信達原生態牧業有限公司 Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd.[#*]	Mainland China	RMB60,000,000	—	100	Production and sale of milk
齊齊哈爾紅海原生態牧業股份有限公司 Qiqihar Honghai YuanShengTai Dairy Farming Joint Stock Husbandry Co., Ltd.[#*]	Mainland China	RMB5,000,000	—	100	Inactive

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
齊齊哈爾四方原生態牧業股份有限公司 Qiqihar Sifang YuanShengTai Dairy Farming Joint Stock Co., Ltd.#*	Mainland China	RMB5,000,000	—	100	Inactive
哈爾濱市瑞信達牧業有限公司 Harbin Ruixinda Dairy Farming Co., Ltd. ("Ruixinda")#*	Mainland China	RMB180,000,000	—	100	Investment Holding
齊齊哈爾瑞信達生態養殖有限公司 Qiqihar Ruixinda ShengTai Dairy Farming Co., Ltd.#*	Mainland China	RMB3,000,000	—	100	Inactive
哈爾濱市瑞信誠商貿有限公司 Harbin Ruixincheng Trading Co., Ltd. ("Ruixincheng")#*	Mainland China	RMB550,000,000	—	100	Trading of milk powder
拜泉瑞信達原生態牧業有限公司 Baiquan Ruixinda YuanShengTai Dairy Farming Co., Ltd.#*	Mainland China	RMB50,000,000	—	100	Inactive

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

* Registered as limited liability companies under PRC law.

16. PREPAYMENTS AND OTHER RECEIVABLES

Group

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. BIOLOGICAL ASSETS

A — Nature of activities

Dairy cows owned by the Group are primarily held to produce milk.

The quantity of dairy cows owned by the Group at 31 December 2013 and 2012 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 31 December 2013 and 2012 are dairy cows that have not had their first calves.

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

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

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

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sale of dairy cows is not one of the Group's principal activities and the proceeds is not included as revenue.

The Group is exposed to a number of risks related to its biological assets as follows:

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

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

17. BIOLOGICAL ASSETS (Continued)

B — Value of Dairy Cows

The value of dairy cows at the end of the year was:

	2013 RMB'000	2012 RMB'000
Dairy cows	**1,088,318**	941,620

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance as at 1 January 2012	359,541	445,469	805,010
Increase due to raising (feeding costs and others)	142,659	—	142,659
Transfer in/(out)	(264,943)	264,943	—
Decrease due to sales	(6,400)	(17,362)	(23,762)
Gain/(loss) arising from changes in fair value less costs to sell	94,856	(77,143)	17,713
Balance as at 31 December 2012 and 1 January 2013	325,713	615,907	941,620
Increase due to raising (feeding cost and others)	**193,535**	**—**	**193,535**
Transfer in/(out)	**(131,032)**	**131,032**	**—**
Decrease due to sales	**(4,840)**	**(28,319)**	**(33,159)**
Gain/(loss) arising from changes in fair value less costs to sell	**28,282**	**(41,960)**	**(13,678)**
Balance as at 31 December 2013	**411,658**	**676,660**	**1,088,318**

17. BIOLOGICAL ASSETS (Continued)

B — Value of dairy cows (continued)

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

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

- The quantities of the existing dairy cows at the end of the year will reduce at a certain culling rate due to natural or unnatural factors.

- The culling rates adopted are 10%, 13%, 15%, 23%, 35% and 100% for milkable cows in the first to sixth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.

- The average milk yield of each cow per day ranging from 21.32kg to 25.31kg during the projected period of six lactation cycles, which is the estimated amount of milk producible by a cow.

- The expected average prices of milk during the projected period of six lactation cycles, which is the estimated production period of a dairy cow, are estimated after taking into account 2% of growth for each projected year after considering future demand and inflation in Mainland China;

- The cash flows for financing the assets and taxation are not included as required by IAS 41 "*Agriculture*".

- Costs are average costs based on historical cost information and taking into account 3–4% growth for each projected year after considering future supply and inflation in Mainland China.

- The discount rates used are 15.0% (2012:14.7%) for the year ended 31 December 2013.

The principal valuation assumption adopted in measuring the fair value of heifers and calves is as follows:

- The valuation of fair value of biological assets has taken into consideration the transportation costs following IFRS 13 "*Fair Value Measurement*". Because of the import and export control of livestock in Mainland China, the directors are of the view that Mainland China is the principal market in determining the fair value. The transportation costs for estimated importing heifers and calves amounted to RMB56,556,000 (2012:RMB49,071,000), as at 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. BIOLOGICAL ASSETS (Continued)

B — Value of dairy cows (continued)

- The average market price of heifer of 14 months old is RMB21,000 (2012:RMB22,000) for the year ended 31 December 2013 and the average feeding cost per day of each calves and heifers is ranging from RMB21.78 to RMB24.26.

The aggregate gain or loss arising during the years ended 31 December 2013 and 2012 on initial recognition of dairy cows and milk and from the changes in fair value less costs to sell of dairy cows is analysed as follows:

	2013 **RMB'000**	2012 RMB'000
Fair value of milk produced less costs to sell	**861,512**	671,730
Gain/(loss) arising from changes in fair value less costs to sell	**(13,678)**	17,713
	847,834	689,443

C — Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's biological assets.

	Fair value measurement using significant unobservable inputs (Level3) RMB'000
As at 31 December 2013	**1,088,318**
As at 31 December 2012	941,620

17. BIOLOGICAL ASSETS (Continued)

D — Sensitivity analysis

Feeding costs sensitivity analysis for milkable cows

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

Group

	Increase/(decrease) Profit before tax	
	2013	2012
	RMB'000	RMB'000
Increase in feeding costs of 10%	**(39,487)**	(33,947)
Decrease in feeding costs of 10%	**39,487**	33,947

Milk price sensitivity analysis for milkable cows

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

Group

	Increase/(decrease) Profit before tax	
	2013	2012
	RMB'000	RMB'000
Increase in milk price of 10%	**88,076**	68,911
Decrease in milk price of 10%	**(88,076)**	(68,911)

18. INVENTORIES

Group

	2013 RMB'000	2012 RMB'000
Feeds	**187,618**	130,623
Others	**13,259**	8,499
	200,877	139,122

19. TRADE RECEIVABLES

Group

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

Note:

The balance contained trade receivable from Heilongjiang Feihe Dairy Co., Ltd. ("Feihe Dairy HLJ") and its subsidiaries (collectively "Feihe Dairy Group") of approximate RMB26,782,000 as at 31 December 2013 (2012: Nil).

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a few number of customers, there is concentration of credit risk as disclosed in note 32 to the financial statements. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

19. TRADE RECEIVABLES (Continued)

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

Group

	2013 RMB'000	2012 RMB'000
Within one month	64,633	41,051
Over one month and within two months	—	15,363
Over two months	—	14,472
	64,633	70,886

No impairment of trade receivables for each of the reporting period is provided.

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

Group

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. AMOUNTS DUE FROM/TO SHAREHOLDERS/TO A BENEFICIAL OWNER OF A FORMER SHAREHOLDER/RELATED COMPANIES

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

Group

	Note	**31 December 2013 RMB'000**	**Maximum amount outstanding during the year RMB'000**	**1 January 2013 RMB'000**
Due from a related company:				
Heilongjiang Dinghe Feeds Company Limited ("Dinghe Feeds")	(i)	**—**	**510**	**510**

Group

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

(b) An analysis of the amount due from a beneficial owner of a former shareholder is as follows:

	2013 RMB'000	2012 RMB'000
Meng Fanqing	**55,618**	—

20. AMOUNTS DUE FROM/TO SHAREHOLDERS/TO A BENEFICIAL OWNER OF A FORMER SHAREHOLDER/RELATED COMPANIES (Continued)

(c) An analysis of the amounts due to shareholders are as follows:

	2013 RMB'000	2012 RMB'000
Zhao Hongliang	—	59,360
Hu Yiyao	—	15,000
Zhang Dijun	—	10,000
Zhang Chaohui	—	25,000
Xiong Han	—	15,000
Song Miao	—	10,085
Xie Dehe	—	76

(d) An analysis of the amount due to a beneficial share owner of a former shareholder is as follows:

	2013 RMB'000	2012 RMB'000
Meng Fanqing	54,950	—

(e) An analysis of the amounts due to related companies are as follows:

	Notes	2013 RMB'000	2012 RMB'000
Heilong Beian Nongken Tianhe Commerce Company Limited ("HLJ Beian")	(i)	—	281,609
Dinghe Modern	(i)	30,700	30,331
Heilongjiang Dinghe Qinggang Husbandry Company Limited ("Dinghe Qinggang")	(i)	2,007	—
Heilongjiang Beian Reclamation Area Sanhe Construction Co., Ltd. Zhaoguang Branch ("Sanhe")	(ii)	—	54,166
		32,707	366,106

(i) Zhao Hongliang, a director of the Company, (the "Major Shareholder") is the solely beneficial owner of these entities.

(ii) The Major Shareholder is a responsible person of this branch until May 2013.

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

21. CASH AND CASH EQUIVALENTS

Group

	2013 RMB'000	2012 RMB'000
Cash and bank balance	**2,026,204**	7,748
Cash and cash equivalents denominated in:		
RMB	**1,752,087**	7,748
HK$	**251,663**	—
US$	**22,454**	—
	2,026,204	7,748

At 31 December 2013, the Group's cash and bank balances denominated in RMB amounted to RMB1,752,087,000 (2012:RMB7,748,000). The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

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

Group

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

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

23. OTHER PAYABLES AND ACCRUALS

Group

	2013 RMB'000	2012 RMB'000
Deferred income	12,048	21,439
Other payables — construction	44,334	78,251
Other payables — equipment and materials	15,163	48,833
Amount due to Feihe Dairy Group (note a)	379,852	598,287
Others	85,614	82,719
	537,011	829,529
Non-current portion (note a)	(185,829)	—
Current portion	351,182	829,529

Notes:

(a) On 28 and 29 September 2011, the Group acquired 100% interests in YST Heping and Ruixinda Gannan, respectively, from independent third parties, Feihe Dairy HLJ and Mr. Ma Jinyan. YST Heping and Ruixinda Gannan are engaged in raw milk production. The acquisition was made as part of the Group's strategy to expand its market share of dairy products in the PRC. The purchase consideration for the acquisition included a cash consideration of RMB114,520,000. The remaining purchase price of RMB691,244,000 is to be satisfied by the Group's delivery to Feihe Dairy Group, in six quarterly instalments from 29 September 2011 to 29 March 2013, of raw milk with an aggregate value at amortised cost of RMB691,244,000 from YST Heping and Ruixinda Gannan to be settled by cash or delivery of milk at the option of the Group.

On 25 April 2013, the Group further entered into a supplementary agreement with Feihe Dairy Group regarding the repayment of the outstanding purchase consideration of RMB532,254,000. Pursuant to the supplementary agreement, the outstanding purchase consideration would be settled in eleven quarterly installments of RMB48,387,000 per quarter from 1 April 2013 to 31 December 2015 by either cash or delivery of raw milk at the option of the Group. The extension of the repayment period gave rise to a gain of RMB48,786,000 in the profit or loss, being the adjustment in recalculating the carrying amount of the outstanding payable to Feihe Dairy Group by computing the present value of the re-estimated future cash flow at the original effective interest rate. (Note 4)

24. INTEREST-BEARING BANK BORROWINGS

Group

	2013			2012		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current						
Secured bank loans	6.0–7.2	2014	220,000	6.3–6.6	2013	100,000
Current portion of long term secured bank loans	—	—	—	6.3–6.6	2013	66,497
			220,000			166,497
Non-current						
Secured bank loans	—	—	—	6.8–7.8	2013–2019	298,477
			220,000			464,974

	2013 RMB'000	2012 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	220,000	166,497
In the second year	—	106,497
In the third to fifth years, inclusive	—	151,980
Beyond five years	—	40,000
	220,000	464,974

Certain of the Group's bank loans are secured by property, plant and equipments situated in Mainland China, with net carrying amounts of approximately RMB219,415,000 at 31 December 2013 (2012: RMB13,960,000).

25. SHARE CAPITAL

Company

	Notes	Number of ordinary shares of HK$0.01	Nominal value of ordinary shares HK$	RMB
Authorised:				
On incorporation and at 31 December 2012		58,000	580	472
Increased in authorised share capital on 7 November 2013		49,999,942,000	499,999,420	406,896,080
At 31 December 2013		50,000,000,000	500,000,000	406,896,552
Issued and fully paid:				
On incorporation and at 31 December 2012	(a)	58,000	580	472
Issuance of shares (pre-IPO investors)	(b)	15,289	153	123
Capitalisation issue of shares	(c)	2,931,486,711	29,314,867	23,041,569
Issuance of shares on 26 November 2013	(d)	977,187,000	9,771,870	7,684,563
At 31 December 2013		3,908,747,000	39,087,470	30,726,727

During 2013 and 2012, the movements in share capital were as follows:

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

(b) Pursuant to an ordinary resolution passed on 30 April 2013, 15,289 ordinary shares of HK$0.01 were allotted and issued to the pre-IPO investors for a total cash consideration of RMB606,220,500 (approximately HK$770,882,000 in aggregate).

(c) Pursuant to a resolution passed on 7 November 2013, 2,931,486,711 ordinary shares of HK$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appear on the register of members of the Company at the close of business on 7 November 2013 in proportion to their respective shareholdings.

(d) In connection with the Company's initial public offering, 977,187,000 ordinary shares of HK$0.01 each were issued at HK$2.7 per share for a total cash consideration, before expenses, of approximately HK$2,638,405,000.

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 57.

The amount of the Group's capital reserve is a capital contribution from Ms. SX Li to the Group.

(b) Company

		Share premium RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 15 May 2012 (date of incorporation), at 31 December 2012 and 1 January 2013		—	—	—	—
Loss for the year		—	—	(113,336)	(113,336)
Other comprehensive expense for the year:					
Exchange differences on translation of foreign operations		—	(16,109)	—	(16,109)
Issuance of shares (pre-IPO investors)	25	627,724	—	—	627,724
Share issue expenses	25	(16,814)	—	—	(16,814)
Capitalisation issue of shares	25	(23,042)	—	—	(23,042)
Issuance of shares on 26 November 2013	25	2,033,330	—	—	2,033,330
At 31 December 2013		2,621,198	(16,109)	(113,336)	2,491,753

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) During the year, the Group delivered raw milk of RMB161,964,000 (2012: RMB91,673,000) to Feihe Dairy Group for the settlement of considerations for the acquisition of Ruixinda Gannan and YST Heping.

(b) During the years ended 31 December 2013 and 2012, the finance income and expenses arisen due to accounting treatment on non-interest-bearing financial treatment are non-cash items.

28. CAPITAL COMMITMENTS

The Group had the following commitments at the end of the year:

	2013 RMB'000	2012 RMB'000
Contracted but not provided for:		
— Construction in progress	54,316	73,392
— Property and equipment	8,096	1,688
	62,412	75,080

29. RELATED PARTY TRANSACTIONS

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

	Notes	2013 RMB'000	2012 RMB'000
Loans from			
HLJ Beian	(i)	—	132,766
Dinghe Modern	(i)	—	30,000
Payments for Construction costs			
Sanhe	(iv)	54,218	50,300
Purchases of feeds			
Dinghe Modern	(ii), (iii)	563	1,331
Dinghe Feeds	(ii), (iii)	4,599	17,519
Dinghe Qinggang	(ii), (iii)	3,121	3,243

Notes:

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

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

(iii) The Major Shareholder is the solely beneficial owner of these entities.

(iv) The Major Shareholder is a responsible person of this branch until May 2013.

29. RELATED PARTY TRANSACTIONS (Continued)

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

	2013 RMB'000	2012 RMB'000
Short term employee benefits	**2,237**	1,391
Post-employment benefits	**—**	—
Total compensation paid to key management personnel	**2,237**	1,391

Further details of directors' and the chief executive officer's remuneration are included in note 8 to the financial statements.

30. FINANCIAL INSTRUMENTS BY CATEGORY

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

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair value, are as follows:

Group

	Carrying amounts		Fair values	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Financial assets				
Amount due from a beneficial owner of a former shareholder	**55,618**	—	**55,618**	—

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Group (Continued)

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Interest-bearing bank borrowings	**220,000**	464,974	**230,314**	545,658
Amount due to a beneficial owner of a former shareholder	**54,950**	—	**54,950**	—
	274,950	464,974	**285,264**	545,658

Management has assessed that the fair values of cash and cash equivalents, trade receivable, other receivable, amount due from/(to) related companies, approximate to their carrying amount largely due to the short term maturities of these instruments.

The fair values of the amount due from/(to) a beneficial owner of a former shareholder have been calculated by discounting the expected future cash flows using rate currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings was assessed to be insignificant.

The Group and the Company did not have any financial assets or financial liabilities measured at fair value as at 31 December 2013 (2012: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 for both assets and financial liabilities (2012: Nil).

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

	Valuation technique	Significant unobservable input
Amount due from/ (to) a shareholders	Discounted cash flow method	Incremental borrowing rate
Interest-bearing bank borrowing	Discounted cash flow method	Incremental borrowing rate

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Asset for which fair values are disclosed

Group
As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets				
Amount due from a beneficial owner of a former shareholder	—	—	55,618	55,618

Liabilities for which fair values are disclosed

Group
As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial liabilities				
Amount due to a beneficial owner of a former shareholder	—	—	54,950	54,950
Interest-bearing bank borrowings	—	—	230,314	230,314
	—	—	285,264	285,264

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Liabilities for which fair values are disclosed (Continued)

Group (Continued)
As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial liabilities				
Interest-bearing bank borrowings	—	—	545,658	545,658

The Company did not have any financial assets or financial liabilities disclosed at fair value as at 31 December 2013 (2012: Nil).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

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

	Group		Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2013				
RMB	**100**	**(15,321)**	**100**	**(16,218)**
HK$	**100**	**(2,517)**	**100**	**(241)**
US$	**100**	**(225)**	**—**	**—**
RMB	**(100)**	**15,321**	**(100)**	**16,218**
HK$	**(100)**	**2,517**	**(100)**	**241**
US$	**(100)**	**225**	**—**	**—**
2012				
RMB	100	(4,572)	—	—
RMB	(100)	4,572	—	—

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from bank deposits held by operating units in currencies other than the units' functional currencies. Approximately 14% (2012: Nil) of the Group's cash and cash equivalents were denominated in currencies other than the functional currency of the operating units.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ and US$ exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of monetary assets).

	Group		Company	
	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in equity	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in equity
	%	RMB'000	%	RMB'000
2013				
If RMB weakens against HK$	**3%**	**(7,550)**	**3%**	**(722)**
If RMB strengthens against HK$	**(3%)**	**7,550**	**(3%)**	**722**
If RMB weakens against US$	**3%**	**(674)**	**3%**	**—**
If RMB strengthens against US$	**(3%)**	**674**	**(3%)**	**—**
2012				
If RMB weakens against HK$	3%	—	3%	—
If RMB strengthens against HK$	(3%)	—	(3%)	—
If RMB weakens against US$	3%	—	3%	—
If RMB strengthens against US$	(3%)	—	(3%)	—

Credit risk

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

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

At the end of financial year ended 31 December 2013, the Group had certain concentrations of credit risk as 57% (2012: 47%), and 100% (2012: 100%) for the year ended 31 December 2013 of the Group's trade receivables were due from the Group's largest customer and the four largest customers, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines there are minimal concentrations of credit risk within the Group as the customers of the Group's trade receivables are recognised and creditworthy.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

Liquidity risk

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

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

Group

	On demand or no later than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2013				
Interest-bearing bank borrowings	**230,314**	**—**	**—**	**230,314**
Trade payables	**212,091**	**—**	**—**	**212,091**
Other payables and accruals	**370,498**	**193,547**	**—**	**564,045**
Amount due to a beneficial owner of a former shareholder	**—**	**60,000**	**—**	**60,000**
Amounts due to related companies	**32,707**	**—**	**—**	**32,707**
	859,072	**240,085**	**—**	**1,099,157**
2012				
Interest-bearing bank borrowings	198,784	326,803	20,071	545,658
Trade payables	207,655	—	—	207,655
Other payables and accruals	939,525	—	—	939,525
Amounts due to shareholders	134,521	—	—	134,521
Amounts due to related companies	311,940	—	—	311,940
	1,792,425	326,803	20,071	2,139,299

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company

	On demand or no later than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2013				
Amounts due to subsidiaries	**7,112**	**—**	**—**	**7,112**
Other payables and accruals	**7,784**	**—**	**—**	**7,784**
	14,896	**—**	**—**	**14,896**
2012				
Amounts due to subsidiaries	159	—	—	159
	159	—	—	159

Capital management

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

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

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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

	2013 RMB'000	2012 RMB'000
Interest-bearing bank borrowings	220,000	464,974
Less: Cash and cash equivalents	(2,026,204)	(7,748)
Net debt	—	457,226
Total equity	3,910,756	590,470
Total capital	3,910,756	1,047,696
Gearing ratio	—	43.6%

33. SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option Scheme") for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group. Eligible participants of the Share Option Scheme, at Company's directors discretion, include, *inter alia*, the Company's directors, covering the non-executive directors and independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, service providers rending research, development or other technological support services to the Group, the Group's shareholders, advisor or consultant of the Group and any other participants who contributed to the development and growth of the Group. The Share Option Scheme became effective on 7 November 2013 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

33. SHARE OPTION SCHEME (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which period may commerce from the date of grant of the option is made, but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercise.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Company's shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Company's shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Company's share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted under the Share Option Scheme during the year ended 31 December 2013 (2012: Nil).

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2014.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the published audited financial statements for the year ended 31 December 2013 and from the prospectus of the Company dated 14 November 2013, for the years ended 31 December 2010, 2011 and 2012 is as follows.

RESULTS

	Year ended 31 December			
	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**880,760**	689,113	148,785	337
Profit for the year	**217,734**	209,741	189,853	8,109

ASSETS AND LIABILITIES

	As at 31 December			
	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	**4,967,515**	2,593,255	2,386,426	826,378
Total Liabilities	**(1,056,759)**	(2,002,785)	(2,005,697)	(635,502)
Total Equity	**3,910,756**	590,470	380,729	190,876

Design And Produced By: EDICO Financial Press Services Limited

YuanShengTai Dairy Farm Limited

原生態牧業有限公司

31st Floor,148 Electric Road, North Point, Hong Kong

http://www.ystdfarm.com/