



YuanShengTai Dairy Farm Limited
原生態牧業有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1431

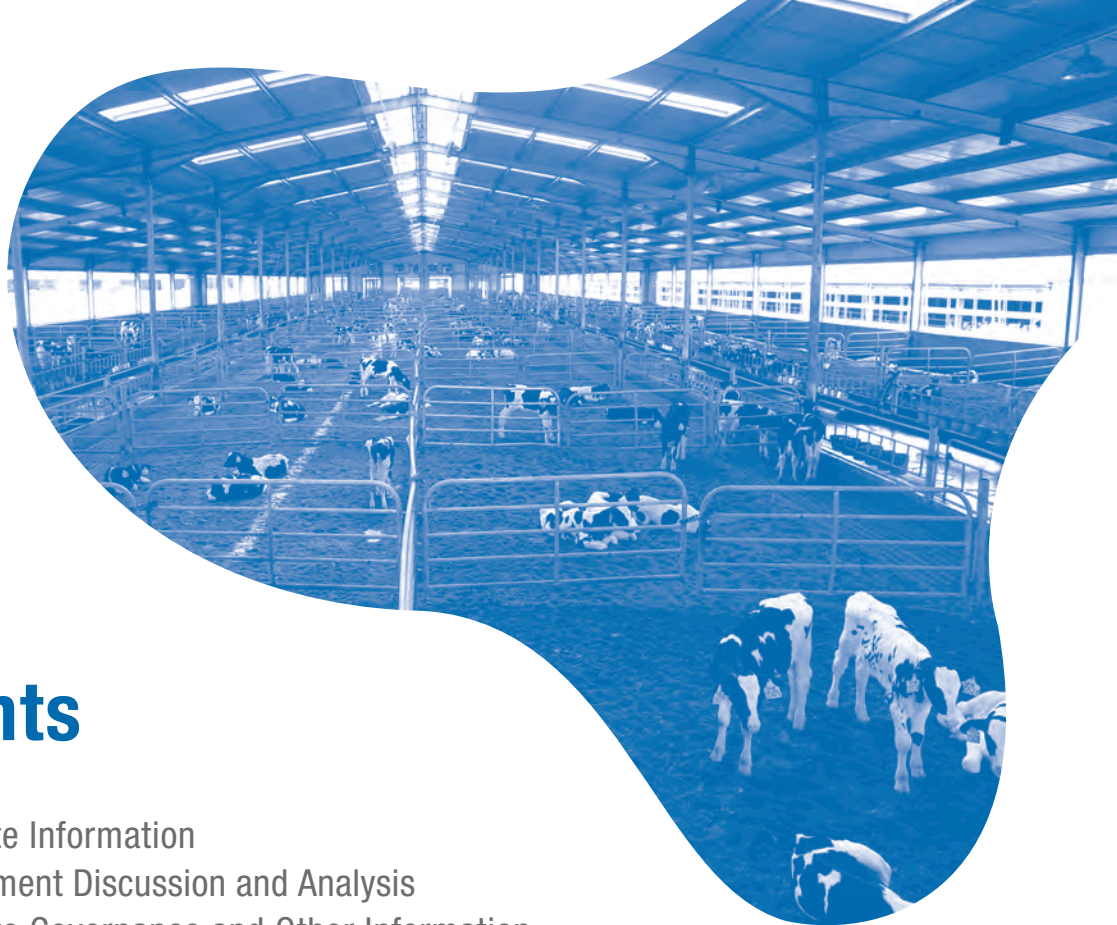


原生态牧业

2014

INTERIM REPORT





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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

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

EGAL 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/BOARD LOTS

1431/1,000

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2014, the central government of the People's Republic of China (the "PRC") continued to promote a healthy and sustainable development of the milk industry and dairy products industry in the PRC through the implementation of a variety of policies. The accelerated urbanization, expansion of the middle class and easing measures on the "One Child Policy" are beneficial to the steady growth of consumption in dairy products in PRC. In addition, the Chinese government implemented a number of policies to support the development of large-scale farms at national and regional levels, including tax incentive and government subsidy for the reconstruction and expansion of standardized management of large-scale farms, which contributed to the transition from extensive farming to standardized large-scale farming.

BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai Dairy Farm Limited (the "Company") together with its subsidiaries (collectively, "the Group") is one of the leading dairy farming companies in the PRC. In the first half of 2014, benefited from the rising average price of high-quality raw milk and continuous expansion in overall herd size which led to the increase in production, the Group's business recorded a significant growth. The total sales volume increased from 85,079 tons in the first half of 2013 to 105,640 tons, representing a strong growth of 24.2%. Total revenue rose to RMB556.0 million, an increase of 44.4% when compared with the corresponding period of last year (the first half of 2013: RMB385.1 million). As a result, the Group's total gross profit increased by 73.2% from RMB150.5 million to RMB260.6 million in the first half of 2014.

We enjoy wide recognition for our large operating scale and the premium quality of raw milk. In May 2014, the Company was included in the MSCI China Index, indicating investors' recognition of the Group as one of the leading suppliers of high-quality raw milk in PRC. Since the commencement of our business, we have established long-term relationships with PRC's leading dairy manufacturers. In 2014, the Group's top four customers were Feihe Dairy Group, Mengniu Group, Bright Dairy Group and Yili Group, of which two of the largest dairy products brands, Feihe Dairy Group and Mengniu Group, have been purchasing premium raw milk from the Group to produce high-end dairy products.

During the six months ended 30 June 2014 (the "Period"), we have been exploring the development of selenium-rich raw milk with certain research institutions in order to increase the value of our products and thus meet the users' demand for raw milk with superior quality. We will further cooperate with these research institutions, and after satisfaction of the relevant tests, the selenium-rich raw milk can be put into commercial production.

Construction of dairy farms

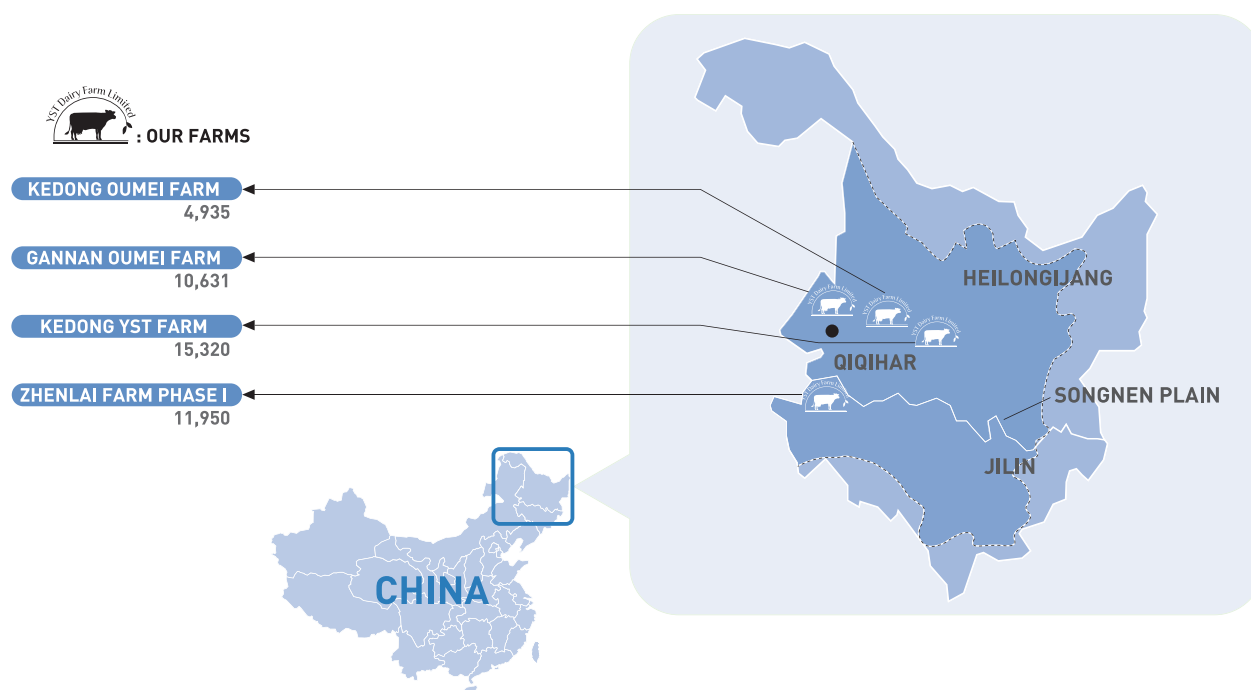
As of 30 June 2014, we had three farms in Heilongjiang Province and one farm in Jilin Province, each having an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and total site area of the four farms amounted to 3,221,000 square meters. In addition, our Kedong Yongjin Farm, which will have an actual designed capacity of 12,000 dairy cows, is under construction and will be put into service in the fourth quarter of 2014. The construction of Baiquan Farm, which will have an actual designed capacity of 15,000 dairy cows, is scheduled to commence in the second half of 2014. It is expected to be in service in the fourth quarter of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

It was disclosed in the annual report 2013 of the Company that the Group planned to construct two other farms (namely the Honghai Farm and Sifang Farm) in Heilongjiang province in 2014. After further research and studies on the geographical locations and soil quality of these proposed farms, the directors of the Company (the “Directors”) consider that it will be more beneficial to the Group’s production to construct two new farms in other locations which are in Heilongjiang province (and will not proceed with the establishment of the Honghai Farm and Sifang Farm). These two new farms will be named as the Keshan Farm and the Gannan Farm. The costs for constructing these two new farms are expected to be similar to those of the Honghai Farm and Sifang Farm.

Among these new farms under construction, we plan to establish some of them as organic dairy farms in the future.

	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

Milk yield

During the Period, our average annual milk yield per cow was 9.38 tons, representing an increase of 4.2% when compared to 9.0 tons in 2013. We expect our average milk yield per cow will further increase with the maturity of our farms and a more balanced age group of herd.

Size of our herd

Driven by the advanced management model of our farms, the number of dairy cows of our four dairy farms increased from 40,396 as of 31 December 2013 to 42,836 as of 30 June 2014. The total number of our milkable cows increased from 21,544 on 31 December 2013 to 24,505 on 30 June 2014. The increase of milkable cows enables the Group to produce more raw milk.

	30 June 2014	31 December 2013
Matured milkable cows	24,505	21,544
Heifers and calves	18,331	18,852
Total dairy cows	42,836	40,396

Price of raw milk

Leveraging on our distinguished geographical advantage, we are capable of producing premium raw milk. The indicators of microbes, somatic cell, fat and protein contained in our raw milk stay ahead of the levels of the European Union and the PRC industry. Due to the rising demand for high quality raw milk, as well as the superior quality of our raw milk, we are able to sell our raw milk at a price higher than the average sales price in the market. During the Period, our average sales price was RMB5,263 per ton, representing an increase of 16.3% comparing to the corresponding period of last year. In the past, we would consult our customers about price increases to adjust the price of our raw milk in order to reflect the increase in feed costs, and we are able to pass part of the increased cost to our customers.

OUTLOOK

Looking ahead, the continuous rise in per capita income and consumption levels of residents in the PRC and their growing concerns about health will continue to increase demand for high quality raw milk. The strengthened regulations enforced by relevant regulatory authorities help to promote integration of the industry, and will also be beneficial to the growth of market share for enterprises producing high quality raw milk. Besides, with the Chinese government's easing measures on the "One Child Policy", the space for the development of dairy products industry will be further expanded, creating favorable opportunities for continuous growth of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

With advanced herd management techniques, a large scale of herd, privileged geographic environment and favorable government support policies, the Group will further expand the business scale of its super large dairy farms. In addition to Kedong Yongjin Farm and Baiquan Farm, which are expected to be completed in the fourth quarter of 2014 and in the fourth quarter of 2015 respectively, we plan to build another three farms in the Songnen Plain in the next three years, with a view to replicating our business model of operating mega scale dairy farm. As scheduled, the Group will increase its total herd size to 100,000 by 2017. Fueled by the expansion of the Group's business scale, our milk production and sales volume are anticipated to experience further increase, while our operational efficiency will be improved and our management of dairy farms will be optimized. The Group's advantage in terms of economies of scale is expected to be consolidated as a result of these favourable developments.

We will explore opportunities to cooperate with overseas suppliers of dairy feed. We will continue to enhance our technologies of feeding, breeding and producing to improve production efficiency, and meanwhile, we will take efforts to expand our business to upstream business through long-term cooperation with local agricultural companies to diversify revenue sources, so as to further strengthen our position as China's leading dairy farming company. The Group will capture the opportunities in developing China's dairy products industry, especially the high-end raw milk industry, to maintain a stable long-term business growth. We are dedicated to becoming a national leading supplier of premium raw milk.

OUR REVENUE

During the Period, our total sales of milk produced increased by 44.4% to RMB556.0 million as compared with RMB385.1 million in the first half year of 2013. The increase of the total sales was benefited from the increase in production of raw milk. The sales volume reached 105,640 tons, representing an increase of 20,561 tons or 24.2% as compared with 85,079 tons in the first half year of 2013. Our ability to raise the raw milk price also helped to further enhance our gross profit margin. The average selling price of raw milk price had grown from RMB4,527 per ton in the first half year of 2013 to RMB5,263 per ton in the Period. The increase in selling price reflected the high demand for premium milk from our customers.

COST OF SALES

Our cost of sales for the Period was RMB295.4 million. The table below summarizes the components of our cost of sales by nature for the six months ended 30 June 2014 and 2013:

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Cost of sales		
Feed	226,936	181,680
Salary, welfare and social insurance	13,637	10,310
Depreciation	18,708	16,332
Veterinary cost	10,203	7,149
Utility	10,891	10,855
Other costs	14,990	8,341
Cost of sales, total	295,365	234,667

MANAGEMENT DISCUSSION AND ANALYSIS

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB226.9 million and RMB181.7 million for the six months ended 30 June 2014 and 2013, respectively, representing 76.8% and 77.4% of the cost of sales for the respective six months ended 30 June 2014 and 2013. The increase in our feed costs was attributable to the increase in feed consumption for the Period as the number of our milkable cows grew.

GROSS PROFIT

Resulted from the factors discussed above, the gross profit increased to RMB260.6 million for the Period, (the same period in 2013: RMB150.5 million), representing an increase of 73.2%. Our gross profit margin also increased from 39.1% for the six months ended 30 June 2013 to 46.9% in the first half year of 2014.

OTHER INCOME

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Other income		
Government subsidies	7,936	7,565
Interest income from bank deposits	8,774	64
Sales of male calves	4,105	2,311
Foreign exchange differences, net	8,981	—
Others	1,709	78
Other income, total	31,505	10,018

Other income for the six months ended 30 June 2014 and 2013 amounted to RMB31.5 million and RMB10.0 million, representing an increase of 214.5%, which was mainly attributable to the interest income from bank deposits and the foreign exchange differences.

SELLING AND DISTRIBUTION EXPENSES

All of the Group's selling and distribution expenses were transportation expenses of the Group's raw milk. Our selling and distribution costs was RMB10.3 million (the same period in 2013: RMB9.2 million), in line with the increase in sales volume in the first six months in 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

The table below summarizes the components of our administrative expenses:

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Administrative expenses		
Salary and welfare	6,199	3,471
Amortization	2,604	2,563
Travel, meal and entertainment	2,798	1,565
Professional fee	3,486	—
Depreciation	159	239
Insurance	2,693	1,736
Listing expenses	—	14,364
Others	3,363	2,253
Administrative expenses, total	21,302	26,191

We incurred administrative expenses of RMB21.3 million for the Period (for the first half of 2013: RMB26.2 million), representing a decrease of approximately 18.7% as compared to the same period of 2013.

FINANCE COSTS

Our finance costs was RMB23.5 million for the Period (for the first half of 2013: RMB58.2 million).

CHANGES IN FAIR VALUE LESS COST TO SELL OF BIOLOGICAL ASSETS

Changes in fair value less cost to sell of biological assets recorded a gain of RMB8.7 million in the Period as compared to a loss of RMB16.5 million in the six months ended 30 June 2013. The difference was due to parameter changes.

PROFIT OF THE GROUP FOR THE PERIOD

Taking into account all of the above factors and another factor that listing expenses were not incurred during the Period (while RMB14.4 million of listing expenses was recorded during the same period of last year), the Group's profit for the Period was RMB249.1 million, representing an increase of 150.1% as compared to RMB99.6 million for the period ended 30 June 2013. Basic earnings per share was approximately RMB6.8 cents for the Period (for the same period of 2013: RMB4.2 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

For the Period, the Group's net cash inflow from operating activities amounted to RMB236.0 million, as compared to RMB23.0 million in the first half of 2013.

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Bank borrowings	260,000	448,983
Other borrowings	—	—
Unsecured borrowings	—	—
Secured borrowings	200,000	21,803
Guaranteed borrowings	60,000	427,180
Carrying amount repayable		
Within one year	260,000	186,755
Between one to two years	—	106,238
Between two to five years	—	135,990
Over five years	—	20,000
Less: amount due within one year under current liability	260,000	186,755

As at 30 June 2014, the gearing ratio, being the ratio of total bank borrowings divided by total equity was 6.2% (30 June 2013: 39.3%).

The annual interest rate of the bank and other borrowings during the Period varied from 6.0% to 7.2% (for the same period in 2013: 6.0% to 7.2%). As at 30 June 2014, all borrowings were denominated in RMB.

INTERIM DIVIDEND

The board of Directors (the "Board") does not recommend the payment of any interim dividend for the Period.

SHARE OPTIONS

A share option scheme (the "Scheme") was conditionally adopted by a resolution in writing passed by the then shareholders of the Company on 7 November 2013. Under the Scheme, the Directors may grant options to subscribe for shares of the Company (the "Shares") to eligible participants, including without limitation employees of the Group, directors of the Company and its subsidiaries.

No share option was granted, exercised, cancelled or had lapsed under the Scheme during the Period. No share option was outstanding under the Scheme as at 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 30 June 2014, the Company's issued share capital was HK\$39,087,470 divided into 3,908,747,000 ordinary shares of HK\$0.01 each (30 June 2013: HK\$732.89 divided into 73,289 ordinary shares of HK\$0.01 each).

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

During the Period, the principal capital expenditures of the Group were related to major maintenance and addition of equipment at its existing dairy farms.

As part of the Group's future strategies, 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 unutilized net proceeds from the issue of new shares of the Company under the global offering as set out in the prospectus of the Company dated 14 November 2013 ("Prospectus").

There were no significant investments held as at 30 June 2014 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 of the Company first became listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 November 2013. 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. As of 30 June 2014, such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which an aggregate of HK\$147.8 million on construction of new farms, and an aggregate of HK\$42.6 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

During the Period, the Group did not have any material acquisitions and disposals of subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 30 June 2014, 40% of carrying value of buildings and equipment with carrying value of RMB533.5 million (30 June 2013: RMB13.3 million) were pledged as security for bank borrowings.

FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as United States dollar and Hong Kong dollar. 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.

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 at 30 June 2014 and 2013 were RMB68.4 million and RMB67.3 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 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group had approximately 1,100 employees (30 June 2013: 952 employees), all of whom were located in the PRC. The remuneration and staff cost for the Period were RMB19,836,000 (for the six months ended 30 June 2013: RMB13,739,000).

The salaries of the Group's employees largely depend on their type and level of work as well as their 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 by making reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

By Order of the Board

YuanShengTai Dairy Farm Limited

Zhao Hongliang

Chairman

Hong Kong, 21 August 2014

CORPORATE GOVERNANCE AND OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such shares during the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of shareholders. The Board considers that the Company complied with all the code provisions of 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") during the Period.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. In response to a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code during the Period.

REVIEW BY AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the three Independent Non-executive Directors, namely Mr. Wu Chi Keung (committee chairman), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. The Company's unaudited interim condensed consolidated results for the Period have been reviewed by the Audit Committee.

CHANGES IN INFORMATION OF A DIRECTOR

Pursuant to Rules 13.51(B) of the Listing Rules, the changes in information of a Director subsequent to the date of the 2013 Annual Report of the Company is set out below:

Mr. Wu Chi Keung, Independent non-executive Director

- resigned as an independent non-executive director of GreaterChina Professional Services Limited* on 2 July 2014
- appointed as an independent non-executive director of Link Holdings Limited* on 20 June 2014
- * both the above companies are listed on the Growth Enterprise Market of the Stock Exchange
- resigned as an independent non-executive director of China Renji Medical Group Limited on 15 July 2014, a company listed on the Main Board of the Stock Exchange

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2014, 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 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 (<i>Note</i>)	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 30 June 2014, 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 associated corporations 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2014, 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/who 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 ("CS HK") (Note 4)	Beneficial owner	211,976,000 183,222,000(S) (Note 3)	5.42% 4.69%(S)
Credit Suisse AG ("CS AG") (Note 4)	Interest in controlled corporations	287,300,569 185,782,000(S) (Note 3)	7.35% 4.75%(S)

Notes:

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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the board of directors of YuanShengTai Dairy Farm Limited

(Incorporated in the Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 17 to 32, which comprises the condensed consolidated statement of financial position of YuanShengTai Dairy Farm Limited (the “Company”) and its subsidiaries as at 30 June 2014 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board (the “IASB”).

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

22/F Citic Tower, 1 Tim Mei Avenue, Central,

Hong Kong

21 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six-month period ended 30 June	
		2014 (Unaudited) RMB'000	2013 (Audited) RMB'000
REVENUE		556,006	385,129
Cost of sales		(295,365)	(234,667)
Gross profit		260,641	150,462
Other income		31,505	10,018
Gain from a non-interest-bearing financial arrangement		5,051	49,195
Selling and distribution expenses		(10,279)	(9,248)
Administrative expenses		(21,302)	(26,191)
Finance costs		(23,480)	(58,180)
Changes in fair value less costs to sell of biological assets	9	8,662	(16,462)
PROFIT BEFORE TAX	4	250,798	99,594
Income tax expense	5	(1,744)	—
PROFIT FOR THE PERIOD		249,054	99,594
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		17,944	(2,440)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		266,998	97,154
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted		RMB6.8 cents	RMB4.2 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,348,998	1,341,360
Prepaid land lease payments		110,025	112,599
Deposits for property, plant and equipment and biological assets		167,043	51,065
Biological assets	9	1,188,643	1,088,318
Amount due from a beneficial owner of a former shareholder	11	—	55,618
Total non-current assets		2,814,709	2,648,960
CURRENT ASSETS			
Inventories		115,509	200,877
Trade receivables	10	143,004	64,633
Prepayments and other receivables		28,686	22,295
Prepaid land lease payments		4,546	4,546
Cash and cash equivalents		2,046,068	2,026,204
Total current assets		2,337,813	2,318,555
CURRENT LIABILITIES			
Trade payables	12	270,833	212,091
Other payables and accruals	13	333,313	351,182
Amounts due to related companies		16,175	32,707
Interest-bearing bank borrowings	14	260,000	220,000
Total current liabilities		880,321	815,980
NET CURRENT ASSETS		1,457,492	1,502,575
TOTAL ASSETS LESS CURRENT LIABILITIES		4,272,201	4,151,535
NON-CURRENT LIABILITIES			
Other payables	13	94,447	185,829
Amount due to a beneficial owner of a former shareholder	11	—	54,950
Total non-current liabilities		94,447	240,779
Net assets		4,177,754	3,910,756
EQUITY			
Issued capital	15	30,727	30,727
Reserves		4,147,027	3,880,029
Total equity		4,177,754	3,910,756

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Issued capital	Merger reserve	Share premium	Capital reserve	Exchange fluctuation reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	30,727	186,000	2,621,198	455,505	(4,878)	622,204	3,910,756
Profit for the period	—	—	—	—	—	249,054	249,054
Other comprehensive income for the period:							
Exchange differences on translation of foreign operations	—	—	—	—	17,944	—	17,944
At 30 June 2014 (unaudited)	30,727	186,000	2,621,198	455,505	13,066	871,258	4,177,754
At 1 January 2013	—	186,000	—	—	—	404,470	590,470
Profit for the period	—	—	—	—	—	99,594	99,594
Other comprehensive expense for the period:							
Exchange differences on translation of foreign operations	—	—	—	—	(2,440)	—	(2,440)
Total comprehensive expense for the period	—	186,000	—	—	(2,440)	504,064	687,624
Contribution from a shareholder	—	—	—	455,505	—	—	455,505
Issuance of new shares	1	—	—	—	—	—	1
At 30 June 2013 (audited)	1	186,000	—	455,505	(2,440)	504,064	1,143,130

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six-month period ended 30 June

2014
(Unaudited)
RMB'000

2013
(Audited)
RMB'000

	2014 (Unaudited) RMB'000	2013 (Audited) RMB'000
NET CASH FLOW FROM OPERATING ACTIVITIES	236,045	23,044
Purchases of items of property, plant and equipment	(40,559)	(106,798)
Additions to biological assets	(111,574)	(90,084)
Deposits paid for property, plant and equipment	(87,178)	(1,305)
Deposits paid for biological assets	(28,800)	—
Proceeds from disposal of biological assets	19,911	28,009
Receipt of government grants	7,400	7,565
Other investing cash flows	1,144	452
NET CASH FLOW USED IN INVESTING ACTIVITIES	(239,656)	(162,161)
Repayment to shareholders	—	(136,395)
Decrease in amounts due to related companies	—	(281,609)
Decrease in other payables	—	(51,384)
Increase in other financial liability	—	585,180
New bank borrowings raised	60,000	—
Repayments of interest-bearing bank borrowings	(20,000)	(15,991)
Capital contribution from shareholders	—	455,488
Other financing cash flows	(7,334)	(16,201)
NET CASH FLOW FROM FINANCING ACTIVITIES	32,666	539,088
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,055	399,971
Cash and cash equivalents at beginning of period	2,026,204	7,748
Effect of foreign exchange rate changes, net	(9,191)	250
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,046,068	407,969

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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 Period, the Group is principally engaged in the production and sale of milk in the People's Republic of China (the "PRC").

The Company's shares were listed on the Main Board of the Stock Exchange on 26 November 2013.

2 BASIS OF PRESENTATION

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the listing of Securities on the Stock Exchange and with International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board (the "IASB").

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the following new and revised International Financial Reporting Standards ("IFRSs") issued by the IASB for the first time for the current period's condensed consolidated financial statements.

IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) — <i>Investment Entities</i>
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i>
IAS 36 Amendments	Amendments to IAS 36 <i>Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets</i>
IAS 39 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC-Int 21	<i>Levies</i>

The adoption of these new and revised IFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED 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.

4. PROFIT BEFORE TAX

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

	Six-month period ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Audited) RMB'000
Breeding costs to produce	226,936	181,680
Production costs for raw milk	68,429	52,987
Cost of sales	295,365	234,667
Depreciation	28,259	24,877
Recognition of prepaid land lease payment	2,574	2,574
Foreign exchange differences, net	(8,981)	647

5. INCOME TAX

	Six-month period ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Audited) RMB'000
Tax charge for the period — Group: Current — Mainland China	1,744	—

6. INTERIM DIVIDEND

No dividend was paid or proposed by the Company during the six-month period ended 30 June 2014 and 2013.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount for the six-month period ended 30 June 2014 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB249,054,000 (30 June 2013: RMB99,594,000) and the weighted average number of ordinary shares in issue of 3,908,747,000 (30 June 2013: 2,320,000,000), on the assumption that the reorganisation and the capitalisation issue had been completed on 1 January 2013. The assumption adopted is same as the assumption in the Annual Report in note 12 dated 24 March 2014.

No adjustment has been made to the basic earnings per share amount for the six-month period ended 30 June 2014 and 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during both period.

8. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of RMB37,041,000. In addition, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB1,144,000 for cash proceeds of RMB1,323,000, resulting a gain on disposal of RMB179,000.

9. 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 30 June 2014 and 31 December 2013 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 30 June 2014 and 31 December 2013 are dairy cows that have not had their first calves.

	30 June 2014 (Unaudited) Heads	31 December 2013 (Audited) Heads
Dairy cows		
Milkable cows	24,505	21,544
Heifers and calves	18,331	18,852
Total dairy cows	42,836	40,396

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. BIOLOGICAL ASSETS (CONTINUED)

A — Nature of activities (Continued)

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.

B — Value of Dairy Cows

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Dairy cows	1,188,643	1,088,318

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance as at 1 January 2013	325,713	615,907	941,620
Increase due to raising (feeding cost and others)	193,535	—	193,535
Transfer (out)/in	(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 and 1 January 2014	411,658	676,660	1,088,318
Increase due to raising (feeding cost and others)	111,574	—	111,574
Transfer (out)/in	(167,270)	167,270	—
Decrease due to sales	(3,044)	(16,867)	(19,911)
Gain/(loss) arising from changes in fair value less costs to sell	19,815	(11,153)	8,662
Balance as at 30 June 2014	372,733	815,910	1,188,643

The fair values of the Group's dairy cows as at 30 June 2014 were estimated by using the same valuation techniques as adopted in the Annual Report in note 17 dated 24 March 2014.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. BIOLOGICAL ASSETS (CONTINUED)

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 (Level 3) RMB'000
As at 30 June 2014	1,188,643
As at 31 December 2013	1,088,318

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

	Six-month period ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Audited) RMB'000
Fair value of milk produced less costs to sell	545,727	375,881

10. TRADE RECEIVABLES

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

Group

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within one month	95,844	64,633
Over one month and within two months	41,343	—
Over two months	5,817	—
	143,004	64,633

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. TRADE RECEIVABLES (CONTINUED)

Group (Continued)

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. Trade receivables are non-interest-bearing.

11. AMOUNT DUE FROM/TO A BENEFICIAL OWNER OF A FORMER SHAREHOLDER

During the Period, the amount due from/to a beneficial owner of a former shareholder was settled by cash of approximately US\$10,000,000 (approximately RMB60,000,000) and RMB60,000,000, respectively.

12. TRADE PAYABLES

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

Group

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 2 months	161,571	154,358
2 to 6 months	72,286	33,718
6 to 12 months	33,132	12,618
Over 1 year	3,844	11,397
	270,833	212,091

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. OTHER PAYABLES AND ACCRUALS

Group

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Deferred income	12,160	12,048
Other payables — construction	43,143	44,334
Other payables — equipment and materials	12,836	15,163
Amount due to Feihe Dairy Group (note a)	274,382	379,852
Others	85,239	85,614
	427,760	537,011
Non-current portion (note a)	(94,447)	(185,829)
Current portion	333,313	351,182

Note:

- (a) On 28 and 29 September 2011, the Group acquired 100% interests in Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. ("YST Heping") and Ruixinda Gannan Ruixinda Dairy Farming Co., Ltd. ("Gannan Ruixinda"), respectively, from independent third parties, Heilongjiang Feihe Dairy Co., Ltd. ("Feihe Dairy HLJ") and Mr. Ma Jinyan. YST Heping and Gannan Ruixinda are engaged in raw milk production. The acquisition was made as part of the Group's strategy to expand its market share of dairy products in the PRC. The purchase consideration for the acquisition included a cash consideration of RMB114,520,000. The remaining purchase price of RMB691,244,000 is to be satisfied by the Group's delivery to Feihe Dairy HLJ and its subsidiaries (collectively "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 instalments 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.

14. INTEREST-BEARING BANK BORROWINGS

During the Period, the Group obtained new bank borrowings amounting to RMB60,000,000. All borrowings are repayable within one year and carry fixed rates ranging from 6.0% to 7.2%. The proceeds were used for general working capital purposes.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL

	30 June 2014 (Unaudited) RMB	31 December 2013 (Audited) RMB
Authorised: 50,000,000,000 ordinary shares of HK\$0.01 each	406,896,552	406,896,552
Authorised, issued and fully paid: 3,908,747,000 ordinary shares of HK\$0.01 each	30,726,727	30,726,727

16. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

- (a) During the Period, the Group delivered raw milk of RMB96,773,000 to Feihe Dairy Group for the settlement of considerations for the acquisition of Ruixinda Gannan and YST Heping.
- (b) During the period ended 30 June 2014 and 30 June 2013, the finance income and expenses arisen due to accounting treatment on non-interest-bearing financial treatment are non-cash items.

17. CAPITAL COMMITMENTS

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Contracted but not provided for:		
— Construction in progress	60,306	54,316
— Property and equipment	8,096	8,096
	68,402	62,412

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY TRANSACTIONS

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

		Six-month period ended 30 June	
		2014	2013
		(Unaudited)	(Audited)
		RMB'000	RMB'000
Payments for construction costs			
Heilongjiang Beian Reclamation Area Sanhe Construction Co., Ltd. Zhaoguang Branch	(i)	—	54,218
Purchases of feeds			
Heilongjiang Dinghe Modern Agricultural Company Limited	(ii), (iii)	463	355
Heilongjiang Dinghe Feeds Company Limited	(ii), (iii)	6,001	1,640
Heilongjiang Dinghe Qinggang Husbandry Company Limited	(ii), (iii)	300	1,059

Notes:

- (i) Zhao Hongliang, a director of the Company, (the "Major Shareholder") was a responsible person of this branch until May 2013.
- (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.

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

		Six-month period ended 30 June	
		2014	2013
		(Unaudited)	(Audited)
		RMB'000	RMB'000
Short term employee benefits		1,364	299
Post-employment benefits		—	—
Total compensation paid to key management personnel		1,364	299

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Financial assets				
Amount due from a beneficial owner of a former shareholder	—	55,618	—	55,618
	—	55,618	—	55,618

	Carrying amounts		Fair values	
	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Financial liabilities				
Interest-bearing bank borrowings	260,000	220,000	263,672	230,314
Amount due to a beneficial owner of a former shareholder	—	54,950	—	54,950
	260,000	274,950	263,672	285,264

Management has assessed that the fair values of cash and cash equivalents, trade receivable, other receivable, amounts due to related companies, approximate to their carrying amounts 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 and interest-bearing bank borrowings 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 did not have any financial assets or financial liabilities measured at fair value as at 30 June 2014 (31 December 2013: Nil).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

During the period, 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 (31 December 2013: 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 beneficial owner of a former share holder	Discounted cash flow method	Incremental borrowing cost
Interest-bearing bank borrowings	Discounted cash flow method	Incremental borrowing cost

Asset for which fair values are disclosed

There were no assets for which fair values were disclosed as at 30 June 2014.

As at 31 December 2013

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

Liabilities for which fair values are disclosed

As at 31 December 2013

Financial liabilities

Amount due to a beneficial owner of a former shareholder	—	—	54,950	54,950
Interest-bearing bank borrowing	—	—	230,314	230,314
	—	—	285,264	285,264

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities for which fair values are disclosed (continued)

As at 30 June 2014

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial liability				
Interest-bearing bank borrowings	—	—	263,672	263,672

20. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the Board on 21 August 2014.