中國輝山乳業控股有限公司

China Huishan Dairy Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 06863)

2014/15

Interim Report

ABOUT US

We are a leading and the most vertically integrated dairy company in China. Our business model covers the entire dairy industry value chain from growing and processing of alfalfa and supplementary feeds, processing of concentrated feeds, dairy farming and manufacturing and sales of dairy products under the "Huishan" brand. Currently, we are the only company in China capable of satisfying 100% of raw milk required for the production of liquid milk and milk powder products with raw milk produced by our self-operated farms. Our impeccable product safety records and high quality products stand behind a brand worth the trust of consumers in China.

CONTENTS

02 | Corporate Information

03 | Highlights

04 | Management Discussion and Analysis

25 | Other Information

32 | Independent Review Report

33 | Consolidated Statement of Profit or Loss

34 | Consolidated Statement of Profit or Loss and Other Comprehensive Income

35 | Consolidated Statement of Financial Position

37 | Consolidated Statement of Changes in Equity

39 | Condensed Consolidated Cash Flow Statement

40 | Notes to the Unaudited Interim Financial Report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Cheng Chi Heng
Mr. Li Kar Cheung

Independent Non-Executive Directors

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

SENIOR MANAGEMENT

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

STOCK CODE

Hong Kong Stock Exchange 6863

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HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of China Huishan Dairy Holdings Company Limited (the "Company") is pleased to present its interim report together with its unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of the Company and its subsidiaries (the "Group" or "Huishan") for the six months ended September 30, 2014 (the "Reporting Period").

FINANCIAL HIGHLIGHTS

Results

	Six months ended September 30,			
	2014		2013	
	Results before biological fair value adjustments RMB'000	**Results after biological fair value adjustments RMB'000**	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000
Turnover	**1,994,845**	**1,994,845**	1,533,919	1,533,919
Gross margin	**57.1%**	**22.2%**	58.0%	16.2%
Profit for the period	**483,623**	**789,252**	466,654	515,821
Earnings per share (RMB)[(1)]		**0.05**		0.04

- Turnover increased by 30.0% as compared to the corresponding period in 2013
- Profit for the period increased by 53.0% as compared to the corresponding period in 2013

(1) *Please refer to Note 8(a) on page 51 for the calculation of earnings per share.*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a leading and the most vertically integrated dairy company in China. In contrast to those dairy farming and dairy product processing companies which focus on a single area along the dairy value chain, our business model covers the entire dairy value chain from growing of alfalfa and supplementary feeds and processing of concentrated feeds to dairy farming and manufacturing and sales of dairy products under the "Huishan" brand. This "fully vertically integrated value chain" business model has maximised the upstream and downstream value throughout the dairy value chain by integrating each area along the dairy value chain effectively while ensuring the safety of raw materials and products, enabling us to enjoy leading profitability in the dairy product industry. Currently, we are the only company in China capable of satisfying 100% of raw milk required for the production of liquid milk and milk powder products by using raw milk produced by our self-operated farms. Our excellent product safety records and high quality products stand behind a brand worthy of the trust of consumers in China.

During the Reporting Period, we have continued to strengthen our upstream operations and resources advantages by importing dairy cows in large quantities, expanding the plantation areas of feeds for dairy cows and increasing total production of raw milk while maintaining cost advantage. Leveraging our own high quality raw milk resources, we were able to introduce new downstream products based on consumers' preferences, upgrade product mix and produce higher value-added products with high gross margins. Leveraging the same resources, we have improved our capability of developing specific products for specific geographical markets. Through strengthening brand awareness and establishing the distribution network, we were able to penetrate additional geographical end-markets outside the Northeastern region of China while further expanding our market share within the Northeastern region of China.

During the Reporting Period, the turnover of the Group reached RMB1,994.8 million, representing a growth of 30.0% from RMB1,533.9 million in the corresponding period of 2013. The growth was achieved primarily due to the significant increase in sales volume and average selling price of our products resulting from growth of our herd size, product mix enhancement and market expansion.

During the Reporting Period, we have mainly operated three business segments: (i) the dairy farming business, under which we primarily produced and sold raw milk; (ii) the liquid milk business, under which we primarily produced and sold liquid milk products; and (iii) the milk powder business, under which we primarily produced and sold milk powder products and dairy ingredient products.

Dairy Farming

- Herd size

	At September 30, 2014 Head	At March 31, 2014 Head
Milkable cows	**65,312**	61,286
Heifers and Calves	**97,082**	82,905
	162,394	144,191

As at September 30, 2014, we operated the largest number of dairy farms in China with 63 standardized dairy farms and a total herd size of 162,394 of dairy cows in Liaoning Province compared to 59 standardized dairy farms with a total herd size of 144,191 dairy cows as at March 31, 2014. During the Reporting Period, despite the shortage of dairy cow imports, we still managed to purchase 10,198 imported heifers by virtue of our advantage as being a "pioneer" in the dairy cow importing business over the years.

- Milk yield

We produced a total of 289,116 tonnes of raw milk for the six months ended September 30, 2014, an increase of 25.5% from 230,309 tonnes for the corresponding period in 2013. The improved results were attributable to the increase in number of milkable cows and more advanced and effective herd management.

During the Reporting Period, we recorded an average milk yield per milkable cow per annum of 9.1 tonnes, representing an increase of 5.8% from 8.6 tonnes in the corresponding period in 2013. Our herd includes Holsteins and Jerseys. The milk yield varies between different breeds of dairy cows. Jerseys, the smaller-sized dairy cows produce lower milk yield as compared with Holsteins. Prominent features of raw milk produced by Jerseys are with higher levels in milkiness and in richness of fat and protein. The high quality raw milk produced by Jerseys is exclusively utilized for processing high-end liquid milk products and infant milk formula powder products under the Huishan brand instead of being sold externally to other dairy companies.

- **Average selling price of raw milk**

  Our average selling price of raw milk amounted to RMB5,033 per tonne for the six months ended September 30, 2014 up from RMB4,823 per tonne for the corresponding period in 2013 due to the demand for high-quality raw milk in the dairy market.

- **Forage grass and feeds growing and concentrated feeds processing**

  Feed is a crucial element in determining the cost of raw milk and also the "first factor" affecting the raw milk quality produced by dairy cows. To build milk sources, the frontier of the industry value chain such as growing of feeds and feeds processing provide fundamental protection for raw milk safety and quality. As a fully vertically integrated dairy company that operates on the foundation of our scaled "self-operated farm" model, we strive to follow the philosophy of getting back to the source. We leased a vast area of agricultural land for large-scale planting with fixed rent. This strategic direction was consistent with the development trend and specific requirements of the modern agriculture industry of the PRC. For our dairy cows, we can ensure a high proportion of self-controlled feed materials, whose quality supply is fundamentally secured. This can also help mitigate the risk of rising prices of feed materials in the future.

  Our alfalfa plantation field has reached an aggregate area of more than 140,000 mu. As the largest commercial alfalfa plantation field in China, 40,000 mu of our alfalfa plantation field was awarded the "National Demonstration Area for High Yield and Quality Alfalfa" upon acceptance check and evaluation. Alfalfa is an essential forage for dairy cows, and our own alfalfa can bring feeding cost advantages while ensuring safe supply of feeds for dairy cows. As of the date of this announcement, we have harvested alfalfa three times in the current fiscal year totaling approximately 133,000 tonnes. Production costs have increased to US$108 per tonne from US$92 per tonne in the corresponding period of 2013 due to the slightly lower crop yield affected by the most severe drought in Liaoning, China over the last fifty years in some areas during the Reporting Period. As we raised our own alfalfa, we were able to save on import customs duties, freight costs and the profit typically retained by intermediaries. Therefore, our production cost was still substantially lower than the average CIF (cost, insurance and freight) price of imported alfalfa of close to US$400 per tonne during the Reporting Period. In addition, as our alfalfa plantation fields and our cow farms were located close together thanks to our scientifically well-laid-out production bases, we also saved an estimated RMB600–800 per tonne of alfalfa on domestic transportation cost.

  In April 2014, we planted other feeds for dairy cows including corn silage in Liaoning Province, China on leased land of approximately 240,000 mu at a fixed rent. The total planting area of corn silage including the land leased during previous years reached approximately 340,000 mu. Corn silage is an essential quality forage for dairy cows with advantages of, among other things, high yield, good quality, long storage period and simple processing procedure. It could also extend the milk production period of dairy cows. Corn silage has the highest feeds value among the top three crops in China. Our self-planted corn silage not only further strengthens the safety of our milk source at the origin, but also provides cost advantages and ensure quality and stable supply through fixed rent costs combined with implementation of large-scale mechanical operation and introduction of advanced Mexican corn silage plantation technology. During the Reporting Period, the area of our feeds plantation fields (including the above mentioned alfalfa plantation fields) exceeded 480,000 mu. Approximately 20,000 mu of the land was put under a two-harvest trial cultivation of oat and corn silage, which turned out to be a breakthrough in such plantation in Northern China for the agricultural industry. This success will contribute to our control over feeds plantation cost in the future and bring greater profitability to our fully vertically integrated business model from upstream. Moreover, the proximity of our feeds plantations to farms can on the one hand save transportation cost due to the shorter distance and on the other hand address the environmental issues by directly utilizing manure from the farms at the plantations as a reliable source of fertilizers, keeping the quality and moisture of soil of the plantations in good conditions.

Liquid Milk

In 2014, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased due to the decreasing prices of imported milk powder in large packages. In response to these market conditions, we kept optimizing our product mix using our advantages of milk sources produced by our own farms and of our quality dairy products with high protein and fresh pasteurized dairy products, thus strengthening our competitive differentiator, and focused on developing the Northern China market while consolidating our No. 1 position in the liquid milk market in Northeast China.

- **Optimizing Liquid Milk Product Mix**
  During the Reporting Period, we were engaged in producing and selling a variety of liquid milk products in four categories: pasteurized milk, ultra-high temperature (UHT) milk, yogurt and milk beverages. Leveraging our industry-leading upstream resources, we optimized and upgraded our product mix with quality fresh milk sources from our self-operated dairy farms as the cornerstone to achieve our competitiveness on differentiation. In June 2014, leveraging our milk source from Jerseys at Huishan's self-operated farms, we launched a series of premium dairy products under the brand "Jersey Farm" with 3.6 grams of protein, which was the first product in China 100% made from milk of Jersey cows and containing a high level of quality protein content as compared to the industry standard of 2.9 grams and to 3.3 grams of similar products in the market. During the Reporting Period, the series was primarily sold in key cities in regional markets such as Hebei and Shandong, as well as Northeast China.

  In recent years, domestic pasteurized milk consumption has started to rationalize. The sales growth of pasteurized milk in China is faster than that of UHT milk. For consumers, pasteurization technology can better protect nutrition and active substances. As more and more people come to appreciate the benefits of pasteurized milk, its consumption is rising gradually. Pasteurized milk must be produced by having quality and fresh milk sources as it can only be made from raw milk. Only processors with their own milk source bases and raw milk that meets the EU standard can produce pasteurized milk on a large scale and better safeguard product safety. For years, having adhered to the operation concept of "good cows, good grass and good milk", we have built the most highly concentrated milk source base in China, thus procuring all of our milk sources from our self-operated farms. Therefore, we have an absolute advantage in milk sources. Leveraging high-quality milk sources of Huishan's self-operated farms, we have adopted strict standard to produce additive-free, preservative-free and flavouring-essence-free pasteurized milk.

- Market Expansion

  As at September 30, 2014, our distribution network comprised 450 distributors and 416 supermarkets. During the Reporting Period, our liquid milk business made presence in markets outside the Northeast China region. We continued the initial roll-out for new regional markets in Shandong, Hebei, Sichuan etc. At present, we are selectively cooperating with major distributors in key cities in these new regions. In the future, we will gradually increase the number of these key cities and distributors to increase our market share in these new regions.

  During the Reporting Period, we increased promoting and marketing of pasteurized milk in the Northeastern market to increase the sales proportion of pasteurized milk in the total sales of liquid milk products. We have organized the first International Milk Festival in Shenyang, Changchun and Dalian, and adopted different market penetration strategies in different regions. We continued to educate consumers to shift their preferences towards pasteurized milk from UHT milk. At the same time, we focused on promoting gable-roof-shaped packaging to increase the unit price and profitability. As a result, we further strengthened our position as the No. 1 milk brand in the Northeastern region.

  In the market outside Northeast China, we mainly promoted our ultra-premium products "Jersey Farm" series. Our exclusive protein content resources of 3.6 gram became the starting point for consumers in the new market to recognize the Huishan brand. "Jersey Farm" series enjoyed an ultra-premium product positioning, which led to a differentiated method to promote such series as opposed to other ordinary products. Nearly 100 image stores were set up and aimed at targeted consumer groups in synchronization with the product launch press conference and advertisements shown on CCTV. Stores with opinion-leadership and certain high-end community stores were selected as major sales channels. The product coverage gradually expanded in connection with the rising brand awareness. Apart from regular promotion, we placed a greater emphasis on interaction with targeted consumer groups, and launched many promotion activities in high-end community stores across different regions. Meanwhile, we cooperated with locally-influential organizations in various markets such as bank branches and airports, striving to rapidly win consumers in targeted groups by leveraging the opinion-leadership of such organizations.

  As a result of optimizing the product mix and market expansion, our sales, average selling price and gross margin for our liquid milk products improved. Our sales of liquid milk products reached RMB1,177.9 million for the six months ended September 30, 2014, representing an increase of 17.5% from RMB1,002.3 million for the corresponding period in 2013. During the Reporting Period, our gross margin for our liquid milk business was 61.5% (after elimination of internal supplies of raw milk) as compared with 60.9% for the corresponding period in 2013.

Milk Powder — Infant Milk Formula ("IMF") Powder and Dairy Ingredients

- ### Distribution Network

During the Reporting Period, we have been dedicated to developing the domestic IMF market and expanding our distribution network. At present, we have a distribution network of approximately 825 distributors spreading over 19 provinces and Beijing, Tianjin and Chongqing and 6,743 distribution stores. We continued the initial roll-out in Hebei, Shandong, Henan, etc.. At present, we are selecting major distributors in key cities for cooperation in above-mentioned provinces. In the future, we will gradually increase the number of these cities and distributors to increase our product coverage. We have established a profitable distribution model based on the features of our products. In addition, we launched the new IMF series, "Huishan Red Label" (輝山紅裝). We sold products directly to mother-and-baby stores without any marketing and intermediaries to enhance the profitability of these stores. This sales model fully utilized the advantages of the mother-and-baby stores' direct access to a huge consumer base. As of September 30, 2014, we had a network of 333 mother-and-baby stores for direct sale of "Huishan Red Label" products.

Our secured self-established and self-controlled milk source under our fully vertically integrated value chain business model has been widely recognized by industry peers and consumers. We were selected by the China Dairy Industry Association to introduce new domestically-produced IMF products. In the Mother-Infant-Child Products Expo (孕嬰童產品博覽會) held in Shanghai and Beijing, we attracted a large number of distributors and consumers. We invited some distributors and store owners from Jiangsu, Hunan, Zhejiang, Anhui and Chongqing to witness with their own eyes the whole production process of Huishan milk powder from raw milk production to product processing. Our quality alfalfa grass plantation fields, scientifically-managed self-operated farms and modern milk product processing plants earned confidence of our distributors and store owners, greatly enhanced our brand awareness and quickly established sales channels.

While focusing on the establishment of distribution channels, we have also strived to diversify our product offerings. In September 2014, we launched high-vitamin high-calcium milk powder products for the middle-aged and elderly under the "Huishan" brand. During the Reporting Period, we sold an aggregate 1,478 tonnes of IMF products (including adult milk powder) (corresponding period in 2013: 924 tonnes).

- ### Dairy Ingredients

We also conduct in-depth research on the dairy ingredient market. We examine and analyze the demand in the catering and bakery market, seeking potential profitable opportunities. We aim to provide safe and stable ingredients for our customers in various industries with our quality, high protein milk sources. During the Reporting Period, we sold 7,998 tonnes of dairy ingredients, including non-dairy creamer and whole milk powder, etc. (corresponding period in 2013: 391 tonnes). Our major customers included FrieslandCampina of the Netherlands, one of the top five dairy companies in the world.

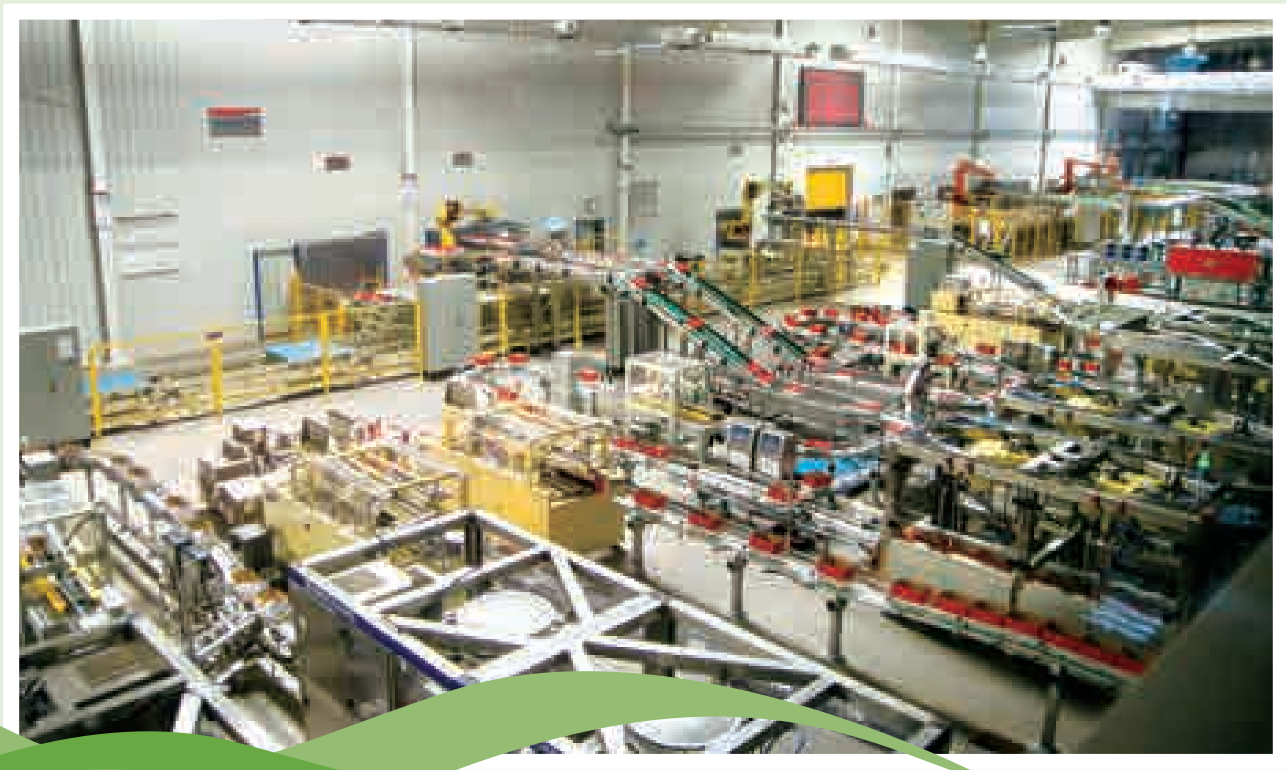
Quality Control

Our core value lies in the safety and quality of our products. Leveraging our fully vertically integrated value chain, we have resolved issues arising from competing economic interests among participants of key areas along the industry value chain. During the Reporting Period, we upheld our excellent safety records. We continue to improve our quality control in different areas along the fully vertically integrated value chain.

All of our milk powder and liquid milk processing plants in Faku, Jinzhou and Fushun, Liaoning Province have obtained Good Manufacturing Practice (GMP) certificates. GMP Certification is mandatory for enterprises producing IMF milk powder. Our certificates testify to our excellent manufacturing equipment, optimized production processes, sound quality control, strict inspection systems and excellent production environment, thereby ensuring the quality of our end products are in compliance with regulatory requirements (including those on food safety and hygiene).

Pursuant to the requirements of Rules for the Examination of Licensing Criteria for Enterprise Producing Formula Milk Powder of Infant Use (《嬰幼兒配方乳粉生產許可審查細則》) issued by the China Food and Drug Administration, all IMF manufacturers in China must re-apply, and obtain a milk powder production license before May 31, 2014. We have obtained such new license thanks to our strict quality control and advanced production.

In June 2014, the Ministry of Industry and Information Technology convened the Exchange Conference for the Construction of Quality and Safety Trace System for Enterprise Producing Formula Milk Powder of Infant Use (嬰幼兒配方粉企業質量安全追溯體系建設試點現場交流會), and officially launched the quality and safety tracing platform for food production enterprises. Leveraging development of our fully vertically integrated dairy value chain, we established a quality and safety traceability system for milk powder. Thus, we became one of the first pilot-organisations for traceability of IMF products in the PRC dairy industry and we were recognized as a 5A enterprise with "Transparent Supply Chain" by the Logistics Committee of the China National Food Industry Association.



Brand Building

Adhering to our strategy of the "Fully Vertically Integrated Value Chain Business Model", joining hands with leading professional brand-consultation and strategy-advisory firms, through continuous "multi-faceted and three-dimensional" brand advertising, we forged a brand image of "Mt. Everest Quality" and "Safe New Power in the Dairy Industry". Through advertising in the prominent media of China and other major media platforms in regions including Liaoning, Jilin, Shandong and Henan, we conveyed the advantages of our fully vertically integrated value chain business model strategy and our corporate core strength, thus increasing our brand awareness and influence in the industry, media and the public. We have built up a sound image for the Huishan brand and products, thus laying the foundation for us to expand into key regional markets outside Northeast China.

To enhance the brand awareness of "Huishan" and its products in areas outside the Northeastern region, we exclusively sponsored a teenage talent show titled "Power of Chinese Kids (少年中國強)". The program was broadcasted on CCTV Channel 1 in August 2014. We sponsored this program as we care for health and growth of the youngsters in China. More consumers can learn about Huishan through this program. The promotional slogan "Good Milk Raises Healthy Kids (好牛奶、強少年)" delivered the philosophy of the "Huishan" brand and the core message of high quality milk with protein level of 3.6 gram from Jersey Farm. In the program, we presented our vision to develop Huishan as a world-class producer of high protein dairy products and a comprehensive dairy product service provider through our "Mt. Everest Quality" Huishan products. We have also delivered a positive message in respect to the safety of dairy products to domestic consumers.

We signed four famous TV anchors from the Mainland, Hong Kong and Taiwan, namely CHEN Luyu (陳魯豫) (from Hong Kong), Kevin Tsai (蔡康永) (from Taiwan), HU Qiaohua (胡喬華) (from the Mainland) and ZHU Dan (朱丹) (from the Mainland), to be the spokespersons of the Huishan brand. We also filmed a TV commercial entitled "Safe New Power in China's Dairy Industry" (中國乳業安全新力量) to introduce our "grass to glass" fully vertically integrated value chain business model as the key message showcasing Huishan's achievement in establishing a fully vertically integrated value chain, thus building up a sound brand image. The commercial is now being broadcasted on different local TV channels and placed in targeted print media in Liaoning, Chongqing, Shandong, Henan and other regions. Under the long-term endorsement agreement, Huishan will be the only dairy brand for which the four will be spokespersons. The four TV anchors will separately join consumer-interacting activities across the country to endorse the business model and brand value of Huishan.

Joint Ventures

In May 2014, we entered into exclusive negotiation with FrieslandCampina for establishing a joint venture in production and sales of IMF milk powder within China. The joint venture will establish a locally produced IMF brand meeting international standards for consumers in China, leveraging the quality and safety of milk source of Huishan coupled with successful experience in management and marketing of IMF brands of FrieslandCampina making use of FrieslandCampina's already well-established distribution channels in China. On October 8, 2014, we officially entered into an agreement with FrieslandCampina in order to establish a joint venture partnership for the production, promotion and sale of IMF in China. Both parties are to hold a 50% stake in the joint venture. The principal operation of the joint venture is to produce and sell IMF products from quality raw milk supplied by Huishan and mutually agreed other products in the Mainland, Hong Kong and Macau Special Administrative Regions of China (hereinafter referred as to the "Territory"). Meanwhile, according to the terms of the agreement signed, FrieslandCampina has also committed to purchase shares of Huishan within six months from completion of the agreement for an amount of at least US$30.0 million and such shares will be subject to a six-year lock up period. The completion of above transaction is subject to satisfaction of certain conditions precedent including that all the notifications and filings in connection with the transaction having been made and requisite approvals or clearance having been obtained from the Ministry of Commerce of the People's Republic of China ("PRC"). As at the date of the interim report, the above transaction has yet to be completed.

In August 2014, we entered into a non-binding strategic framework agreement with the People's Government of Sheyang County, Zhejiang Province, China to establish a fully vertically integrated dairy value chain for feeds raising and processing, dairy farming, processing, sales and marketing of dairy products in Yancheng, Jiangsu Province, China for distributing consumer dairy products to Eastern China markets. With the increase of disposable income and continued urbanization, the growth of pasteurized milk market is expected to continue throughout China at an even faster pace than the growth of overall liquid milk market. As Eastern China is a more densely populated and economically developed region, the size of its dairy market is larger than that of the entire 3 provinces in the Northeast China combined. We will replicate our operation model of fully vertically integrated value chain in Jiangsu Province, thereby putting our strategic plan to expand and penetrate into geographical end-markets outside Northeast China into practice. The management believes this can open up important new markets for Huishan's products. We choose to set up in Sheyang because it is close to the major dairy market covering Jiangsu, Zhejiang and Anhui, thus providing the Group strategic advantages for our development with a focus on pasteurized milk market covering Shanghai and these provinces. At that time, we and Nantong Zongyi Investment Co., Ltd* (南通綜藝投資有限公司) ("Zongyi") (through its subsidiary Alpha Spring Limited ("Alpha Spring")) entered into a preliminary agreement, pursuant to which both parties were to jointly invest in a joint venture company to cooperate in developing the above project. Alpha Spring has been our partner since 2011. It invested in the Company as an exchangeable bondholder prior to the listing of the Company. It remains a shareholder of the Company. On November 3, 2014, we entered into a formal joint venture agreement (the "Joint Venture Agreement") with Alpha Spring. The Company and Alpha Spring will hold 65% and 35% of the total equity interest of the joint venture company, respectively. Upon establishment, the joint venture company will be a subsidiary of the Company.

FINANCIAL OVERVIEW

Turnover

The following table sets out the breakdown of our turnover by each operating segment for the six months ended September 30, 2014 and 2013:

	Six months ended September 30,					
	2014			2013		
	External Sales RMB'000	**Internal Supplies RMB'000**	**Subtotal RMB'000**	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000
Dairy farming business	**553,917**	**852,529**	**1,406,446**	424,143	644,848	1,068,991
Liquid milk business	**1,177,929**	**—**	**1,177,929**	1,002,268	—	1,002,268
Milk powder business	**262,999**	**—**	**262,999**	107,508	—	107,508
Consolidated turnover	**1,994,845**			1,533,919		

Our turnover increased by 30.0% to RMB1,994.8 million for the Reporting Period from RMB1,533.9 million for the corresponding period in 2013 primarily due to the increase in our sales of raw milk, liquid milk and milk powder businesses.

- Dairy farming business

  Compared with the corresponding period in 2013, turnover from our dairy farming business increased substantially primarily due to the continuous growth of our cow herd size and the increase in average selling price of our quality raw milk as a result of its inadequate supply in the market.

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

	Six months ended September 30,					
	2014			2013		
	Sales Amount RMB'000	**Sales Volume Tonne**	**ASP RMB/Tonne**	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
Raw Milk						
External Sales	**553,917**	**110,894**	**4,995**	424,143	88,341	4,801
Internal Supplies	**852,529**	**168,559**	**5,058**	644,848	133,289	4,838
Total	**1,406,446**	**279,453**	**5,033**	1,068,991	221,630	4,823

Turnover attributable to the internal use of raw milk increased substantially due to strong growth of our liquid milk business and milk powder business. The pricing of both external sales and internal supplies of raw milk is commensurate with quality based on the fair value in the market. As both the milk fat and protein content in the raw milk of Jerseys are higher than that of Holsteins, the selling price of the former is relatively higher. The raw milk of Jerseys is exclusively for internal use of our liquid milk and milk powder businesses instead of external sales so the average selling price of internal supplies is slightly higher than that of external sales.

- **Liquid milk business**

The following table sets out the breakdown of sales amount, sales volume and average selling price per tonne of our liquid milk products during the Reporting Period as compared to the corresponding period of 2013:

	Six months ended September 30,					
	2014			2013		
	Sales Amount RMB'000	**Sales Volume Tonne**	**ASP RMB/Tonne**	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
Liquid Milk Products						
Fresh Milk	**380,843**	**45,999**	**8,279**	161,119	23,984	6,718
UHT	**392,122**	**56,745**	**6,910**	420,255	71,963	5,840
Yogurt	**403,878**	**35,596**	**11,346**	412,896	40,825	10,114
Milk Beverage	**1,086**	**232**	**4,681**	7,998	2,004	3,991
Total	**1,177,929**	**138,572**	**8,500**	1,002,268	138,776	7,222

During the Reporting Period, the sales from our liquid milk business increased by 17.5% to RMB1,177.9 million from the corresponding period of 2013. For the six months ended September 30, 2014 and 2013, the sales from liquid milk accounted for 59.0% and 65.3% of consolidated turnover for the year, respectively. The share was lowered due to the higher proportion of the turnover of our milk powder business in the total turnover.

The turnover of our liquid milk business grew primarily due to the change of the product mix and the higher unit selling price. We have stepped up our marketing efforts for pasteurized milk with a higher nutritional value and stronger market competitiveness, and increase the proportion of higher-valued pasteurized milk in the overall liquid milk product series. During the Reporting Period, the sales volume of liquid milk was flat compared to the corresponding period of 2013.

During the Reporting Period, the average selling price of each type of liquid milk products was significantly higher than that in the corresponding period of 2013. The average selling price of liquid milk products increased to RMB8,500/tonne for the Reporting Period from RMB7,222/tone for the corresponding period of 2013.

- **Milk powder business**

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

	Six months ended September 30,					
	2014			2013		
	Sales Amount RMB'000	**Sales Volume Tonne**	**ASP RMB/Tonne**	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
IMF Products (including Adult Milk Powder)	**157,124**	**1,478**	**106,309**	91,639	924	99,176
Dairy Ingredients	**105,875**	**7,998**	**13,238**	15,869	391	40,586
Total	**262,999**	**9,476**	**27,754**	107,508	1,315	81,755

Our milk powder business consists of IMF products (including adult milk powder) targeted at consumers as well as dairy ingredient products targeted at industrial customers. During the Reporting Period, turnover from our milk powder business increased by 144.6% to RMB263.0 million from RMB107.5 million for the corresponding period of 2013 mainly due to increase in sales volume from IMF products (including adult milk powder) and dairy ingredient products.

Dairy ingredient products are customized to meet the demand from particular industrial customers. During the Reporting Period, our dairy ingredient products were primarily non-dairy creamer and whole-milk powder fat in a marked contrast to those in the corresponding period of 2013. As a result, the average selling prices of dairy ingredients for the periods are not comparable.

Gross profit and gross margin

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

	Six months ended September 30,			
	2014		2013	
	Gross Profit RMB'000	**Gross Margin %**	Gross Profit RMB'000	Gross Margin %
Dairy farming business				
Before elimination	**793,483**	**56.4**	636,516	59.5
After elimination	**317,377**	**57.3**	240,676	56.7
Liquid milk business				
Before elimination	**348,216**	**29.6**	225,269	22.5
After elimination	**724,520**	**61.5**	610,816	60.9
Milk powder business				
Before elimination	**78,959**	**30.0**	28,512	26.5
After elimination	**96,235**	**36.6**	38,805	36.1

- Dairy farming business

  Gross profit of our dairy farming business (before elimination of internal supplies of raw milk) increased by 24.7% to RMB793.5 million for the six months ended September 30, 2014 from RMB636.5 million for the six months ended September 30, 2013. Gross profit of our dairy farming business (after elimination of internal supplies of raw milk) increased by 31.9% to RMB317.4 million for the six months ended September 30, 2014 from RMB240.7 million for the six months ended September 30, 2013. The growth was primarily due to the substantial increase in the sales volume and the average selling price of our raw milk.

  Gross margin of our dairy farming business (before elimination of internal supplies of raw milk) remained at a relatively high level at 56.4% for the six months ended September 30, 2014 compared with 59.5% for the six months ended September 30, 2013. The slight decrease was primarily due to the adjustment on the feed formula, in order to increase milk yield and production volume of raw milk according to the change in market demand and supply, which caused the increase of the feeding costs of milkable cows during the Reporting Period compared to corresponding period last year, the rising labor, auxiliary materials and veterinary costs also contributed to higher feeding costs.

The following table sets forth the cost of sales of our dairy farming business:

	Six months ended September 30,			
	2014		2013	
	Cost of Sales		Cost of Sales	
	RMB'000	**%**	RMB'000	%
Feed	**476,443**	**77.7%**	343,406	79.4%
Labor Cost	**28,362**	**4.6%**	20,970	4.8%
Depreciation	**16,203**	**2.7%**	10,856	2.5%
Veterinary Costs	**33,336**	**5.4%**	16,913	3.9%
Utility Costs	**21,754**	**3.6%**	15,583	3.6%
Others	**36,865**	**6.0%**	24,747	5.8%
Total	**612,963**	**100%**	432,475	100%

- Liquid milk business

  Gross profit of our liquid milk business (before elimination of internal supplies of raw milk) increased by 54.6% to RMB348.2 million for the six months ended September 30, 2014 from RMB225.3 million for the six months ended September 30, 2013. Gross profit of our liquid milk business (after elimination of internal supplies of raw milk) increased by 18.6% to RMB724.5 million for the six months ended September 30, 2014 from RMB610.8 million for the six months ended September 30, 2013. The growth mentioned above was primarily due to the increase in the average selling price of our liquid milk products as a result of our change of product mix.

  Gross margin of our liquid milk business (before elimination of internal supplies of raw milk) increased to 29.6% for the six months ended September 30, 2014 from 22.5% for the six months ended September 30, 2013 primarily due to the increase in the average selling price as a result of our change of product mix.

- Milk powder business

  Our milk powder business includes IMF products and dairy ingredients. Gross profit of our milk powder business (before elimination of internal supplies of raw milk) increased by 176.9% to RMB78.96 million for the six months ended September 30, 2014 from RMB28.51 million for the six months ended September 30, 2013. Gross profit of our milk powder business (after elimination of internal supplies of raw milk) increased by 148.0% to RMB96.24 million for the six months ended September 30, 2014 from RMB38.81 million for the six months ended September 30, 2013 primarily due to the increase in sales volume of our milk powder products.

  Gross margin of our milk powder business (before elimination of internal supplies of raw milk) increased to 30.0% for the six months ended September 30, 2014 from 26.5% for the six months ended September 30, 2013 primarily due to gradually increasing economies of scale resulting from the significant growth in both output and the sales volume of milk powder, thereby lowering the unit cost.

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased by 45.8% to RMB1,075.2 million for the six months ended September 30, 2014 from RMB737.4 million for the six months ended September 30, 2013 primarily due to the increase in production volume of our raw milk and crops.

As required by International Financial Reporting Standards, agricultural produce harvested (consisting mainly raw milk, alfalfa and corn silage and other feed crops) is initially recognized at fair market value, and the difference between its fair market value and its actual costs is recognized in the profit or loss. Meanwhile, agricultural produce consumed (consisting mainly raw milk, alfalfa and corn silage and other feed crops) initially recognized at fair market value is recognized in the profit or loss as costs of sale. We have leased a vast area of land for planting alfalfa, corn silage and other feed crops. The gain arising from initial recognition of agricultural produce at fair market value less costs to sell at the point of harvest can be interpreted as the difference between the fair market value and our own production and planting costs of our own raw milk, alfalfa, corn silage and other feed crops, such difference represents the cost savings achieved by internally producing raw milk, alfalfa, corn silage and other feed crops as opposed to purchasing such agricultural produce externally.

Changes in fair value less costs to sell of biological assets

We recorded net losses arising from changes in fair value less costs to sell of biological assets, which amounted to RMB74.46 million and RMB46.53 million for the six months ended September 30, 2014 and 2013, respectively, primarily due to the culling of milkable cows with lower milk production level on a regular and systematic basis.

Other net income

Other net income includes government grants and others. Government grants are generally provided in relation to our agricultural activities and listing. Government grants recognized for the six months ended September 30, 2014 and 2013 amounted to RMB7.97 million and RMB5.11 million, respectively.

Operating expenses

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Distribution costs	**301,684**	115,682
Administrative expenses		
— Equity-settled share option expenses (non-cash)	**48,790**	77,450
— IPO expenses	**—**	31,329
— Others	**137,030**	79,884
Total operating expenses	**487,504**	304,345

Our operating expenses increased to RMB487.5 million for the Reporting Period from RMB304.3 million for the corresponding period of 2013.

Distribution costs are primarily related to labor costs, marketing expenses, channel expenses, advertising costs and transportation costs, etc. associated with liquid milk and milk powder products. During the Reporting Period, distribution costs amounted to RMB301.7 million, up 160.8% from RMB115.7 million in the corresponding period of 2013, primarily due to the increase in sales volume of raw milk, liquid milk and milk powder, and the rise in the expenses associated with increasing spending on advertising and brand awareness with a presence of our liquid milk and milk powder products in certain provinces. The distribution costs only accounted for 15.1% of the sales revenue, a lower proportion compared to the average level in the industry, despite their increase during the Reporting Period. We started to expand into key markets outside Northeast China mainly through distributors, which was different from the horizontal operation we had adopted in Northeast China. This is inevitable in the course of regional expansion. We also believe that we will be gaining greater market share with the existing spending on the market (brand awareness, advertisements, etc.).

As of September 27, 2013, 680,085,000 share options were granted to our employees under the employee share option scheme, and the equity-settled share option expenses included in administrative expenses during the Reporting Period were estimated to be RMB48.79 million according to the valuation results of the independent third party valuer CBRE Limited.

The growth of the others under administrative expenses was primarily due to the increase in the insurance premium in respect of dairy cows resulting from our greater herd size, and the higher labor costs resulting from the growth in the number of the management in line with the Company's business and scale expansion.

Net finance costs

Our net finance costs increased to RMB155.8 million for the Reporting Period from RMB107.2 million for the corresponding period in 2013 primarily due to higher interest expenses on increased bank loans arising from our capital expenditure during the Reporting Period.

Current ratio and debt ratio

As of September 30, 2014, our current ratio (current assets/current liabilities) was approximately 1.48 compared to 2.49 as of March 31, 2014. As of September 30, 2014, the debt ratio was 23.9% compared to 4.4% as of March 31, 2014. Debt ratio was calculated by net debt (aggregated bank loans and other borrowings net of cash and cash equivalents, term deposits, pledged deposits and restricted cash and amounts receivable from banks for wealth management products purchased) over the equity attributable to owners of the Company.

Liquidity and capital resources

During the Reporting Period, we financed our operations primarily through net cash inflows from our operations, and proceeds from bank loans. On September 27, 2013, proceeds of RMB5,983.3 million were received upon the issuance of shares by initial public offering. As of September 30, 2014, we had RMB2,954.4 million in cash and cash equivalents, which were denominated in Renminbi, HK dollars and US dollars. Our cash and cash equivalents primarily consist of cash on hand and bank deposits.

Capital expenditures

We had capital expenditures of RMB2,675.8 million and RMB1,114.1 million for the six months ended September 30, 2014 and 2013, respectively, which were used primarily to purchase property, plant and equipment, pay for lease prepayments and purchases of dairy cows.

Working capital

As of September 30, 2014, we had net current assets of RMB1,973.6 million (March 31, 2014: net current assets of RMB4,363.4 million).

Indebtedness

As of September 30, 2014, our outstanding short-term bank loans due within one year, including the current portion of long-term loans, amounted to RMB2,411.3 million at interest rates ranging from 4.45% to 7.21%. As of September 30, 2014, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB5,084.0 million at interest rates ranging from 2.75% to 7.58%, inclusive of fixed-rate bank loans of approximately RMB5,541.7 million.

The management believes that the existing financing resources will be sufficient to meet current operations, current and future expansion plans and, if necessary, we will be able to obtain additional financing with favorable terms. There is no material effect of seasonality on our borrowing requirements.

For the six months ended September 30, 2014, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed.

The book value of our lease prepayments and property, plant and equipment that were used to secure our long-term bank loans was RMB3,769.4 million as of September 30, 2014. In addition, certain of our long-term bank loans were guaranteed by our related parties and/or other third parties.

USE OF PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on September 27, 2013. Net proceeds from the global offering amounted to approximately HK$7,544.6 million. As at September 30, 2014, such net proceeds have been applied in uses as disclosed in the prospectus of the Company dated September 13, 2013, where RMB1,313.5 million was used in importing dairy cows and constructing cow farms, RMB800.0 million in leasing land and acquisition of machinery and equipment, RMB295.5 million in advertising and expanding distribution network, RMB216.6 million as working capital, and the balances have been deposited to licensed financial institutions in Hong Kong and Mainland China. We currently do not have any intention to change its plan for the use of proceeds as stated in the prospectus of the Company dated September 13, 2013.

HUMAN RESOURCES

We had approximately 10,058 employees in Mainland China and Hong Kong as at September 30, 2014. During the Reporting Period, total staff costs, including the portion accounted for in the profit and loss statement and capitalised to assets but excluding independent non-executive Directors' fees, were approximately RMB236.8 million as compared to RMB152.3 million for the corresponding period in 2013.

Our remuneration policies aim to attract, retain and incentivize talents to ensure competency of our team in implementing our business strategies and to maximize shareholder value. We will regularly review our remuneration policies and employee benefits with reference to market practices and performance of individual employees.

College-enterprise cooperation is a fundamental security for the implementation of our talent pool building strategy. We have placed great emphasis on recruiting and training talents from colleges. We are engaged in college-enterprise cooperation with more than 50 institutes across the country to specially design the career path for university graduates.

In consultation with Aon Hewitt, an internationally renowned human resources consulting company, we streamlined and refined our organizational structure and position hierarchy in order to define our functions and management models, duties of departments and positions, to re-plan our core business processes and to continually enhance the institutionalized and standardized processes of our management. A dedicated survey was conducted for the entire workforce to identify areas that require improvement for our Group, providing directions and guidance for improving and enhancing human resources management.

To cater for the deployment of our talent-oriented strategy, we launched "MUDUO" initiative that promoted building a team of lecturers from our internal pool of employees and improved their capabilities through a complete training program. This allows us to better utilize our internal practical best practice, and to help more staff members grow together, thus laying the foundation for training our teams of talent and for rapidly developing our organization.

During the Reporting Period, thanks to our positive image as an employer, we were selected to be one of the TOP 15 best employers in fast-moving consumer goods category in "The 12th Best Employer of College Graduates in China" by ChinaHR.com.

OUTLOOK

According to Frost & Sullivan, total sales of China's dairy market increased from RMB174.4 billion in 2008 to RMB300.0 billion in 2013. However, as one of the countries with the largest dairy product consumption, China has a per capita dairy product consumption level of merely 28.9 kilograms, significantly lagging behind developed countries. With China's increasing disposable income per capita, urbanization and relaxing birth-control policies, there is vast room for development for the dairy industry in China. It is forecast that total sales of China's dairy market will exceed RMB500.0 billion by 2018 and the value of high-end dairy products consumption will rise to a share of close to 40%.

"Those who own milk sources control the market", has been proven to be ever more true under the above mentioned development trends. We have formulated and implemented our core development strategies by constantly adhering to our operation philosophy of "good cows, good grass and good milk". We will sustainably and stably generate revenue through sales of quality raw milk, liquid milk, milk powder and dairy ingredients products. With steady growth of dairy product consumption, our products are well-positioned to enjoy colossal room for growth. It is our purpose and our responsibility to provide consumers with safe and high quality dairy products. We will continue to broaden the scale of our fully vertically integrated value chain business model and to reinforce and amplify the resources-controlling advantages of our business model. We differentiate ourselves from our peers by taking pride in our competitive advantage in quality and fresh milk sources from our self-operated dairy farms. We will continuously grow our market share and enhance our brand value through our safe and high quality products, take advantage of our edge on unique Jersey cow herd and our upstream resources in creating technical barriers that are difficult to leap over by our competitors, pioneer China's dairy industry's upgrade through technological innovations for dairy product processing, win out amidst keen competition in the industry.

We have made a significant breakthrough with 3.6 gram quality protein in milk by successfully launching the premium "Jersey Farm" product series made from milk of our Jersey cows, thus redefining the standard for premium dairy products by setting the bar high for "product safety, nutrition level and quality". Leveraging the management strength brought by our fully vertically integrated value chain business model and our unique and rare Jersey cows, we will further develop quality dairy protein products high in nutrition level and product safety level, and establish our premium brand image by adhering to "3.6% protein in milk new standard". We will also bring to the next level our strategy for premium market by virtue of the strength in our products.

In recent years, an increasing proportion of the public has realized the benefits of pasteurized milk, which has led to its steady rising consumption level. For consumers, pasteurized milk offers more nutrients as it can better preserve active substance and nutritional substance, thus bolstering the immune system and physical strength. Albeit its bright prospects, pasteurized milk faces major bottlenecks in its development in China such as inadequate supply of raw milk, poor quality of raw milk, location of milk sources and unbroken cold chain transportation. According to state regulations, pasteurized milk can only be made using raw milk and cannot be made using milk powder by way of reconstitution, and the use of any additives is disallowed. As a result, pasteurized milk processed by companies having their own milk source base is most reliable in guaranteeing quality and safety. For many years, we have stood by our fully vertically integrated value chain development strategy centered on milk source, we have become the first and only dairy company in China to source 100% of its raw milk from its self-operated farms, our own milk source acts as a solid foundation for pasteurized milk production. The consumption of pasteurized milk has started to rationalize again. We will capitalise on this opportunity, taking advantage of our established competitive strength in milk sources and cold chain transportation as well as the brand awareness of "Dr. Fresh" (鮮博士) in Northeast China, to expand our market share in Northeast China through establishing our branded milk delivery service "Huishan Freshness Delivery" (輝山新鮮送) and through developing a professional delivery team.

MANAGEMENT DISCUSSION AND ANALYSIS
(CONTINUED)

Through replicating our fully vertically integrated value chain business model in Jiangsu for development of premium pasteurized milk market and through advancing the development of the partnership with FrieslandCampina, we will emphasize on building brand awareness to reposition our brand to facilitate our escalated efforts in developing regional markets outside Northeast China. In accelerating the development of our B2C business, we will hire professionals familiar with operations of consumer market in China, rich in knowledge of standards and regulations for operating nationwide and in experience in brand building at international level. In this way we will quickly establish effective business models in other provinces based on our successful experience in Northeast China through the brand-centric development of Huishan's products and distribution network. Together with a marketing team hired and trained to international standards, we hope to rapidly increase our share in the targeted markets.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended September 30, 2014 (the six months ended September 30, 2013: Nil).

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

As at September 30, 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

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

(i) Interest in our Company

Name of Director	Nature of Interest	Total numbers of Shares/Underlying Shares	Approximate percentage in the issued share capital of the Company as at September 30, 2014
Mr. Yang Kai [1][2]	Interest in controlled corporation	7,386,138,388 (L)	51.26%
Ms. Ge Kun [3]	Interest in controlled corporation	7,386,138,388 (L)	51.26%
Mr. So Wing Hoi [4]	Beneficial owner	101,250,000 (L)	0.70%
Mr. Xu Guangyi [4]	Beneficial owner	101,250,000 (L)	0.70%
Mr. Kwok Hok Yin [4]	Beneficial owner	33,750,000 (L)	0.23%
Mr. Siu Wai Keung	Beneficial owner	800,000 (L)	0.01%
Mr. Mark Anthony Wilson [6]	Beneficial owner	100,000 (L)	0.0007%

(ii) Interest in associated corporation

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

Notes:

(1) *As at September 30, 2014, Champ Harvest directly held 6,639,011,388 shares. Mr. Yang Kai directly held 70% of the total issued share capital of Champ Harvest, and indirectly held 20% of the total issued share capital of Champ Harvest through King Pavilion Limited, a company wholly-owned by Mr. Yang Kai. In light of the above, Mr. Yang Kai is deemed to have interest in the 6,639,011,388 shares held by Champ Harvest, which is a substantial shareholder of our Company.*

(2) *As at September 30, 2014, Talent Pool Holdings Limited ("Talent Pool") directly held 747,127,000 Shares. Mr. Yang Kai indirectly held 100% equity interest of Talent Pool through Mighty Global Limited, a company wholly-owned by Mr. Yang Kai. In light of the above, Mr. Yang Kai is deemed to have interest in the 747,127,000 Shares held by Talent Pool and the 6,639,011,388 Shares held by Champ Harvest.*

(3) *As at September 30, 2014, Ms. Ge Kun indirectly held 10% of the total issued share capital of Champ Harvest through Gain Excellence Limited, a company wholly-owned by Ms. Ge Kun. Ms. Ge Kun held the economic interest in such shares in Champ Harvest on behalf of Mr. Yang Kai. Ms. Ge Kun, being the concert party of Mr. Yang Kai, is deemed to have interest in 7,386,138,388 Shares held by Mr. Yang Kai.*

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

(5) *As at September 30, 2014, Mr. Yang Kai directly held 7,000 Shares in Champ Harvest, being 70% of its total issued share capital, and indirectly held 2,000 shares in Champ Harvest, being 20% of its total issued share capital. Ms. Ge Kun indirectly held 1,000 shares in Champ Harvest, being 10% of its total issued share capital and held the economic interest in such shares on behalf of Mr. Yang Kai. Ms. Ge Kun and Mr. Yang Kai, being the concert parties, are deemed to have interest in 10,000 shares in Champ Harvest.*

(6) *As at September 30, 2014, Mr. Mark Anthony Wilson directly held 100,000 Shares and was appointed as an executive Director on October 8, 2014.*

Saved as disclosed above, as at September 30, 2014, none of the Directors and the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at September 30, 2014, the interests and short positions of persons (other than the Directors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO were as follows:

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

Name of shareholder	Nature of Interest	Total number of shares	Approximate percentage in the issued share capital of the Company as at September 30,2014
Champ Harvest [1]	Beneficial owner	6,639,011,388 (L)	46.08%
Mighty Global Limited ("Mighty Global") [2]	Interest in controlled corporation	747,127,000 (L)	5.18%
Talent Pool [2]	Beneficial owner	747,127,000 (L)	5.18%
Cheng Yu Tung [3]	Interest in controlled corporation	1,035,137,928 (L)	7.18%
Chow Tai Fook Nominee Limited [3]	Interest in controlled corporation	1,035,137,928 (L)	7.18%
Well Ease Limited [3]	Beneficial owner	1,035,137,928 (L)	7.18%
JPMorgan Chase & Co. [4]	Beneficial owner/Interest in controlled corporation/Custodian-corporation/ approved lending agent	1,043,298,379 (L)	7.24%
	Beneficial owner	18,606,000 (S)	0.12%
	Custodian-corporation/ approved lending agent	1,014,559,937 (Shares available for lending)	7.04%
Norges Bank	Beneficial owner	865,653,000 (L)	6.01%

Notes:

(1) *As at September 30, 2014, Champ Harvest directly held 6,639,011,388 shares. Mr. Yang Kai directly held 70% of the total issued share capital of Champ Harvest and indirectly held 20% of the total issued share capital of Champ Harvest through King Pavilion Limited, a company wholly-owned by Mr. Yang Kai. Ms. Ge Kun indirectly held 1,000 shares of Champ Harvest and economic interest thereof on behalf of Mr. Yang Kai, being 10% of its total issued share capital of Champ Harvest. Mr. Yang Kai and Ms. Ge Kun, being concert parties, are deemed to hold 10,000 shares of Champ Harvest.*

(2) *As at September 30, 2014, Talent Pool directly held 747,127,000 shares. Mr. Yang Kai indirectly held the entire issued share capital of Talent Pool through Mighty Global Limited, a company wholly-owned by Mr. Yang Kai.*

(3) *As at September 30, 2014, according to the information disclosed to the Company under Division 2 and Division 3 of Part XV of the SFO, Well Ease Limited was wholly-owned by Chow Tai Fook Nominee Limited , a company wholly-owned by Dato' Dr. Cheng Yu Tung.*

(4) *As at September 30, 2014, JPMorgan Chase & Co. held a total of 1,043,298,379 shares (L) and 18,606,000 shares (S) through its controlled subsidiary. Amongst all the shares (L) held, 23,798,442 shares were beneficially held by JPMorgan Chase & Co. through its controlled subsidiary. In addition, JPMorgan Chase & Co., 1,014,559,937 shares held through its direct subsidiary JPMorgan Chase Ban, N.A. were available for lending.*

Save as disclosed above, as at September 30, 2014, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the existing share option scheme adopted by the Company on September 5, 2013, the table below sets out the particulars of changes of share options granted under the existing share option scheme of the Company for the six months ended September 30,2014:

	Number of Share Options							
Name or Category of Participant	As at March 31, 2014	Exercised during the period	Granted during the period	Lapsed/ Cancelled during the period	As at September 30, 2014	Date of grant of Share Options	Exercise period of Share Options (both dates inclusive)	Exercise price of Share Option (HK$)
So Wing Hoi	101,250,000	Nil	Nil	Nil	101,250,000	September 27, 2013	September 27, 2013 to September 27, 2019	2.67
Xu Guangyi	101,250,000	Nil	Nil	Nil	101,250,000	September 27, 2013	September 27, 2013 to September 27, 2019	2.67
Kwok Hok Yin	33,750,000	Nil	Nil	Nil	33,750,000	September 27, 2013	September 27, 2013 to September 27, 2019	2.67
Other Employees	443,835,000	Nil	Nil	Nil	443,835,000	September 27, 2013	September 27, 2013 to September 27, 2019	2.67
Total	680,085,000			Nil	680,085,000			

No Participant of the Scheme was granted options in excess of the individual limit stated above during the six months ended September 30, 2014. Save as disclosed above, no option was granted, exercised, cancelled or lapsed during the six months ended September 30, 2014. The vesting schedules of the Share Options above are as follows:

Vesting schedules of the Share Options granted to each Grantee:

(i) 30% of the Share Options were vested on the date of grant;

(ii) 20% of the Share Options will be vested upon the first anniversary of the date of grant;

(iii) 15% of the Share Options will be vested upon the second anniversary of the date of grant;

(iv) 15% of the Share Options will be vested upon the third anniversary of the date of grant; and

(v) 20% of the Share Options will be vested upon the fourth anniversary of the date of grant.

In addition, the Company also granted Share Options on October 8, 2014. For details please refer to the announcement published by the Company on the same date.

Other information about the scheme is set out in Note 19 to the Unaudited Interim Financial Report.

PLEDGE OF ASSETS

As at September 30, 2014, the aggregate net book value of the secured lease prepayments and property, plant and equipment of the Group was approximately RMB3,769.4 million (March 31, 2014: RMB3,921.6 million). Further details are set out in relevant notes in the unaudited interim financial report.

CAPITAL COMMITMENTS

Details of capital commitments are set out in Note 21 to the Unaudited Interim Financial Report.

CONTINGENT LIABILITIES

As of September 30, 2014, we did not have significant contingent liabilities.

LOAN AGREEMENT WITH SPECIFIC PERFORMANCE COVENANT OF THE CONTROLLING SHAREHOLDER

On April 28, 2014, the Company, as borrower, signed an unsecured and uncommitted term loan facility letter (the "Facility Letter") pursuant to which the Company borrowed US$50,000,000 (the "Loan") from Bank of China Limited Macau Branch ("BOC Macau"). The Loan has a tenure of 3 years from the date of signing of the Facility Letter.

Pursuant to the provisions of the Facility Letter, if Mr. Yang Kai and Ms. Ge Kun (being the controlling shareholders of the Company) together cease to be the ultimate single largest shareholder of the Company, BOC Macau may require mandatory prepayment of the Loan together with all other sums due under the Facility Letter.

Details of the Facility Letter have also been published in the Company's announcement dated April 28, 2014.

FOREIGN CURRENCY RISK

The Group primarily conducted its operations in Mainland China. All transactions are settled in Renminbi, except for purchase of imported equipments and dairy cows. As of September 30, 2014, the assets and liabilities of the Group are primarily denominated in RMB, except for cash and cash equivalents denominated in USD of approximately RMB13.2 million (RMB18.0 million as at March 31, 2014), cash and cash equivalents denominated in HKD of approximately RMB0.5 million (RMB9 thousand as at March 31, 2014), cash and cash equivalents denominated in RMB of RMB1,695.5 million (RMB2,179.0 million as at March 31, 2014), and bank borrowings denominated in USD of approximately RMB852.2 million (RMB574.0 million as at March 31, 2014), bank borrowings denominated in EUR of approximately RMBNil (RMB21.0 million as at March 31, 2014). RMB is the presentation currency of the Company. The Company currently did not have any foreign currency hedge. However, the management of the Company will monitor foreign currency risk and hedge significant foreign currency risk when necessary.

The directors of the Company do not consider the currency risks are material to the Group's financial performance for the six months ended September 30, 2014 and therefore, did not carry out any financial instruments like forward foreign currency exchange contracts to hedge such risks.

CORPORATE GOVERNANCE

The Company is committed to achieving sound corporate governance, in order to protect shareholders' interests and enhance investors' confidence, thus paving the way for Company's future development. Save as set out below, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the six months ended September 30, 2014. Under the code provision A.2.1 of the Corporate Governance Code, the roles of Board's chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yang Kai is the chairman of the Board and the Chief Executive Officer and he is principally responsible for the overall strategic planning and business development of the Group. The Board considers such structure beneficial to the Group as the Board believes that Mr. Yang Kai, who has extensive experience in the industry, can provide the Company with strong and consistent leadership and vision and also allows for effective and efficient planning and implementation of business decisions and strategies. He can also ensure timeliness of information flow between the Board and management. In addition, the Directors are of the view that the balanced composition of executive and non-executive Directors (including the independent non-executive Directors) on the Board and the various Committees of the Board (comprising all or a majority of independent non-executive Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority.

THE BOARD OF DIRECTORS

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

In accordance with Rule 13.51B(1) of the Listing Rules and by way of update since the annual report of the Company published on 25 July 2014, Mr. Siu Wai Keung was appointed as an independent non-executive director of CGN Power Co., Ltd (a company listed on the Stock Exchange with stock code: 1816) on 10 December 2014.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by Directors. Upon specific enquiries made by the Company, all Directors have confirmed that they have complied with the required standards for security transactions by directors as set out in the Model Code throughout the six months ended September 30, 2014.

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

For the six months ended September 30, 2014, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising three independent non-executive Directors, namely Mr. Siu Wai Keung (chairman), Mr. Song Kungang and Mr. Tsui Kei Pang, has reviewed the accounting principles and practices adopted by the Group and such matters as internal controls and financial reporting with the management of the Company, including the review of the interim results for the six months ended September 30, 2014.

INVESTOR RELATIONS AND COMMUNICATIONS

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

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders and the public for their continued support and to all staff for their hard work and commitment.

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

Hong Kong, November 24, 2014

INDEPENDENT REVIEW REPORT

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 33 to 66 which comprises the consolidated statement of financial position of China Huishan Dairy Holdings Company Limited (the "Company") as at September 30, 2014 and the related consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at September 30, 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

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

November 24, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended September 30, 2014—unaudited
(Expressed in Renminbi)

	Note	Six months ended September 30, 2014 Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000	Six months ended September 30, 2013 Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
Turnover	3	**1,994,845**	**—**	**1,994,845**	1,533,919	—	1,533,919
Cost of sales	3	**(856,713)**	**(695,071)**	**(1,551,784)**	(643,622)	(641,733)	(1,285,355)
Gross profit		**1,138,132**	**(695,071)**	**443,061**	890,297	(641,733)	248,564
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		**—**	**1,075,157**	**1,075,157**	—	737,427	737,427
Loss arising from changes in fair value less costs to sell of biological assets		**—**	**(74,457)**	**(74,457)**	—	(46,527)	(46,527)
Other net income	4	**20,771**	**—**	**20,771**	3,585	—	3,585
Distribution costs		**(301,684)**	**—**	**(301,684)**	(115,682)	—	(115,682)
Administrative expenses		**(185,820)**	**—**	**(185,820)**	(188,663)	—	(188,663)
Profit from operations		**671,399**	**305,629**	**977,028**	589,537	49,167	638,704
Finance income		**59,934**	**—**	**59,934**	1,352	—	1,352
Finance costs		**(215,771)**	**—**	**(215,771)**	(108,539)	—	(108,539)
Net finance costs	5(a)	**(155,837)**	**—**	**(155,837)**	(107,187)	—	(107,187)
Profit before taxation		**515,562**	**305,629**	**821,191**	482,350	49,167	531,517
Income tax	6	**(31,939)**	**—**	**(31,939)**	(15,696)	—	(15,696)
Profit for the period		**483,623**	**305,629**	**789,252**	466,654	49,167	515,821
Attributable to:							
Equity shareholders of the Company				**789,252**			515,821
Non-controlling interests				**—**			—
Profit for the period				**789,252**			515,821
Earnings per share							
— Basic and diluted (RMB)	8			**0.05**			0.04

Details of dividends payable to equity shareholders of the Company are set out in Note 19(a).

The notes on pages 40 to 66 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2014—unaudited
(Expressed in Renminbi)

		Six months ended September 30,	
	Note	**2014** **RMB'000**	2013 RMB'000
Profit for the period		**789,252**	515,821
Other comprehensive income for the period (after tax)			
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation to presentation currency	*7*	**(36,334)**	(4,036)
Total comprehensive income for the period		**752,918**	511,785
Attributable to:			
Equity shareholders of the Company		**752,918**	511,785
Non-controlling interests		**—**	—
Total comprehensive income for the period		**752,918**	511,785

The notes on pages 40 to 66 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2014—unaudited
(Expressed in Renminbi)

	Note	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Non-current assets			
Property, plant and equipment	9	**6,288,301**	4,317,163
Prepayments for acquisition of property, plant and equipment		**847,904**	1,019,766
Goodwill		**931,985**	931,985
Lease prepayments	10	**3,748,278**	3,043,258
Biological assets	11	**5,072,521**	4,297,651
Prepayments for acquisition of biological assets		**75,987**	61,647
Deferred tax assets		**66,313**	66,064
		17,031,289	13,737,534
Current assets			
Inventories		**1,374,035**	915,383
Trade receivables	12	**245,417**	220,375
Deposits, prepayments and other receivables	13	**667,442**	784,169
Term deposits	14	**858,078**	300,000
Cash and cash equivalents	15	**2,954,398**	5,062,619
		6,099,370	7,282,546
Current liabilities			
Trade and bills payables	16	**752,623**	737,711
Receipts in advance		**52,212**	26,059
Accrued expenses and other payables	17	**895,459**	489,664
Bank loans	18	**2,411,313**	1,641,192
Income tax payable		**14,136**	24,527
		4,125,743	2,919,153
Net current assets		**1,973,627**	4,363,393
Total assets less current liabilities		**19,004,916**	18,100,927

The notes on pages 40 to 66 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)

At September 30, 2014—unaudited
(Expressed in Renminbi)

	Note	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Non-current liabilities			
Bank loans	18	**5,084,000**	4,679,156
Deferred income		**235,222**	226,577
		5,319,222	4,905,733
NET ASSETS		**13,685,694**	13,195,194
CAPITAL AND RESERVES			
Share capital	19	**1,142,619**	1,142,619
Reserves	19	**12,543,075**	12,052,575
Total equity attributable to equity shareholders of the Company		**13,685,694**	13,195,194
Non-controlling interests		**—**	—
TOTAL EQUITY		**13,685,694**	13,195,194

The notes on pages 40 to 66 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2014—unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000	**Share premium** RMB'000	**Other reserves** RMB'000	**PRC statutory reserves** RMB'000	**Exchange reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at April 1, 2013	74	4,091,827	76,753	63,373	61,987	1,588,930	5,882,944	–	5,882,944
Changes in equity for the six months ended September 30, 2013:									
Profit for the period	–	–	–	–	–	515,821	515,821	–	515,821
Other comprehensive income (*Note 7*)	–	–	–	–	(4,036)	–	(4,036)	–	(4,036)
Total comprehensive income	–	–	–	–	(4,036)	515,821	511,785	–	511,785
Capitalisation issue (*Note 19(b)(i)*)	911,486	(911,486)	–	–	–	–	–	–	–
Issuance of shares under initial public offering (*Note 19(b)(ii)*)	231,059	5,938,216	–	–	–	–	6,169,275	–	6,169,275
Share issuance expenses (*Note 19(b)(ii)*)	–	(203,928)	–	–	–	–	(203,928)	–	(203,928)
Equity-settled share-based transactions (share option) (*Note 19(c)(2)(ii)*)	–	–	77,450	–	–	–	77,450	–	77,450
Balance at September 30, 2013 and October 1, 2013	1,142,619	8,914,629	154,203	63,373	57,951	2,104,751	12,437,526	–	12,437,526
Changes in equity for the six months ended March 31, 2014:									
Profit for the period	–	–	–	–	–	733,408	733,408	–	733,408
Other comprehensive income	–	–	–	–	(13,920)	–	(13,920)	–	(13,920)
Total comprehensive income	–	–	–	–	(13,920)	733,408	719,488	–	719,488
Appropriation to reserves	–	–	–	68,859	–	(68,859)	–	–	–
Share issuance expenses (*Note 19(b)(ii)*)	–	(1,410)	–	–	–	–	(1,410)	–	(1,410)
Equity-settled share-based transactions (share option) (*Note 19(c)(2)(ii)*)	–	–	39,590	–	–	–	39,590	–	39,590
Balance at March 31, 2014	1,142,619	8,913,219	193,793	132,232	44,031	2,769,300	13,195,194	–	13,195,194

The notes on pages 40 to 66 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended September 30, 2014—unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at April 1, 2014	1,142,619	8,913,219	193,793	132,232	44,031	2,769,300	13,195,194	–	13,195,194
Changes in equity for the six months ended September 30, 2014:									
Profit for the period	–	–	–	–	–	789,252	789,252	–	789,252
Other comprehensive income *(Note 7)*	–	–	–	–	(36,334)	–	(36,334)	–	(36,334)
Total comprehensive income	–	–	–	–	(36,334)	789,252	752,918	–	752,918
Equity-settled share-based transactions (share option) *(Note 19(c)(2)(ii))*	–	–	48,790	–	–	–	48,790	–	48,790
Dividends approved in respect of the previous year *(Note 19(a)(ii))*	–	(311,208)	–	–	–	–	(311,208)	–	(311,208)
Balance at September 30, 2014	1,142,619	8,602,011	242,583	132,232	7,697	3,558,552	13,685,694	–	13,685,694

The notes on pages 40 to 66 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2014—unaudited
(Expressed in Renminbi)

	Note	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations		**1,033,417**	633,112
Income tax paid		**(42,579)**	(28,119)
Net cash generated from operating activities		**990,838**	604,993
Investing activities			
Payment for purchase of property, plant and equipment		**(1,481,558)**	(517,734)
Lease prepayments		**(1,006,307)**	(443,785)
Payments for purchase of biological assets		**(187,982)**	(152,588)
Payments for breeding calves and heifers (breeding costs of calves and heifers capitalised other than depreciation and amortisation)		**(574,822)**	(473,574)
Other cash flows arising from investing activities		**(237,732)**	39,094
Net cash used in investing activities		**(3,488,401)**	(1,548,587)
Financing activities			
Proceeds from new bank loans		**2,708,432**	1,648,384
Repayments of bank loans		**(1,533,638)**	(724,256)
Proceeds from issuance of shares under initial public offering		**—**	6,169,275
Dividends paid to the equity shareholders of the Company	*19(a)*	**(311,208)**	—
Interest paid		**(244,437)**	(104,970)
Other cash flows arising from financing activities		**(232,656)**	(378,397)
Net cash generated from financing activities		**386,493**	6,610,036
Net (decrease)/increase in cash and cash equivalents		**(2,111,070)**	5,666,442
Cash and cash equivalents at the beginning of the period		**5,062,619**	825,673
Effect of foreign exchange rate changes		**2,849**	(13,827)
Cash and cash equivalents at the end of the period	*15*	**2,954,398**	6,478,288

The notes on pages 40 to 66 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB"). It was authorised for issue on November 24, 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended March 31, 2014, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ended March 31, 2015. Details of these changes in accounting policies are set out in Note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of China Huishan Dairy Holdings Company Limited ("the Company") and its subsidiaries (collectively "the Group") since the annual financial statements for the year ended March 31, 2014. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 32.

The financial information relating to the financial year ended March 31, 2014 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended March 31, 2014 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated June 11, 2014.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

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

- Dairy Farming — planting, growing and harvesting alfalfa grass and other feed crops, processing feeds, and breeding dairy cows to produce and sell raw milk.
- Liquid Milk Products Production — producing and selling pasteurized milk, UHT milk, yogurt and milk beverages.
- Milk Powder Production — producing and selling infant milk formula products and dairy ingredient products.

3 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

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

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

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

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

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

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

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

3 SEGMENT REPORTING (Continued)

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended September 30, 2014 and 2013 is set out below.

	Six months ended September 30, 2014			
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powder Production RMB'000	Total RMB'000
Revenue from external customers	553,917	1,177,929	262,999	1,994,845
Inter-segment revenue	852,529	—	—	852,529
Reportable segment revenue	1,406,446	1,177,929	262,999	2,847,374
Cost of sales related to revenue from external customers	236,540	829,713	184,040	1,250,293
Inter-segment cost of sales	376,423	—	—	376,423
Reportable segment cost of sales (cost of sales before biological fair value adjustments)	612,963	829,713	184,040	1,626,716
Reportable segment gross profit (gross profit before biological fair value adjustments)	793,483	348,216	78,959	1,220,658
Reportable segment profit (adjusted EBITDA)	791,779	174,337	3,186	969,302
Interest income	3,868	20,252	1,604	25,724
Interest expenses	149,403	11,380	22,572	183,355
Depreciation and amortisation	69,547	10,636	18,434	98,617

3 SEGMENT REPORTING (Continued)

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

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

3 SEGMENT REPORTING (Continued)

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

	At September 30, 2014 Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powder Production RMB'000	Total RMB'000
Reportable segment assets	**17,107,632**	**7,651,872**	**2,813,942**	**27,573,446**
Increase in carrying amounts of non-current segment assets during the period	**2,933,821**	**294,276**	**48,835**	**3,276,932**
Capital expenditure	**2,280,076**	**271,292**	**114,012**	**2,665,380**
Reportable segment liabilities	**10,346,766**	**976,144**	**1,761,054**	**13,083,964**

	At March 31, 2014 Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powder Production RMB'000	Total RMB'000
Reportable segment assets	13,953,422	6,643,513	2,589,001	23,185,936
Increase in carrying amounts of non-current segment assets during the year	4,438,156	135,247	179,658	4,753,061
Capital expenditure	3,906,820	145,887	220,266	4,272,973
Reportable segment liabilities	9,064,279	852,676	1,510,217	11,427,172

3 SEGMENT REPORTING (Continued)

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

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Revenue		
Reportable segment revenue	**2,847,374**	2,178,767
Elimination of inter-segment revenue	**(852,529)**	(644,848)
Consolidated turnover	**1,994,845**	1,533,919

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Cost of sales		
Reportable segment cost of sales	**1,626,716**	1,288,470
Inclusion of gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest charged to cost of sales	**695,071**	641,733
Elimination of inter-segment cost of sales	**(770,003)**	(644,848)
Consolidated cost of sales	**1,551,784**	1,285,355

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Gross profit		
Reportable segment gross profit	**1,220,658**	890,297
Inclusion of gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest charged to cost of sales	**(695,071)**	(641,733)
Elimination of inter-segment gross profit	**(82,526)**	—
Consolidated gross profit	**443,061**	248,564

3 SEGMENT REPORTING (Continued)

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

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Profit		
Reportable segment profit	**969,302**	765,378
Interest income	**59,934**	1,352
Interest expenses	**(211,748)**	(99,292)
Depreciation and amortisation	**(99,388)**	(60,917)
Unallocated headoffice and corporate expenses	**(120,012)**	(124,187)
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest, net of the amount already charged to cost of sales	**380,086**	95,694
Loss arising from the changes in fair value less costs to sell of biological assets	**(74,457)**	(46,527)
Changes in fair value of derivative financial liability	**—**	16
Elimination of inter-segment gross profit	**(82,526)**	—
Consolidated profit before taxation	**821,191**	531,517

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Assets		
Reportable segment assets	**27,573,446**	23,185,936
Goodwill	**931,985**	931,985
Deferred tax assets	**66,313**	66,064
Unallocated headoffice and corporate assets	**6,751,592**	7,047,149
Elimination between segments	**(12,192,677)**	(10,211,054)
Consolidated total assets	**23,130,659**	21,020,080

3 SEGMENT REPORTING (Continued)

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

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Liabilities		
Reportable segment liabilities	**13,083,964**	11,427,172
Unallocated headoffice and corporate liabilities	**8,553,678**	6,608,768
Elimination between segments	**(12,192,677)**	(10,211,054)
Consolidated total liabilities	**9,444,965**	7,824,886

4 OTHER NET INCOME

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Government grants	**7,968**	5,111
Net loss from sales of raw materials	**(3,286)**	(1,201)
Income from waiver of payables	**6,203**	—
Investment income on wealth management products purchased from banks	**10,111**	—
Changes in fair value of derivative financial liability	**—**	16
Net loss on disposal of non-current assets	**(31)**	(181)
Others	**(194)**	(160)
	20,771	3,585

5 PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Finance income — interest income	**(59,934)**	(1,352)
Interest expenses on bank loans		
— wholly repayable within five years	**181,636**	108,241
— repayable after five years	**52,015**	3,607
Less: interest expenses capitalised*	**(21,903)**	(12,556)
Bank charges and other finance costs	**6,701**	3,809
Net foreign exchange (gain)/loss	**(2,678)**	5,438
Finance costs	**215,771**	108,539
Net finance costs	**155,837**	107,187

* *The borrowing costs have been capitalised at a rate of 4.83% to 7.58% (six months ended September 30, 2013: 3.56% to 6.55%) per annum.*

(b) Staff costs:

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Salaries, bonuses and allowances	**106,648**	60,135
Pension insurance	**16,269**	8,544
Other social insurances	**15,105**	8,660
Fees charged for hiring workers from labour dispatching companies	**52,122**	40,728
Staff welfare	**11,472**	5,412
	201,616	123,479

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Depreciation and amortisation	**99,388**	60,917
Initial public offering expenses	**–**	31,329
Equity-settled share option expenses *(Note 19(c)(2)(ii))*	**48,790**	77,450

6 INCOME TAX

	Six months ended September 30, 2014 RMB'000	2013 RMB'000
Current taxation:		
PRC income tax	**32,188**	29,870
Deferred taxation:		
Origination and reversal of temporary differences	**(249)**	(14,174)
	31,939	15,696

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

No provision was made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the six months ended September 30, 2014 and 2013.

All the PRC subsidiaries of the Company are subject to PRC Enterprise Income Tax rate of 25% during the six months ended September 30, 2014 and 2013.

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

7 OTHER COMPREHENSIVE INCOME

	Six months ended September 30, 2014			Six months ended September 30, 2013		
	Before-tax amount RMB'000	**Tax expense/ (benefit) RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax expense/ (benefit) RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation to presentation currency	**(36,334)**	**–**	**(36,334)**	(4,036)	–	(4,036)

8 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended September 30, 2014 is based on the profit attributable to equity shareholders of the Company of RMB789.25 million (six months ended September 30, 2013: profit of RMB515.82 million) and the weighted average of 14,407,788,000 ordinary shares of the Company in issue during the period (six months ended September 30, 2013: 11,557,937,803 ordinary shares) as calculated in Note 8(b).

(b) Weighted average number of ordinary shares

	Six months ended September 30,	
	2014	2013
Issued ordinary shares at April 1	**14,407,788,000**	11,494,254
Effect of shares subdivision and shares conversion during the period (11,494,254 ordinary shares of US$0.001 each converted to 896,552 ordinary shares of HK$0.1 each)	**–**	(10,597,702)
Effect of capitalisation issue	**–**	11,493,357,448
Effect of shares issued under initial public offering	**–**	63,683,803
Weighted average number of ordinary shares for the six months ended September 30	**14,407,788,000**	11,557,937,803

(c) Diluted earnings per share

There were no dilutive potential ordinary shares outstanding during the six months ended September 30, 2014 and 2013. For the six months ended September 30, 2014, the share options as disclosed in Note 19(c)(2)(ii) did not have any dilutive effect because the average market price of the Company's ordinary shares during the period did not exceed the sum of the exercise price of the option and the fair value of the services to be received by the Group from the employees granted with the options (i.e. the fair value of the options at the date of grant), details of which are disclosed in Note 19(c)(2)(ii).

9 PROPERTY, PLANT AND EQUIPMENT

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Balance as at April 1	**4,317,163**	3,636,753
Additions	**2,073,987**	843,277
Depreciation	**(102,127)**	(147,780)
Disposals	**(722)**	(15,087)
Impairment loss	**—**	—
Balance as at September 30/March 31	**6,288,301**	4,317,163

10 LEASE PREPAYMENTS

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Balance as at April 1	**3,043,258**	521,309
Additions	**973,574**	2,639,961
Amortisation	**(268,554)**	(111,327)
Disposals	**—**	(6,685)
Balance as at September 30/March 31	**3,748,278**	3,043,258

Lease prepayments represent the payments made on the acquisitions of the lands held under operating leases for alfalfa grass and other feed crops plantation fields, dairy farms and products production.

(Expressed in Renminbi unless otherwise indicated)

11 BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

The biological assets of the Group are dairy cows held to produce raw milk and alfalfa grass and other feed crops grown for feeding dairy cows. Dairy cows and alfalfa grass are categorised as bearer biological assets while the other feed crops are categorised as consumable biological assets given their attributes illustrated below.

The quantities of the dairy cows owned by the Group as at September 30, 2014 and March 31, 2014 are shown below. The Group's dairy cows are milkable cows held for raw milk production and heifers and calves that have not reached the age to produce raw milk.

	At September 30, 2014 Head	At March 31, 2014 Head
Milkable cows	**65,312**	61,286
Heifers	**77,558**	68,087
Calves	**19,524**	14,818
	162,394	144,191

In general, the heifers are inseminated when they reach approximately 14 months old. After a gestation period of approximately 10 months, a calf is born and the heifers begin to produce raw milk and the lactation periods begin. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 300 days in each lactation period and has as many as 6 lactation periods. The calves newly born will be bred for 6 months and then transferred to the group of heifers for preparation of insemination.

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

Other feed crops, primarily corns, sugar beets, carrots and oats, are usually sown in spring or summer and harvested in the autumn of the same year for feeding cows.

At September 30, 2014, the Group owned about 483,100 mu fields for planting alfalfa grass and other feed crops. (March 31, 2014: about 243,800 mu).

11 BIOLOGICAL ASSETS (Continued)

(b) Value of the Group's biological assets

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

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Milkable cows	**2,468,969**	2,309,180
Heifers	**2,122,563**	1,777,423
Calves	**235,050**	204,802
Alfalfa grass	**44,851**	6,246
Other feed crops	**201,088**	—
	5,072,521	4,297,651

The fair values of the Group's dairy cows and alfalfa grass and other feed crops as at September 30, 2014 were estimated by using the same valuation techniques as adopted in the annual financial statements for the year ended March 31, 2014.

12 TRADE RECEIVABLES

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Trade receivable due from third parties	**245,417**	220,375
Less: allowance for impairment of doubtful debts	**—**	—
	245,417	220,375

12 TRADE RECEIVABLES (Continued)

(a) Ageing analysis

The ageing analysis of trade receivables (net of allowance for doubtful debts) at the end of the reporting periods based on the invoice date is as follows:

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Less than 3 months	**162,767**	191,235
More than 3 months but less than 6 months	**60,760**	16,173
More than 6 months but less than 1 year	**15,721**	12,967
More than 1 year but less than 2 years	**6,169**	—
	245,417	220,375

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

(b) Trade receivables that are not impaired

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Neither past due nor impaired	**161,832**	193,947
Less than 1 month past due	**8,628**	5,694
More than 1 month but less than 3 months past due	**53,165**	6,812
More than 3 months but less than 6 months past due	**6,485**	7,505
More than 6 months past due	**15,307**	6,417
	83,585	26,428
	245,417	220,375

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

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. These receivables mainly relate to sales of raw milk and liquid milk products and milk powder products. Based on past experience, management believes that no impairment allowance 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.

13 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Deposits with banks to secure bills payables	**68,929**	76,318
Deposits with banks to secure letters of credit	**238,386**	1,095
Prepayments for purchase of raw materials	**59,945**	209,563
Downpayments for acquisition of lands held under operating leases at annual rent	**15,513**	9,914
Advances to staff	**21,258**	19,611
Deductible value added tax	**81,297**	84,599
Prepaid income tax	**4,026**	11,416
Prepaid advertising expenses	**7,432**	15,156
Interest receivable on bank deposits	**29,201**	27,067
Amounts receivable from banks for wealth management products purchased (over 3 months) *(Note (i))*	**100,000**	302,923
Others	**41,455**	26,507
	667,442	784,169
Less: allowance for impairment of doubtful debts	**—**	—
	667,442	784,169

Note:

(i) This represents the RMB wealth management products purchased by the Group from Bank of Fushun and China Guangfa Bank Co., Ltd. and having not been due or early redeemed yet as of September 30, 2014. The total principal was RMB100.00 million and the annualised rates of return range from 5.00% to 5.20%. Given that the amounts of return of these wealth management products are determinable, the Group recorded these amounts at amortised cost using the effective interest method as other receivables in this account.

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

Impairment of deposits, prepayments and other receivables

Impairment losses in respect of deposits, prepayments and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against deposits, prepayments and other receivables directly.

At September 30, 2014 and March 31, 2014, no deposits, prepayments and other receivables are individually determined to be impaired.

14 TERM DEPOSITS

The effective interest rate of the Group's term deposits placed with banks with initial terms of over three months but within 1 year for the six months ended September 30, 2014 is 3.05% to 4.50% (the year ended March 31, 2014: 3.50% to 3.80%).

15 CASH AND CASH EQUIVALENTS

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Cash at bank and in hand	**2,904,398**	4,961,119
Amounts receivable from banks for wealth management products purchased (within 3 months) *(Note (i))*	**50,000**	101,500
	2,954,398	5,062,619

Note:

(i) This represents the RMB wealth management products purchased by the Group from China Guangfa Bank Co., Ltd. during the six months ended September 30, 2014 and having not been due yet as of September 30, 2014. The total principal was RMB50.00 million. Given that the amounts of return of these wealth management products are determinable by known amounts of cash and the maturities are within three months from acquisition, the Group has recorded the amounts as cash equivalents.

16 TRADE AND BILLS PAYABLES

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Trade payable for purchase of raw materials		
— Third parties	**549,035**	546,917
— Affiliates of the controlling shareholder	**6,849**	—
Bills payable	**196,739**	190,794
	752,623	737,711

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

The ageing analysis of trade and bills payables as at the end of the reporting periods based on the date of goods received is as follows:

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Within 1 month	**261,599**	248,118
Over 1 month but within 3 months	**166,830**	204,769
Over 3 months but within 6 months	**315,796**	267,646
Over 6 months but within 1 year	**2,971**	12,326
Over 1 year but within 2 years	**596**	4,852
Over 2 years	**4,831**	—
	752,623	737,711

17 ACCRUED EXPENSES AND OTHER PAYABLES

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Payables for acquisition of property, plant and equipment		
— Third parties	**567,761**	143,417
— Affiliates of the controlling shareholder	**—**	2,956
Payables for operating leases		
— Third parties	**4,229**	3,647
— Affiliates of the controlling shareholder	**8,890**	11,090
Payables for receiving technical supporting services	**—**	6,762
Payables for taxes related to acquisition of lands held under operating leases	**22,687**	23,247
Payables for professional services	**3,178**	6,207
Employee benefits payables	**31,034**	25,025
Accrued advertising and promotion expenses	**27,328**	27,476
Payables for interest expenses	**3,470**	10,613
Payables for value added tax and other taxes	**4,100**	11,545
Conditional government grants received but not yet recognised *(Note (i))*	**153,902**	160,033
Payables for expenses incurred in connection with the proposed initial public offering of the Company's shares	**9,595**	12,349
Payables for freight charges	**18,209**	17,429
Others	**41,076**	27,868
	895,459	489,664

Note:

(i) In accordance with the relevant guidance of government, these government grants can only be recognised upon the Group complying with the conditions of certain amount of infrastructure investment on and completion of the Group's dairy products production facilities.

The amount of the Group's payables for acquisition of property, plant and equipment expected to be settled after more than one year was RMB10.16 million as at September 30, 2014. All of the other accrued expenses and other payables are expected to be settled or recognised in profit or loss or to other items in the statement of financial position within one year.

18 BANK LOANS

At September 30, 2014, the Group's bank loans were repayable as follows:

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Within 1 year	**2,411,313**	1,641,192
After 1 year but within 2 years	**1,406,774**	1,483,185
After 2 years but within 5 years	**2,752,876**	2,223,121
After 5 years	**924,350**	972,850
	5,084,000	4,679,156
	7,495,313	6,320,348

18 BANK LOANS (Continued)

At September 30, 2014, the Group's bank loans were secured as follows:

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Jointly secured by lease prepayments and property, plant and equipment and own equity interests of the Group and guaranteed by intra-group entities	**546,524**	684,367
Secured by lease prepayments of the Group and guaranteed by key management personnel of the Group	**–**	1,069,000
Secured by property, plant and equipment of the Group and guaranteed by third parties	**175,000**	200,000
Secured by property, plant and equipment of the Group and guaranteed by intra-group entities	**–**	43,019
Secured by lease prepayments, property, plant and equipment of the Group	**1,519,000**	497,000
Secured by property, plant and equipment of the Group	**212,750**	224,250
Secured by deposits with banks to secure letters of credit and guaranteed by intra-group entities	**195,000**	31,000
Secured by the Group's own equity interests and guaranteed by intra-group entities	**49,675**	49,675
Secured by the Group's own equity interests	**723,000**	794,000
Guaranteed by intra-group entities	**3,104,053**	2,057,037
Guaranteed by intra-group entities and the controlling shareholder and his affiliates	**117,670**	–
Guaranteed by key management personnel of the Group	**–**	256,000
Guaranteed by third parties	**15,000**	15,000
Unguaranteed and unsecured	**837,641**	400,000
	7,495,313	6,320,348

At September 30, 2014, the secured bank loans were secured over property, plant and equipment, lease prepayments and prepayments for acquisition of property, plant and equipment with an aggregate carrying value of RMB3,769.42 million (March 31, 2014: RMB3,921.61 million).

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

The directors did not recommend the payment of a dividend in respect of the six months ended September 30, 2014 (six months ended September 30, 2013: RMBNil).

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended September 30,	
	2014	2013
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB0.0216 per ordinary share (six months ended September 30, 2013: RMBNil per ordinary share)	**311,208**	–

(b) Share capital

Movements of the Company's ordinary shares are set out below:

	At September 30, 2014		At March 31, 2014	
	No. of shares	**Amount RMB'000**	No. of shares	Amount RMB'000
At April 1 (11,494,254 ordinary shares of US$0.001 each at April 1, 2013 then converted to 896,551.812 ordinary shares of HK$0.1 each on September 5, 2013)	**14,407,788,000**	**1,142,619**	896,552	74
Capitalisation issue (HK$0.1 each) *(Note (i))*	**–**	**–**	11,493,357,448	911,486
Issuance of shares under initial public offering (HK$0.1 each) *(Note (ii))*	**–**	**–**	2,913,534,000	231,059
At September 30/March 31	**14,407,788,000**	**1,142,619**	14,407,788,000	1,142,619

Notes:

(i) Capitalisation issue

Pursuant to the board resolution dated on September 5, 2013, an amount of HK$1,149,335,744.82 (equivalent to approximately RMB911,486,000) standing to the credit of the share premium account was applied in paying up in full 11,493,357,448 ordinary shares of HK$0.1 each, which were allotted and distributed as fully paid to then existing shareholders.

19 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

Notes: (Continued)

(ii) Issuance of shares under initial public offering
On September 27, 2013, 2,913,534,000 ordinary shares of HK$0.1 each were issued and offered for subscription at a price of HK$2.67 each upon the listing of the shares in the Company on The Stock Exchange of Hong Kong Limited. The proceeds of HK$291,353,400 (equivalent to approximately RMB231,059,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately HK$7,487,782,380 (equivalent to approximately RMB5,938,216,000) and the share issuance expenses of RMB205,338,000 was credited and debited, respectively, to the share premium account.

(c) Nature and purpose of reserves

(1) Share premium

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

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

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

(2) Other reserves

(i) The other reserves represented (i) the surplus of the carrying values of the controlling equity interests in the subsidiaries under common control acquired over the considerations paid under the group reorganisation completed on March 13, 2013 to effect the structure for listing, (ii) the amount of the derivative financial liability, i.e. the credit derivatives provided to the Company's parent company for its issuance of secured exchangeable bonds, initially recognised in equity in the year ended March 31, 2012 and (iii) the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised.

(Expressed in Renminbi unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Nature and purpose of reserves (Continued)

(2) Other reserves (Continued)

(ii) Equity settled share-based transactions (share option)

The Company adopted a share option scheme on September 5, 2013, whereby the directors of the Company are authorised, at their discretion, to invite certain directors and qualified employees of the Group, to take up options to subscribe for the shares in the Company. On September 27, 2013, 680,085,000 share options were granted, among which, 204,025,500 share options will vest immediately from the date of grant, 136,017,000 share options will vest after one year from the date of grant, 102,012,750 share options will vest after two years from the date of grant, 102,012,750 share options will vest after three years from the date of grant, and the remaining 136,017,000 share options will vest after four years from the date of grant. The above share options granted will lapse on September 27, 2019. Each option gives the holder the right to subscribe for one ordinary share in the Company at an exercise price of HK$2.67 per share.

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

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

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

The fair value of the services received from the holders in return for the share options granted is recognised as a staff cost with a corresponding increase in other reserves within equity. During the six months ended September 30, 2014, the Group has charged RMB48.79 million share option expenses in "Administrative expenses" with the same amount credited to "Other reserves".

No options were exercised during the six months ended September 30, 2014. At September 30, 2014, the remaining contractual life of the above options was 5 years.

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at September 30, 2014 and March 31, 2014.

21 CAPITAL COMMITMENTS

Capital commitments outstanding at the end of the reporting period not provided for in the unaudited interim financial report are as follows:

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Contracted for:		
— Property, plant and equipment	**1,193,892**	302,139
Authorised but not contracted for:	**—**	—
	1,193,892	302,139

22 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances disclosed elsewhere in this interim financial report, the material related party transactions entered into by the Group during the reporting periods are set out below.

(a) Transactions with the controlling shareholder and his affiliates

	Six months ended September 30,	
	2014 RMB'000	2013 RMB'000
Purchase of materials	**6,849**	2,058
Consignment production expenses	**—**	14,250
Operating leases of dairy farms and office buildings	**3,800**	3,901
Net decrease in advances granted by the controlling shareholder and his affiliates	**—**	18,738
Guarantees provided by the controlling shareholder and his affiliates for the Group's bank loans	**117,670**	—

22 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

	At September 30, 2014 RMB'000	At March 31, 2014 RMB'000
Accrued expenses and other payables	**15,739**	14,046

23 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On October 8, 2014, the Group entered into a sale and purchase agreement with FrieslandCampina Hong Kong Holding II B.V. to sell its 50% equity interests in China Huishan Dairy Investments (Hong Kong) Limited and Liaoning Huishan Group (Xiushui) Co., Ltd., subject to satisfaction of certain conditions precedent including that all the notifications and filings in connection with the transaction having been made and requisite approvals or clearance having been obtained from the Ministry of Commerce of the People's Republic of China ("PRC"). As at the date of the interim report, the above transaction has yet to be completed.