



YuanShengTai Dairy Farm Limited
原生态牧业有限公司

(Incorporated in Bermuda with limited liability)
Stock Code : 1431



2014 ANNUAL REPORT





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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INDEPENDENT AUDITOR

Ernst & Young

PRINCIPLE BANKERS

Agricultural Development Bank of China
Agricultural Bank of China

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road
North Point
Hong Kong

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

STOCK CODE

1431

BOARD LOTS

1,000

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

COMPLIANCE ADVISER

V Baron Global Financial Services Limited

LEGAL ADVISORS

As to Hong Kong Laws
Chiu & Partners

As to U.S. Laws
Troutman Sanders LLP

As to PRC Laws
Jingtian & Gongcheng

As to Bermuda Laws
Conyers, Dill & Pearman

Chairman's Statement

TO OUR SHAREHOLDERS,

I am pleased to present the annual results of YuanShengTai Dairy Farm Limited ("YuanShengTai" or the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2014 to our shareholders.

2014 marked the beginning of China's economic structural reform and the country's continuous macroeconomic development along the trajectory of the new norm. During the year, the overall economy recorded a steady growth, with a total annual gross domestic product of approximately RMB64 billion, representing a growth rate of 7.4%. Total retail sales of consumer goods for the year amounted to approximately RMB26 billion, representing an increase of 10.9% as compared with last year. The annual disposable income per capita of Chinese residents was RMB20,167, representing an increase of 8.0% as compared with last year.

Meanwhile, 2014 also witnessed continuous progress made in the across-the-board transformation of China's dairy industry. As international development and policy implementation deepen, the industry has achieved significant improvements in terms of internal corporate governance system, external resources investment, physical facilities construction and overseas technological cooperation. After the consolidation and transformation of China's dairy industry over the past few years, we now see individual dairy farmers being gradually replaced by industrialized farms and the whole industry transforming from open-range rearing to standardized and brand-oriented intensive rearing within an ever-stricter regulatory environment. On the other hand, under the impact of imported powdered milk, the price of domestic raw milk has dropped. However, leveraging on its advantageous geographical position, large scale operation management, high quality raw milk and a well-established customer base, YuanShengTai has managed to score an increase in both raw milk production and average selling price, which were significantly higher than the industry average. Thus, the Group has successfully made giant progress amidst a less than favorable industry environment.

In 2014, there was a substantial increase in the Group's results. Our raw milk sales increased to 230,121 tons from 183,702 tons in 2013, with the average selling price of approximately RMB5,053 per ton. The Group's annual yield per cow was 9.4 tons, representing an increase of 4.4% as compared with the same period last year. The Group recorded a revenue of RMB1,162.9 million as of 31 December 2014, representing an increase of 32.0% from RMB880.8 million last year. Our gross profit margin increased to 45.7% from 42.6% last year. Profit attributable to the owners of the Company was RMB418.8 million, representing an increase of 92.3% from RMB217.7 million last year.

As at 31 December 2014, the Group has six large scale farms situated in Heilongjiang Province and Jilin Province in China, with a total of 44,623 cows. The newly built Kedong Yongjin Farm has commenced operation in the fourth quarter of 2014 and the Baiquan Ruixincheng Farm under construction is expected to commence operation in the fourth quarter of 2015. Equipped with a central management and an automatic information system, all our farms have adopted a simple design and layout and have been operating on standardized procedures, capable of maintaining a delicatd balance between high yield and cost efficiency. The Group intends to construct two new farms in the Songnen plain, namely, the Keshan Farm and Gannan Farm, within the next three years and enlarge its herd size to approximately 100,000 heads by 2017.

In May 2014, YuanShengTai was included as a constituent stock of the Morgan Stanley Capital International (MSCI) China Index, which fully illustrated the investors' acknowledgment of our Group as a leading premium raw milk supplier in China.

Chairman's Statement

Looking ahead, the period from 2015 to 2017 will see a transitional period for China's macroeconomic development in which the economy will face structural transformation and upgrade. In 2015, China's dairy industry will also experience a wide-spread consolidation. In addition to the shift in upstream resources, changes will come to each segment of the whole industry's supply chain. Individual dairy farmers as well as medium-to-small scale dairy farms will find it increasingly difficult to stay viable. On the other hand, the milk consumption per capita for Chinese residents is still lower than the world's average, but with the progressive implementation of "selective Two-Child Policy", the demand for raw milk in China's dairy industry is expected to increase further. These factors together should contribute to a favorable condition for the Group's development in 2015. At this critical juncture, the Group will firmly grasp every opportunity and proactively tackle any challenges ahead. By leveraging on a unified farming layout, a standardized quality control over its operation, breeding, rearing, production, storage and delivery, an advanced information platform and a well-established management system, we strive to perpetuate the Group's already-successful business model and to further consolidate the Group's position as a leading dairy farming company in China. In the end, we shall come up on top and gain an unshakable foothold against the unrelenting tide that will wash away the lesser contenders in this business.

On behalf of the board of directors (the "Board"), I would like to thank all our shareholders for their ever-persistent trust in and support for the Group. I also express my heartfelt gratitude to the Board, the management team and our staff for their diligent efforts and valuable contribution in the past year. In the coming year, the Group will strive for steadfast progress and produce the best quality raw milk for consumers, so as to bring more handsome returns for our shareholders.

Zhao Hongliang

Chairman

Hong Kong, 20 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS



Management Discussion and Analysis

MARKET REVIEW

In order to continue with the reform strategies carried out in 2013, the Chinese government introduced various policies successively in 2014, such as the re-examination of production permits for enterprises producing infant formulas, promotion of the project on merger, acquisition and reorganisation of enterprises in the infant formula industry and strengthening the management in importing milk powder with a view to driving the healthy and orderly development of China's milk and dairy industry in 2014. During the year ended 31 December 2014 (the "Year"), as the domestic raw milk supply recorded stable growth and with the increase in imported raw milk, the price of raw milk receded in contrast with the continuous growth trend in 2013. However, YuanShengTai, leveraging on its advanced herd management techniques, a growing scale of herd and ultra-high quality raw milk, further consolidated and expanded the existing customer bases, thus, successfully realized a significant growth in revenue despite the adverse environment in the industry.

BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in China. In 2014, benefitting from the increase in production volume of raw milk and average price, decrease in financing cost and the absence of listing fee for the Year comparing to 2013, the total revenue of the Group amounted to RMB1,162.9 million, representing an increase of approximately 32.0% comparing to the corresponding period in last year (2013: RMB880.8 million). The net profit increased substantially by approximately 92.3% to RMB418.8 million, comparing to 2013. The total sales volume of raw milk increased significantly by 25.3% from 183,702 tons in 2013 to 230,121 tons. The gross profit jumped 41.6% from RMB374.9 million to RMB531.0 million in 2014.

In May 2014, YuanShengTai was included as a constituent stock of the Morgan Stanley Capital International (MSCI) China Index, which shows the investors' acknowledgment of our Group as a leading premium raw milk supplier in China. Since its establishment, the Group had established long-term relationships with China's leading dairy manufacturers. In 2014, the top three customers of our Company are Feihe Dairy Group, Mengniu Group and Bright Dairy Group.

On 8 December 2014, shareholders of the Company passed a resolution by way of poll at the special general meeting to approve the continuing connected transactions contemplated under the Feihe Master Agreement and the revised annual caps relating thereto. Our Group believes that the increase in sales volume to Feihe Dairy Group will secure its future demand on our Group's raw milk and further improve the stability of our customer base, which is crucial to our Company's business development.

During the Year, in order to further increase the value of our product, satisfy customers' demand of high quality raw milk and improve the profitability of our business in the complicated economic environment, the Group has also been actively cooperating with certain research institutions in developing selenium-rich raw milk and the Group intends to further the cooperation with these research institutions. The selenium-rich raw milk must pass the relevant tests before commercial production takes place.

Our top four customers accounted for almost all of our revenue during the Year, and any decreases in our future sales to, or failure to make timely payments to us by, any of them could adversely affect our financial condition and results of operations.



Management Discussion and Analysis

Construction of Farms

As at 31 December 2014, we had five farms in Heilongjiang Province and one farm in Jilin Province, each of the farms had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and total site area of the six farms amounted to approximately 4,929,000 square meters.

	Actual Designed Capacity (Number of Cows/Head)	Site Area (m ²)
Gannan Oumei Farm	12,000	986,333
Kedong Oumei Farm	6,000	384,000
Kedong YST Farm	18,000	784,000
Zhenlai Farm Phase I	15,000	1,066,667
Kedong Yongjin Farm	12,000	714,000
Baiquan Ruixincheng Farm	15,000	994,000
Total	78,000	4,929,000

	Actual inventory of cows
Gannan Oumei Farm	10,730
Kedong Oumei Farm	5,894
Kedong YST Farm	12,869
Zhenlai Farm Phase I	12,849
Kedong Yongjin Farm	2,281
Baiquan Ruixincheng Farm	0
Total	44,623

As disclosed in the 2014 interim report of the Company, the Group intends to construct of two new farms, namely, the Keshan Farm and Gannan Farm (instead of the originally planned Honghai Farm and Sifang Farm). The costs for constructing these two new farms are expected to be similar to those of the Honghai Farm and Sifang Farm.

Milk yield

During the Year, the average annual milk yield per cow was 9.4 tons, increased by 4.4% comparing to 9.0 tons in 2013.

Management Discussion and Analysis

Size of our herd

Benefitting from our advance model of farm management, the number of dairy cows across four of our dairy farms increased from 40,396 as of 31 December 2013 to 44,623 as of 31 December 2014. Of which, the total number of our milkable cows increased from 21,544 as of 31 December 2013 to 26,005 as of 31 December 2014. The rise in number of our milkable cows allows the Group to sell more raw milk.

	2014	2013
Number of matured milkable cows	26,005	21,544
Number of heifers and calves	18,618	18,852
Total number of dairy cows	44,623	40,396

Price of raw milk

Leveraging on the Group's advance breeding, feeds, feeding management and herd management techniques and benefitting from the premium geographical locations of our farm, the Company has always been producing high-quality raw milk well trusted by customers and clients. The sales price of our raw milk is affected by a number of factors, including the quality of milk, diversity and composition of customers, seasonal factors, as well as the market prices and feed costs. Due to the rising demand for high-quality raw milk and the widely recognized premium quality of raw milk from YuanShengTai, our Group's raw milk could still command a price higher than the market average price despite the adverse environment in the industry. During the Year, the average selling price of raw milk was RMB5,053 per ton, representing an increase of 5.4% comparing to the corresponding period in 2013.

OUTLOOK

Currently, the average consumption of milk per capita of Chinese residents is far lower than the average level of the world. The Group believes that the further progress of China's industrialization and urbanization will have positive effect on the consumption structure and level of demand in second- and third-tier cities as well as third- and fourth-tier cities. Besides, the rising health awareness of urban residents would allow much room for development of the high-quality raw milk industry in China. Furthermore, since the progressive implementation of "selective Two-Child Policy", it is expected that the birth rate in China will grow steadily in the coming years. The rise in birth rate will give an extra boost to the demand for raw milk. All these factors are creating an excellent environment for YuanShengTai to further develop in 2015. However, as the amount of imported milk from the overseas market continue to increase in 2015, it adds uncertainty as to the market price of raw milk in China in 2015.

In the future, the Group will further expand the business scale of its super large dairy farms according to the established plan. Our Group plans to build two more farms in the Songnen Plain, which will replicate the super large dairy farms business model. We aim to attain a total herd size of 100,000 in 2017, thus enhancing the advantageous economies of scale of our Group. Furthermore, the Group is currently looking into the feasibility of further development of the Tiefeng Farm, which was planned to be constructed for educational tours.

Meanwhile, the Group will continue to seek for cooperation with overseas companies, to enhance our technologies of feeding, breeding and producing in order to improve production efficiency as well as expanding the size of upstream business, so as to diversify our source of income, further strengthen the Group's position as China's leading dairy farming company and continue our pursue to become the national leading premium quality raw milk supplier.

Management Discussion and Analysis

Our Revenue

During the Year, our total sales of milk produced increased by 32.0% from RMB880.8 million in the last fiscal year to RMB1,162.9 million. The sales volume reached 230,121 tons, representing an increase of 46,419 tons or 25.3% as compared with 183,702 tons in 2013. The growth was primarily attributable to (i) the increase in herd size, and (ii) the increase in per cow annual yield average annual milk yield per cow. In addition, our average selling price of raw milk had grown from RMB4,795 per ton in the year 2013 to RMB5,053 per ton in 2014. The increase in selling price reflected the high demand for premium milk from our customers.

Cost of sales

Our cost of sales for the Year was RMB631.9 million. The table below summarizes the components of our cost of sales by nature for the years 2013 and 2014:

	2014 RMB'000	2013 RMB'000
Cost of sales		
Feed	485,615	394,866
Salary, welfare and social insurance	30,324	22,789
Depreciation	38,580	33,085
Veterinary cost	22,552	15,940
Utility	21,717	19,583
Other costs	33,083	19,572
Cost of sales, total	631,871	505,835

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB485.6 million and RMB394.9 million for the years ended 31 December 2014 and 2013, respectively, representing 76.9% and 78.1% of the cost of sales for the respective financial years ended 31 December 2014 and 2013. The increase in our feed costs was attributable to the increase in feed consumption in 2014 as the number of our milkable cows grew.

Gross Profit

Given the above factors, the gross profit increased to RMB531.0 million for the Year (2013: RMB374.9 million), representing an increase of 41.6% as compared to that of 2013. Our gross profit margin also increased from 42.6% in 2013 to 45.7% in 2014.

Management Discussion and Analysis

Other Income

	2014 RMB'000	2013 RMB'000
Other income		
Government subsidies	12,185	19,623
Interest income from bank deposits	16,707	247
Sales of male calves	9,305	4,945
Commission Income	—	3,111
Others	702	236
Other income, total	38,899	28,162

Other income for the years ended 31 December 2014 and 2013 amounted to RMB38.9 million and RMB28.2 million, respectively representing a growth of 38.1%. The increase was primarily attributable to an increase in interest income from bank deposits, which was mainly due to the significant increase in the level of bank deposits due to the receipt of proceeds from the initial public offering (the "IPO") of the Company in 2013.

Listing expenses

For the Year, the Group incurred no listing expenses, compared to RMB27.6 million, which was attributable to the IPO.

Selling and distribution expenses

All of our selling and distribution expenses were transportation expenses of our raw milk. Our selling and distribution costs was RMB20.8 million (2013: RMB19.2 million), reflecting the increase in sales volume in 2014.

Administrative expenses

The table below summarizes the components of our administrative expenses:

	2014 RMB'000	2013 RMB'000
Administrative expenses		
Salary and welfare	21,711	10,596
Amortization	5,224	5,189
Travel, meal and entertainment	10,267	9,501
Professional fee	4,437	3,793
Depreciation	338	237
Insurance	3,502	3,020
Others	8,937	7,864
Administrative expenses, total	54,416	40,200

Management Discussion and Analysis

We incurred administrative expenses of RMB54.4 million for the Year (2013: RMB40.2 million) representing an increase of approximately 35.4% compared to 2013. During the Year, the Group increased salary and welfare to strengthen our mid-level management and to provide competitive salaries to our staff.

Finance costs

Our finance costs substantially decreased to RMB36.5 million for the Year (2013: RMB135.2 million). The decrease was primarily due to the fact that the Group did not incur any interest on other financial liabilities.

Each of the Pre-IPO Investors (as defined in the prospectus of the Company dated 14 November 2013 (the “Prospectus”), namely Ares YST Holdings L.P., Oversea-Chinese Banking Corporation Limited and Key Network Investment Limited was granted a put option that contained an obligation for the Company to repurchase or purchase its own shares. Therefore, the present value of such instrument was accounted for as financial liabilities. The interests calculated by reference to the agreed rate of return, being an internal rate of return of 20% on the subscription price paid by the Pre-IPO Investors, were subsequently recognized in profits and losses. Interests on other financial liabilities arising from the Pre-IPO Investments was RMB85.8 million for 2013. Upon the listing of the shares of the Company (the “Shares”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the put option lapses and the present value accounted for financial liabilities at that date was reclassified to the equity of the Group. Please refer to “History, Development and Reorganization — Pre-IPO Investments” on page 127 of the Prospectus for more details.

Changes in fair value less cost to sell of biological assets

Changes in fair value less cost to sell of biological assets was a loss of RMB43.0 million in 2014 as compared to a loss of RMB13.7 million in 2013. The difference was due to parameter changes.

Profit for the Year of the Group

Taking into account all of the above factors, the Group’s profit was RMB418.8 million for the Year. This represents an increase of 92.3% from RMB217.7 million for the year ended 31 December 2013. Basic earnings per share was approximately RMB10.71 cents (2013: RMB8.79 cents).

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB171.6 million, as compared to RMB76.6 million in 2013.

	2014 RMB'000	2013 RMB'000
Bank borrowings	50,000	220,000
Other borrowings	—	—
Unsecured borrowings	50,000	—
Secured borrowings	—	220,000
Carrying amount repayable		
Within one year	50,000	220,000
Between one to two years	—	—
Between two to five years	—	—
Over five years	—	—
Less: amount due within one year shown under current liability	(50,000)	(220,000)

As at 31 December 2014, the gearing ratio, being the ratio of total bank borrowings divided by total equity was 1.2% (2013: 5.6%).

The annual interest rate of the bank and other borrowings during the Year was 6% (2013: 6%–7.2%). As at 31 December 2014, all borrowings were denominated in RMB.

CAPITAL STRUCTURE

As at 31 December 2014, the Company's issued share capital was HK\$39,087,470 divided into 3,908,747,000 Shares of HK\$0.01 each (2013: HK\$39,087,470 divided into 3,908,747,000 Shares).

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

During the Year, the principal capital expenditures of the Group were related to construction of new farms and major maintenance and acquisition of additional equipment for its existing dairy farms.

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

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2014 nor there are other plans for material investments on capital assets as at the date of this report.

Management Discussion and Analysis

USE OF PROCEEDS FROM THE IPO

The Shares first became listed on the Stock Exchange on 26 November 2013. The Prospectus in connection with the listing and the public offering dated 14 November 2013 was issued by the Company. Gross proceeds raised from the global offering in such connection amounted to about HK\$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company) amounted to about HK\$2,564 million. Up to 31 December 2014, about HK\$1,146.4 million of such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which as to HK\$890.0 million on construction of new farms, and as to HK\$256.4 million on working capital and general corporate purpose. The directors of the Company (the "Directors") will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market condition to better deploy resources and proceeds of the IPO. Announcement will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The remaining balance was kept in banks and approved financial institutions in Hong Kong and the People's Republic of China (the "PRC").

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

PLEDGE OF ASSETS

As at 31 December 2014, no property, plant and equipment of the Group were pledged as security for bank borrowings.

FOREIGN EXCHANGE EXPOSURE

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

TREASURY POLICIES

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

Management Discussion and Analysis

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2014 and 2013 were RMB209.0 million and RMB62.4 million, respectively, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2014.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend in respect of the Year (2013: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group had approximately 1,290 employees (2013: 1,000 employees), all of whom are located in the PRC.

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

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

A share option scheme was adopted by the Company on 7 November 2013 (the "Share Option Scheme") for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. Share options comprising a total of 49,650,000 underlying Shares were granted under the Share Option Scheme to the Directors and members of the Group's senior management (including a director of certain subsidiaries of the Company) on 22 August 2014.

Further, the remuneration committee of the Company reviews and recommends to the Board for consideration and approval of the remuneration and compensation packages of the Directors and senior management by reference to the salaries paid by comparable companies, time commitment and responsibilities of the Directors of the Company and performance of the Group.

EVENT AFTER REPORTING PERIOD

The Group does not have any material subsequent event after the Year and up to the date of this report.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhao Hongliang (趙洪亮)

Mr. Zhao, aged 48, is an executive Director and the chairman of the Group. He is primarily responsible for the overall strategic development of the Group. He is also a member of the remuneration committee of the Company. Mr. Zhao completed his high school education in the People's Republic of China (the "PRC") in July 1983.

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

In 2008, Mr. Zhao invested in the dairy farming industry in the PRC and as a result, the Company's first operating entity, namely Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.* (黑龍江克東瑞信達原生態牧業股份有限公司) ("YST Heilongjiang"), was established in September 2008.

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

Mr. Wang Shaogang (王紹崗)

Mr. Wang, aged 52, is an executive Director and the vice chairman of the Group. Mr. Wang is a director of each of the following subsidiaries of our Company: Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (黑龍江克東和平原生態牧業有限公司), Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd.* (鎮賚瑞信達原生態牧業有限公司), YST Sifang, YST Honghai, Qiqihar Ruixinda ShengTai Dairy Farming Co., Ltd.* (齊齊哈爾瑞信達生態養殖有限公司), Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for the overall corporate and business policies of the Group. Mr. Wang graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute of Technology* (上海應用技術學院)) in 1989, majoring in food engineering.

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

Biographical Details of Directors and Senior Management

Mr. Fu Wenguo (付文國)

Mr. Fu, aged 47, is an executive Director, the chief executive officer and the general manager of the Group. Mr. Fu is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for overseeing the overall operations of the Group. He is also a member of the Nomination Committee of the Company. Mr. Fu graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute Technology* (上海應用技術學院)) in 1989.

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

Ms. Su Shiqin (蘇士芹)

Ms. Su, aged 49, is an executive Director and the chief financial officer of the Group. Ms. Su is a director of YST Heilongjiang, Royal Dairy Farm and Natural Dairy Farm. She is primarily responsible for financial reporting and business planning of the Group. She graduated from Changchun Finance College* (長春金融高等專科學院) in 1998, majoring in accounting and finance. She is also a holder of the certificate of accounting professional.

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

NON-EXECUTIVE DIRECTORS

Mr. Sun Wei (孫瑋)

Mr. Sun, aged 36, was appointed a non-executive Director on 30 April 2013. Mr. Sun is a director of Royal Dairy Farm and Natural Dairy Farm. Mr. Sun is one of the managing directors in the Ares Private Equity Group. He joined Ares Management LLC in July 2010 from AIG Global Investment where he had been employed since February 2005 in its Shanghai office. From November 2003 to February 2005, Mr. Sun was with KPMG in its corporate finance department as an assistant manager in KPMG's Shanghai office. He graduated with merits from the London School of Economics in 2003 with a master's degree in accounting and finance after he had graduated from the Shanghai International Studies University* (上海外國語大學) in 2001 with a bachelor of arts in economics, majoring in international finance.

Biographical Details of Directors and Senior Management

Mr. Lau Ho Fung (劉浩峰)

Mr. Lau, aged 33, was appointed a non-executive Director on 30 April 2013. Mr. Lau is a director of Royal Dairy Farm and Natural Dairy Farm. Mr. Lau is a Vice President — Private Equities of VMS Investment Group where he is mainly engaged in deal screening, due diligence and execution of private equities transactions in the greater China region. He has been a Chartered Financial Analyst charter-holder since 2009 and received a bachelor's degree in information system and software engineering from the University of Hong Kong in 2005. Mr. Lau has around eight years of experience in the private equities and asset management industries. Prior to joining VMS Investment Group, he worked as a research analyst trainee at Phoenix Capital Asia Limited during October 2005 and October 2006 and received training on a broad range of fundamental analysis. From November 2006 to May 2010, Mr. Lau worked at Tempus Investment Group where he joined as an assistant analyst and was later promoted to a research analyst. During that period, Mr. Lau's responsibilities included conducting industry and company analyses in Hong Kong and China markets and recommending investments.

INDEPENDENT NON-EXECUTIVE DIRECTORS (“INEDs”)

Mr. Wu Chi Keung (胡志強)

Mr. Wu, aged 58, was appointed an INED on 7 November 2013. He is the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. He was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently the managing director of a family-owned private company engaging in property and other investment activities.

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

Currently, Mr. Wu is an independent non-executive director of Huabao International Holdings Limited (stock code: 336), Jinchuan Group International Resources Co., Ltd. (stock code: 2362), Zhong Fa Zhan Holdings Limited (stock code: 475) and China Medical System Holdings Limited (stock code: 867), the shares of which are all listed on the Stock Exchange. In the last three years from the date of this report, he has been an independent non-executive director of JF Household Furnishings Limited (stock code: 776), China Renji Medical Group Limited (Stock Code: 648), GreaterChina Professional Services Limited (Stock Code: 8193) and Link Holdings Limited (Stock Code: 8237), the share of which are listed on the Stock Exchange.

Mr. Zhang Yuezhou (張月周)

Mr. Zhang, aged 51, was appointed an INED on 7 November 2013. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Currently, Mr. Zhang is engaged in the provision of dairy farm management consultancy services in the PRC. He was awarded a bachelor's degree in animal husbandry in July 1987 and a master's degree in agricultural extension in 2006 by the Nanjing Agricultural University (南京農業大學). Mr. Zhang obtained the qualification of an animal husbandry expert in the PRC in May 1995. Mr. Zhang has over 20 years of experience in the dairy products industry and since March 2010, Mr. Zhang has been the general manager of Shanghai Yuanfan Farming Technology Co. Ltd.* (上海源凡牧業科技有限公司), responsible for overseeing its overall operations.

Biographical Details of Directors and Senior Management

Mr. Zhu Zhanbo (朱戰波)

Mr. Zhu, aged 45, was appointed an INED with effect from 7 November 2013. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Company. Mr. Zhu has 20 years' experience in teaching and scientific research. He graduated from the Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學) in veterinary science in July 1993, and obtained a master's degree from the Department of Animal Science and Technology of the same university in July 2004. He further obtained a doctorate degree from the Jilin University (吉林大學) in July 2012.

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

SENIOR MANAGEMENT

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

Mr. Wang Yongxin (王永信)

Mr. Wang, aged 37, is the deputy general manager of the Group. Mr. Wang is a director of YST Sifang and YST Honghai. Currently, he is primarily responsible for the health care of cattle of the Company's farms and production and operations management of the Group. He graduated from the Southwest Agricultural University* (西南農業大學) in veterinarian science in 2001. He also obtained a certificate of middle-level veterinary in 2006.

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

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

Mr. Luo Qinghua (羅清華)

Mr. Luo, aged 35, is the deputy technical manager of the Group. Mr. Luo is a director of YST Sifang and YST Honghai. Currently, he is primarily responsible for technical support and technology project management of the Group. Mr. Luo was awarded a bachelor's degree in animal science by the Sichuan Agricultural University (四川農業大學) in 2004.

Biographical Details of Directors and Senior Management

Mr. Luo joined the Group in April 2009 as directors of YST Honghai and YST Sifang (which are in the preparation stage of dairy farming operations). Mr. Luo has over 10 years of experience in the dairy farming industry. Since September 2011, Mr. Luo has assumed the following offices and is now in charge of the functions mentioned below:

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

JOINT COMPANY SECRETARIES

Mr. Liu Gang (劉剛)

Mr. Liu, aged 41, was appointed as one of the Company's joint company secretaries on 7 November 2013. He was awarded a bachelor's degree in automation, majoring in measuring and control technology and instrumentations, by the Yanshan University* (燕山大學) in July 1999. Mr. Liu joined the Group in January 2012 and has been mainly responsible for providing assistance to the chairman of the Group. Prior to joining our Group, Mr. Liu has accumulated about 8 years of experience in the investment sector.

Mr. Kwok Siu Man (郭兆文)

Mr. Kwok, aged 56, is another joint company secretary of the Company (who has been appointed by the Board since 7 November 2013). Currently, he is the Head of Corporate Secretarial, Boardroom Corporate Services (HK) Limited and a director of the Boardroom Share Registrars (HK) Limited. Prior to joining the Group, he had over 25 years' legal, corporate secretarial and management experience gained from company secretary and other senior positions of reputable listed companies in Hong Kong (including Hang Seng Index Constituent and Hang Seng Mid-Cap 50 Index stock companies) and overseas. He was the managing director of a top-notch financial printer in Hong Kong with international affiliation and a director of a property management company for residential properties and has been a director of a charity fund since its incorporation in 1992 and a sponsoring body manager of a primary school since 8 March 2013.

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

Biographical Details of Directors and Senior Management

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

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

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

CORPORATE GOVERNANCE REPORT



Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") and its management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of the Shareholders. The Board considers that the Company complied with all the code provisions of the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange" and the "Listing Rules", respectively) during the year ended 31 December 2014 (the "Year").

SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

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

Corporate Governance Report

Currently, the Board comprises the following nine Directors:

Executive Directors

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

Non-executive Directors

Mr. Sun Wei
Mr. Lau Ho Fung

Independent Non-executive Directors (the “INEDs”)

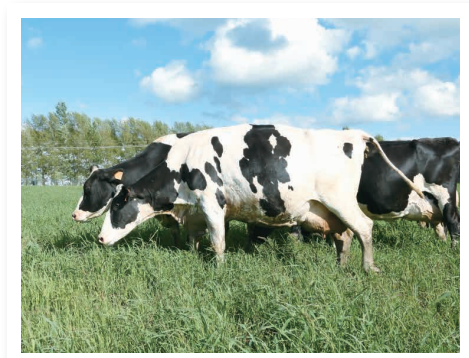
Mr. Wu Chi Keung
Mr. Zhang Yuezhou
Mr. Zhu Zhanbo



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

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

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



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

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

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

Corporate Governance Report

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

Directors' Induction and Continuing Professional Development

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

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

During the Year, all Directors had attended briefings by the company secretary and/or participated in continuous professional development courses organised by professional bodies/firms on corporate governance or updates on laws, rules and regulations relating to the roles, functions and duties of a Director to develop and refresh their knowledge and skills.

The individual record of each Director who received training for the Year is summarised as follows:

Directors	Type of CPD
Executive Directors	
Mr. Zhao Hongliang	B
Mr. Wang Shaogang	A & B
Mr. Fu Wenguo	B
Ms. Su Shiqin	A & B
Non-executive Directors	
Mr. Sun Wei	A & B
Mr. Lau Ho Fung	A & B
INEDs	
Mr. Wu Chi Keung	A & B
Mr. Zhang Yuezhou	B
Mr. Zhu Zhanbo	B



Corporate Governance Report

Notes:

- A: attending seminars/forums/workshops/conferences relevant to the business or directors' duties
- B: reading seminars materials and studying regulatory updates on laws, rules and regulations relating to directors' roles and functions

Meetings of Board and Board Committees and Directors' Attendance Records

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

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

- (a) all INEDs will review, at least on an annual basis, compliance and enforcement of the terms of the Non-Compete Undertakings by the Controlling Shareholders;
- (b) the Company will disclose any decisions on matters reviewed by the INEDs relating to compliance and enforcement of the Non-Compete Undertakings either through the annual report or by way of announcement;
- (c) the Company will disclose in the corporate governance report of its annual report on how the terms of the Non-Compete Undertakings have been complied with and enforced; and
- (d) in the event that any of the Directors and/or their respective associates has a material interest in any matter to be deliberated by the Board in relation to compliance and enforcement of the Non-Compete Undertakings, he may not vote on the resolutions of the Board approving the matter and will not be counted towards the quorum for the voting pursuant to the applicable provisions of the Bye-laws.

Corporate Governance Report

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

During the Year, 4 Board meetings, an annual general meeting (the “AGM”) and a special general meeting (the “SGM”) were held. Details of the attendance of the Directors are as follows:

Directors	Attendance of Board meetings	AGM and SGM
Executive Directors		
Mr. Zhao Hongliang	4/4	2/2
Mr. Wang Shaogang	4/4	2/2
Mr. Fu Wenguo	3/4	0/2
Ms. Su Shiqin	3/4	0/2
Non-executive Directors		
Mr. Sun Wei	3/4	0/2
Mr. Lau Ho Fung	4/4	2/2
INEDs		
Mr. Wu Chi Keung	4/4	2/2
Mr. Zhang Yuezhou	4/4	0/2
Mr. Zhu Zhanbo	4/4	0/2

Note:

During the Year, the Board has circulated and passed written resolutions on three occasions, which are dated 29 July, 28 October and 19 November 2014, respectively, apart from the physical Board meetings stated above.

Board Diversity Policy

The Board has adopted a board diversity policy (the “Board Diversity Policy”) on 7 November 2013 and discussed all measurable objectives set for implementing the same.

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

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BOARD COMMITTEES

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

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

Audit Committee

The Board has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the three INEDs, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. Mr. Wu Chi Keung is the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee include, among others:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards and discussion with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- developing and implementing a policy on engaging an external auditor to supply non-audit services and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- reviewing and monitoring the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them;
- reviewing the Company's financial controls, internal control and risk management systems;
- discussing the internal control system with management to ensure that management has performed its duty to have an effective internal control system;
- considering major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

Corporate Governance Report

- ensuring co-ordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- reporting to the Board on the matters in the CG Code; and
- considering other topics as defined by the Board.

For the Year, the Audit Committee held 2 meetings to review and supervise the financial reporting process and internal control review. It had, in conjunction with Ernst & Young, the independent auditor of the Company, reviewed the Group's audited results for the year ended 31 December 2013 and unaudited interim results for the six months ended 30 June 2014 and recommended the same to the Board for their consideration and approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The Audit Committee also carried out and discharged its other duties as set out in the CG Code.

Details of the attendance of the Audit Committee meetings are as follows:

Members	Attendance
Mr. Wu Chi Keung (<i>Chairman</i>)	2/2
Mr. Zhang Yuezhou	2/2
Mr. Zhu Zhanbo	2/2

The Audit Committee met on 20 March 2015 and, among other matters, reviewed the Group's audited consolidated results for the Year.

Remuneration Committee

The Board has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises three INEDs, namely Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Mr. Wu Chi Keung and Mr. Zhao Hongliang, an executive Director. Mr. Zhang Yuezhou is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee include, among others:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing a remuneration policy;
- reviewing and approving the management's remuneration proposals by reference to the Board's corporate goals and objectives;

Corporate Governance Report

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

During the Year, the Remuneration Committee held 2 meetings and reviewed the remuneration packages of all Directors, and made recommendations to the Board on the remuneration proposal for all Directors.

Details of the attendance of the Remuneration Committee meetings are as follows:

Members	Attendance
Mr. Zhang Yuezhou (<i>Chairman</i>)	1/2
Mr. Wu Chi Keung	2/2
Mr. Zhu Zhanbo	2/2
Mr. Zhao Hongliang	2/2

The Remuneration Committee met on 20 March 2015 and considered certain remuneration-related matters of the Directors and senior management.

Nomination Committee

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

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

Corporate Governance Report

- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of the INEDs;
- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that the Board has set for implementing such policy, and the progress on achieving the objectives; and making disclosure of its review results in the corporate governance report contained in the Company's annual report; and
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for the Directors, in particular, the Chairman and the chief executives.

During the Year, the Nomination Committee held a meeting and, among other matters, reviewed and made a recommendation on the re-appointment of the retiring Directors.

Details of the attendance of the Nomination Committee meetings are as follows:

Members	Attendance
Mr. Zhu Zhanbo (<i>Chairman</i>)	1/1
Mr. Wu Chi Keung	1/1
Mr. Zhang Yuezhou	0/1
Mr. Fu Wenguo	0/1

The Nomination Committee met on 20 March 2015 and recommended the re-appointment of all the retiring Directors at the forthcoming AGM.

Board's Corporate Governance Functions

The Board is responsible for performing the corporate governance functions of the Company as set out in code provision D.3.1 of the CG Code. The Board has reviewed this corporate governance report in discharge of its corporate governance functions, ensuring compliance with the Listing Rules.

Appointment and Re-election of Directors

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

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

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

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

Corporate Governance Report

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

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

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

Remuneration of Directors and Senior Management

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

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

Remuneration band (in RMB)	Number of individuals
Nil to 1,000,000	2

Changes in Information of a Director

Mr. Wu Chi Keung, an INED

- was appointed on 20 June 2014, and resigned on 3 October 2014 as an independent non-executive director of Link Holdings Limited (stock code: 8237), a company listed on the Growth Enterprise Market of the Stock Exchange (the "GEM");
- resigned on 2 July 2014 as an independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193), a company listed on the GEM; and

Corporate Governance Report

- resigned on 15 July 2014 as an independent non-executive director of China Renji Medical Group Limited (stock code: 648), a company listed on the Main Board of the Stock Exchange.

Save as disclosed above, as at the date of this annual report, there were no other changes to the Director's, Supervisor's or senior management's information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENT AUDITOR'S REMUNERATION

For the Year, the fees charged by Ernst & Young in respect of the audit and non-audit (primarily review of interim financial information) services provided to the Group for the Year amounted to approximate RMB2,200,000 and RMB660,000, respectively.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

INTERNAL CONTROL

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

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

- Arranged: (a) an internal control training session conducted by the PRC legal advisers in respect of the compliance with the applicable PRC laws and regulations to its Directors and management; and (b) a training program for those of the Company's Directors, senior management and employees who have responsibilities related to the compliance process under the Listing Rules;
- Engaged a reputable internal control consultant firm to conduct an assessment on the internal control system and procedures and to advise on relevant matters. Taking into consideration the recommendations by the internal control consultants, the Company has established a set of policies and adopted the internal control measures;

Corporate Governance Report

- (iii) Engaged a qualified PRC law firm as the Company's compliance officer to assist the Board to identify and manage the legal risks associated with the daily operations and advise the Company on relevant regulatory matters to ensure due compliance with the PRC laws, rules and regulations applicable to the Group;
- (iv) Established the Audit Committee with written terms of reference in compliance with code provision C.3 of the CG Code, led by Mr. Wu Chi Keung, an INED. The Audit Committee and Mr. Wang Shaogang, an executive Director, will supervise the implementation of the internal control measures in order to better monitor the daily operations from the perspective of compliance with the applicable rules and regulations;
- (v) Established: (a) a set of policies and procedures for operational processes, including production, investment and financial management, (b) a sales contract registration system to better manage the sales contracts and to prevent future breaches of the sales contracts, and (c) a corporate policy on compliance matters, which had been reviewed and approved by the Company's management; and
- (vi) Appointed a compliance adviser to advise the Company on compliance matters pursuant to Rule 3A.19 of the Listing Rules.

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

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

JOINT COMPANY SECRETARIES

The Company has appointed Mr. Liu Gang ("Mr. Liu") as one of the Joint Company Secretaries on 7 November 2013. Mr. Liu joined the Group in January 2012 with sound understanding of the operations of the Board and the Company. He has been closely involved in the preparation of the listing of the Company's shares on the Main Board of the Stock Exchange on 26 November 2013 and hence is familiar with the legal and the Listing Rules' requirements in this regard. He also attended the training seminars of not less than 15 hours to update his skills and knowledge. However, he does not possess the specified qualifications for a company secretary as required by Rule 3.28 of the Listing Rules.

Corporate Governance Report

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

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

SHAREHOLDERS’ RIGHTS

Procedures for Shareholders to convene a special general meeting (“SGM”)

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

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

Procedures for Shareholders to send enquires to the Board

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

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

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

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

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

To put forward proposals at an AGM or a SGM, the Shareholders shall submit a written notice of those proposals with the detailed contact information to the Joint Company Secretaries at the Company's registered office.

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

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

- (a) for an AGM, it shall be called by not less than twenty-one (21) clear days' notice and not less than twenty (20) clear business days and any SGM at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days; and
- (b) for all other SGMs, they may be called by not less than fourteen (14) clear days' notice and not less than ten (10) clear business days.

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

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

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

Corporate Governance Report

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the Year.

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

Directors' Report

The directors of the Company (the "Directors") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014 (the "Year").

REORGANIZATION AND GLOBAL OFFERING

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

The Company was listed on the Main Board of the Stock Exchange on 26 November 2013 (the "Listing Date").

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the Year and the state of affairs of the Company and of the Group as at 31 December 2014 are set out in the consolidated financial statements and their accompanying notes on pages 52 to 107 of this annual report.

DIVIDEND

The board of Directors (the "Board") does not recommend the payment of any final dividend in respect of the Year (2013: Nil).

ANNUAL GENERAL MEETING ("AGM")

The AGM for the Year is scheduled to be held on Wednesday, 10 June 2015. A notice convening the AGM will be issued and dispatched to the shareholders of the Company (the "Shareholders") in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 5 June 2015 to Wednesday, 10 June 2015 (both days inclusive). In order to qualify for attending the AGM, all transfers documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 4 June 2015.

Directors' Report

FINANCIAL SUMMARY

A summary of the results as well as the assets and liabilities of the Group for the last five financial years is set out on page 108 of this annual report.

SHARE CAPITAL

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

RESERVES

Details of the movements in the reserves of the Company and the Group during the Year are set out in note 26 to the consolidated financial statements and the consolidated statement of changes in equity on pages 95 and 54, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution to equity holders, comprising the share premium, exchange fluctuation reserve and accumulated loss, amounted to approximately RMB2,541 million.

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

PRE-EMPTIVE RIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

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

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares.

Directors' Report

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or executed during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

Sales attributable to the Group's largest customer and the three largest customers accounted for approximately 52.1% and 90.4%, respectively of the Group's total revenue for the Year. The purchases made by the Group from its the largest supplier and the five largest suppliers accounted for approximately 26.4% and 48.9% of the Group's total purchases for the Year, respectively.

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

BOARD

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors ("INEDs")

Mr. Wu Chi Keung (胡志強)^{A/R/N}
Mr. Zhang Yuezhou (張月周)^{A/R/N}
Mr. Zhu Zhanbo (朱戰波)^{A/R/N}

A: Member of the audit committee

R: Member of the remuneration committee

N: Member of the nomination committee

In accordance with Bye-laws 108(A) and (B) of Bye-laws, Mr. Zhao Hongliang, Mr. Wang Shaogang and Ms. Su Shiqin will retire from office by rotation at the AGM. All the above retiring Directors, being eligible, have offered themselves for re-election thereat.

Directors' Report

CONFIRMATION OF INDEPENDENCE OF INEDS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical information of the Directors and senior management of the Group are set out on pages 16 to 21 of this annual report. Directors' other particulars are contained elsewhere in this report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

Directors' Report

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

As at 31 December 2014, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Shares

Name of Directors	Capacity/Nature of interest	Number of Shares	Number of underlying Shares	Total	Appropriate percentage of issued Shares
Mr. Zhao Hongliang (Note 1)	(i) Interest in controlled corporation and beneficial owner	1,178,400,000	6,500,000	1,184,900,000	30.31%
	(ii) Deemed interest under S.317 of the SFO	170,200,000	—	170,200,000	4.35%
	Total	1,348,600,000	6,500,000	1,355,100,000	34.66%
Mr. Wang Shaogang (Note 2)	Beneficial owner	—	3,500,000	3,500,000	0.09%
Ms. Su Shiqin (Note 2)	Beneficial owner	—	2,000,000	2,000,000	0.05%
Mr. Fu Wenguo (Note 2)	Beneficial owner	—	5,000,000	5,000,000	0.13%
Mr. Wu Chi Keung (Note 2)	Beneficial owner	—	200,000	200,000	0.01%

Notes:

- 1,178,400,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao Hongliang, an executive Director and the Chairman. Therefore, Mr. Zhao Hongliang is deemed or taken to be interested in all the Shares beneficially owned by ZHL Asia Limited by virtue of the SFO.

Options were granted to Mr. Zhao Hongliang on 22 August 2014 pursuant to the share option scheme of the Company (the "Share Option Scheme"), which entitles him to subscribe for a total of 6,500,000 Shares upon his exercise of such options.

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

ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao Hongliang and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao Hongliang was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. Therefore, Mr. Zhao Hongliang was deemed to be interested in an aggregate of approximately 34.66% of the issued share capital of the Company.

- These represent the Shares to be issued and allotted by the Company upon exercise of the options granted under the Share Option Scheme.

Directors' Report

Save as disclosed above, as at 31 December 2014, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Listing Rules.

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

As at 31 December 2014, so far as it was known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons which had 5% or more interests in the Shares and the underlying Shares as recorded in the register kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

Name of Shareholders	Capacity/Nature of interest	Number of Shares	Number of underlying Shares	Deemed interest pursuant to Section 317 of the SFO		Appropriate percentage of issued Shares
				Total		
ZHL Asia Limited (Note 1)	Beneficial owner	1,178,400,000	—	176,700,000	1,355,100,000	34.66%
Mr. Zhao Hongliang (Note 1)	Interest in controlled corporation and beneficial owner	1,178,400,000	6,500,000	170,200,000	1,355,100,000	34.66%
Ms. Li Shuxia (Note 2)	Interest of spouse	1,178,400,000	6,500,000	170,200,000	1,355,100,000	34.66%
ZHY Asia Limited (Note 1)	Beneficial owner	170,200,000	—	1,184,900,000	1,355,100,000	34.66%
Mr. Zhao Hongyu (Note 1)	Interest in controlled corporation	170,200,000	—	1,184,900,000	1,355,100,000	34.66%

Notes:

- Please refer to note 1 under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Share and Debentures" above.
- Ms. Li Shuxia is the wife of Mr. Zhao Hongliang, an executive Director and the Chairman. Accordingly, Ms. Li Shuxia was deemed or taken to be interested in all the Shares in which Mr. Zhao Hongliang was interested and deemed or taken to be interested for the purpose of the SFO.
- The letter "S" denotes the entity's short position in the Shares.

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 7 November 2013 for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. Details of the Share Option Scheme are set out in note 33 to the consolidated financial statements.

Directors' Report

Share options comprising a total of 49,650,000 underlying Shares (the "Options") were granted under the Share Option Scheme to certain employees of the Group and Directors on 22 August 2014 (the "Grant Date"). Details of the movements of the share options during the Year are as follows:

Grantees	Number of Options					Exercise price per Share HK\$	Grant Date	Validity period of the Options
	Outstanding as at 01.01.2014	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Exercise during the Year			
Directors								
Mr. Zhao Hongliang	—	6,500,000	—	—	—	6,500,000	1.46	22.08.2014 Note 1
Mr. Wang Shaogang	—	3,500,000	—	—	—	3,500,000	1.46	22.08.2014 Note 1
Ms. Su Shiqin	—	2,000,000	—	—	—	2,000,000	1.46	22.08.2014 Note 1
Mr. Fu Wenguo	—	5,000,000	—	—	—	5,000,000	1.46	22.08.2014 Note 1
Mr. Wu Chi Keung	—	200,000	—	—	—	200,000	1.46	22.08.2014 Note 1
Senior management members								
Mr. Wang Yongxin	—	2,000,000	—	—	—	2,000,000	1.46	22.08.2014 Note 1
Mr. Luo Qinghua	—	2,000,000	—	—	—	2,000,000	1.46	22.08.2014 Note 1
Mr. Xue Dejiang	—	250,000	—	—	—	250,000	1.46	22.08.2014 Note 1
Employees (in aggregate)								
	—	28,200,000	—	—	—	28,200,000	1.46	22.08.2014 Note 1

Note:

- The validity period of the Options shall expire on the 7th anniversary of the Grant Date, or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

Tranche I: beginning on the 1st anniversary of the Grant Date: 30% of such Options granted;

Tranche II: beginning on the 2nd anniversary of the Grant Date: 30% of such Options granted; and

Tranche III: beginning on the 3rd anniversary of the Grant Date: 40% of such Options granted.

Directors' Report

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKINGS

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

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

Save as the transactions between Dinghe Group (comprising Heilongjiang Dinghe Modern Agricultural Company Limited* (黑龍江頂鶴現代農業股份有限公司 ("Dinghe Modern"), Heilongjiang Dinghe Feeds Company Limited* (黑龍江頂鶴飼料有限責任公司) ("Dinghe Feeds") and Heilongjiang Dinghe Qinggang Husbandry Company Limited* (黑龍江頂鶴青崗草業有限公司) ("Dinghe Qinggang")) and the Company as stated in the paragraph headed "Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Year.

Directors' Report

RELATED PARTY TRANSACTIONS

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

CONTINUING CONNECTED TRANSACTIONS

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

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

Connected Persons

1. Dinghe Group

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

Directors' Report

2. *Feihe Dairy Group*

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

Master Agreements

1. *Dinghe Master Agreement*

For the purpose of complying with Rule 14A.35 of the Listing Rules, on 1 November 2013, (a) Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司) ("Ruixinda") and Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司) ("Ruixincheng"), both indirect wholly-owned subsidiaries of the Company, on the one part and (b) Dinghe Modern, Dinghe Feeds and Dinghe Qinggang (for themselves and on behalf of their subsidiaries from time to time) on the other part entered into a master agreement (the "Dinghe Master Agreement") for the supply of various feeds (including corn silage, alfalfa, corn starch, wet corn, flaked corn, oaten hay and oat), respectively. Before the Listing, the Directors estimated that the transaction amount for the relevant feeds sold by the Dinghe Group to the Group for the Year under the Dinghe Master Agreement would not exceed RMB39 million.

2. *Feihe Master Agreement*

For the purpose of complying with Rule 14A.35 of the Listing Rules, on 1 November 2013, (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) on the other part entered into a master agreement (the "Feihe Master Agreement") for the purchase of raw milk.

On 8 December 2014, the Shareholders passed a resolution by way of poll at the special general meeting to approve the continuing connected transactions contemplated under the Feihe Master Agreement and the revised annual caps relating thereto. The relevant annual caps for the years ending 31 December 2014 and 31 December 2015 in respect of the sale of raw milk by the Group to Feihe Dairy Group were increased from RMB520 million to RMB660 million for the year ending 31 December 2014 and from RMB660 million to RMB838 million for the year ending 31 December 2015. For further information, please refer to the circular of the Company dated 21 November 2014.

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

During the Year, the Company sourced feeds from the Dinghe Group (comprising Dinghe Modern, Dinghe Feeds, Dinghe Qinggang and/or their respective subsidiaries) and sold raw milk to the Feihe Dairy Group. The aggregate purchase by the Company from the Dinghe Group amounted to approximately RMB7.7 million. The aggregate sales of the Company to Feihe Dairy Group amounted to approximately RMB606 million.

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

Directors' Report

Ernst & Young, Certified Public Accountants, the Company's independent auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000: *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued their unqualified letter to the Board containing their findings and conclusions in respect of the Group's continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

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

During the Year, the Company did not redeem any of its listed Shares nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

EVENT AFTER REPORTING PERIOD

The Group does not have any material subsequent event after the reporting period.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 22 to 37 of this annual report.

REVIEW BY AUDIT COMMITTEE

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

Directors' Report

INDEPENDENT AUDITOR

There were no changes of independent auditor in the past 2 years.

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

On behalf of the Board

Zhao Hongliang

Chairman

Hong Kong, 20 March 2015

Independent Auditors' Report



To the shareholders of YuanShengTai Dairy Farm Limited

(Incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statements of YuanShengTai Dairy Farm Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 52 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

20 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	4	1,162,890	880,760
Cost of sales		(631,871)	(505,835)
Gross profit		531,019	374,925
Other income	4	38,899	28,162
Gain from non-interest-bearing financial arrangements	4	4,994	50,938
Listing expenses		—	(27,629)
Selling and distribution expenses		(20,789)	(19,248)
Administrative expenses		(54,416)	(40,200)
Finance costs	5	(36,537)	(135,151)
Changes in fair value less costs to sell of biological assets	17	(43,020)	(13,678)
PROFIT BEFORE TAX	6	420,150	218,119
Income tax expense	7	(1,360)	(385)
PROFIT FOR THE YEAR		418,790	217,734
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		2,018	(4,878)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		420,808	212,856
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT/COMPANY			
Basic and diluted	12	RMB10.71 cents	RMB8.79 cents

Consolidated Statement of Financial Position

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,814,369	1,341,360
Prepaid land lease payments	14	110,282	112,599
Deposits for property, plant and equipment and biological assets	16	144,298	51,065
Biological assets	17	1,229,107	1,088,318
Amount due from a beneficial owner of a former shareholder	20	—	55,618
Total non-current assets		3,298,056	2,648,960
CURRENT ASSETS			
Inventories	18	277,134	200,877
Trade receivables	19	168,712	64,633
Prepayments and other receivables	16	28,461	22,295
Prepaid land lease payments	14	5,612	4,546
Cash and cash equivalents	21	1,295,595	2,026,204
Total current assets		1,775,514	2,318,555
CURRENT LIABILITIES			
Trade payables	22	263,100	212,091
Other payables and accruals	23	396,514	351,182
Amounts due to related companies	20	27,767	32,707
Interest-bearing bank borrowings	24	50,000	220,000
Total current liabilities		737,381	815,980
NET CURRENT ASSETS		1,038,133	1,502,575
TOTAL ASSETS LESS CURRENT LIABILITIES		4,336,189	4,151,535
NON-CURRENT LIABILITIES			
Other payables	23	—	185,829
Amount due to a beneficial owner of a former shareholder	20	—	54,950
Total non-current liabilities		—	240,779
Net assets		4,336,189	3,910,756
EQUITY			
Issued capital	25	30,727	30,727
Reserves	26	4,305,462	3,880,029
Total equity		4,336,189	3,910,756

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the Company								Total equity RMB'000
	Note	Issued capital RMB'000	Merger reserve RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	
At 1 January 2013		—	186,000	—	—	—	—	404,470	590,470
Profit for the year		—	—	—	—	—	—	217,734	217,734
Other comprehensive expense for the year:									
Exchange differences on translation of foreign operations		—	—	—	—	(4,878)	—	—	(4,878)
Total comprehensive income for the year		—	—	—	—	(4,878)	—	217,734	212,856
Contributions from a shareholder	26(a)	—	—	—	455,505	—	—	—	455,505
Issuance of shares (pre-IPO investors)		—	—	627,724	—	—	—	—	627,724
Share issue expenses		—	—	(16,814)	—	—	—	—	(16,814)
Capitalisation issue of shares		23,042	—	(23,042)	—	—	—	—	—
Issuance of shares on 26 November 2013		7,685	—	2,033,330	—	—	—	—	2,041,015
At 31 December 2013 and 1 January 2014		30,727	186,000*	2,621,198*	455,505*	(4,878)*	—	622,204*	3,910,756
Profit for the year		—	—	—	—	—	—	418,790	418,790
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		—	—	—	—	2,018	—	—	2,018
Total comprehensive income for the year		—	—	—	—	2,018	—	418,790	420,808
Equity-settled share option arrangements		—	—	—	—	—	4,625	—	4,625
At 31 December 2014		30,727	186,000*	2,621,198*	455,505*	(2,860)*	4,625*	1,040,994*	4,336,189

* These reserve accounts comprise the consolidated reserves of RMB4,305,462,000 (2013: RMB3,880,029,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		420,150	218,119
Adjustments for:			
Finance costs	5	36,537	135,151
Interest income	4	(16,707)	(247)
Depreciation	6	57,519	50,718
Recognition of prepaid land lease payments	6	5,427	5,148
Changes in fair value less costs to sell of biological assets	17	43,020	13,678
Gain from non-interest-bearing financial arrangement		(4,994)	(50,938)
		540,952	371,629
Increase in inventories		(76,257)	(61,755)
(Increase)/decrease in trade receivables		(297,626)	6,253
Increase in prepayments and other receivables		(6,166)	(12,100)
Decrease in amounts due from related companies		—	510
Decrease in other payables and accruals		(48,786)	(177,705)
Increase in trade payables		51,009	4,436
Decrease in amounts due to related companies		(4,940)	(51,790)
Exchange realignment		(1,911)	(2,744)
		156,275	76,734
Cash generated from operations		156,275	76,734
Interest received		16,707	247
Tax paid		(1,360)	(385)
		171,622	76,596
Net cash flows from operating activities		171,622	76,596

Consolidated Statement of Cash Flows

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(500,923)	(160,772)
Prepayment of land lease payments		(4,176)	—
Additions to biological assets		(222,933)	(193,535)
Deposits paid for property, plant and equipment		(93,233)	(49,303)
Proceeds from disposal of biological assets		39,124	33,159
Proceeds from disposal of items of property, plant and equipment		1,214	226
Receipt of government grants		60,820	1,375
Net cash flows used in investing activities		(720,107)	(368,850)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment to a beneficial owner of a former shareholder		(60,000)	(195,137)
Advance from a beneficial owner of a former shareholder		60,000	62,100
Decrease in amounts due to related companies		—	(281,609)
New bank borrowings		50,000	245,000
Repayments of interest-bearing bank borrowings		(220,000)	(489,974)
Interest paid		(12,124)	(23,395)
Proceeds from issue of shares		—	2,555,051
Capital contributions from a shareholder		—	455,488
Share issue expenses		—	(16,814)
Net cash flows (used in)/from financing activities		(182,124)	2,310,710
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		2,026,204	7,748
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,295,595	2,026,204

Statement of Financial Position

Year ended 31 December 2014

	Notes	2014 RMB	2013 RMB
NON-CURRENT ASSET			
Investments in subsidiaries	15	631	631
CURRENT ASSETS			
Amount due from subsidiary	15	2,562,493,384	893,025,497
Bank balances		26,854,270	1,645,876,276
Total current assets		2,589,347,654	2,538,901,773
CURRENT LIABILITIES			
Amounts due to subsidiaries	15	7,291,924	7,112,003
Other payables and accruals		5,604,181	9,311,055
Total current liabilities		12,896,105	16,423,058
NET CURRENT ASSETS			
		2,576,451,549	2,522,478,715
NET CURRENT ASSETS			
Net assets		2,576,452,180	2,522,479,346
EQUITY			
Issued capital	25	30,726,727	30,726,727
Reserves	26	2,545,725,453	2,491,752,619
Total equity		2,576,452,180	2,522,479,346

Zhao Hongliang
Director

Su Shiqin
Director

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

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

During the year ended 31 December 2014, the Company and its subsidiaries (together, the “Group”) are principally engaged in the production and sale of milk in the the People’s Republic of China (the “PRC”).

2.1 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for biological assets and agricultural produce which have been measured at fair values less cost to sell. The financial statements are presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (the “functional currency”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

Notes to the Consolidated Financial Statements

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27	<i>Investment Entities</i>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to IAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to IAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>
Amendment to IFRS 2	<i>Definition of Vesting Condition¹</i>
included in <i>Annual Improvements 2010–2012 Cycle</i>	
Amendment to IFRS 3	<i>Accounting for Contingent Consideration</i>
included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>in a Business Combination¹</i>
Amendment to IFRS 13	<i>Short-term Receivables and Payables</i>
included in <i>Annual Improvements 2010–2012 Cycle</i>	
Amendment to IFRS 1	<i>Meaning of Effective IFRSs</i>
included in <i>Annual Improvements 2011–2013 Cycle</i>	

¹ Effective from 1 July 2014

The adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

Notes to the Consolidated Financial Statements

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

IFRS 9	<i>Financial Instruments</i> ⁴
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment entities: applying the consolidation exception</i> ²
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
IFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
IFRS 15	<i>Revenue from Contracts with Customers</i> ³
Amendments to IAS 1	<i>Disclosure Initiative</i> ²
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ²
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ²
<i>Annual Improvements 2010–2012 Cycle</i>	Amendments to a number of IFRSs ¹
<i>Annual Improvements 2011–2013 Cycle</i>	Amendments to a number of IFRSs ¹
<i>Annual Improvements 2012–2014 Cycle</i>	Amendments to a number of IFRSs ²

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group in the process of making an assessment of the impact of these changes upon 2015.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries (Continued)

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

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

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

Fair value measurement

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

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

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

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

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

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

Impairment of non-financial assets

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

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

Property, plant and equipment and depreciation

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Biological assets

Dairy cows

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

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

Agricultural produce

Milk

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

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

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

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

Subsequent measurement

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

Derecognition of financial assets

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement of loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (continued)

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) commission income was recognised when the services are performed.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 22 August 2014 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Binomial Lattice model, further details of which are given in note 33 to the consolidated financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee benefits

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

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

Borrowing costs

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

Notes to the Consolidated Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

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

2.5 SIGNIFICANT ACCOUNTING ESTIMATE

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

Estimation uncertainty

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

Notes to the Consolidated Financial Statements

2.5 SIGNIFICANT ACCOUNTING ESTIMATE (Continued)

Estimation uncertainty (Continued)

Fair value of dairy cows

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

3. OPERATING SEGMENT INFORMATION

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

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

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

All non-current assets were located in Mainland China.

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

During the year, the Group made sales to customers, which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2014 and 2013 is as follows:

	2014 RMB'000	2013 RMB'000
Customer A	416,438	196,169
Customer B	28,246	277,714
Customer C	606,442	319,102
Others	111,764	87,775
	1,162,890	880,760

Notes to the Consolidated Financial Statements

4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue and other income is as follows:

	2014 RMB'000	2013 RMB'000
Revenue		
Sales of raw milk	1,162,890	880,760
Other income		
Government subsidies	12,185	19,623
Interest income	16,707	247
Sales of male calves	9,305	4,945
Commission income	—	3,111
Others	702	236
	38,899	28,162
Gains		
Gain from non-interest-bearing financial arrangements with:		
— Feihe Dairy Group (Note 23(a))	—	48,786
— Meng Fanqing	4,994	2,152
	4,994	50,938

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

	2014 RMB'000	2013 RMB'000
Fair value of milk produced less costs to sell	1,141,398	861,512

Notes to the Consolidated Financial Statements

5. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	2014 RMB'000	2013 RMB'000
Interest on other financial liabilities	—	85,785
Imputed interest on non-interest-bearing financial arrangements	24,413	25,971
Interest on bank and other borrowings wholly repayable within five years	12,124	21,107
Interest on bank and other borrowings wholly repayable beyond five years	—	2,288
	36,537	135,151

6. PROFIT BEFORE TAX

The Group's profit before tax from operations arrived at after charging:

	Note	2014 RMB'000	2013 RMB'000
Breeding costs to produce		485,615	394,866
Production costs for raw milk		146,256	110,969
Cost of sales		631,871	505,835
Depreciation	13	57,519	50,718
Recognition of prepaid land lease payments	14	5,427	5,148
Auditors' remuneration		2,970	3,282
Loss on disposal of property, plant and equipment		84	—
Changes in fair value less costs to sell of biological assets	17	43,020	13,678
Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		41,298	28,941
Equity-settled share option expense		4,625	—
Pension scheme contributions		6,111	3,496
		52,034	32,437
Foreign exchange differences, net		1,901	4,088

Notes to the Consolidated Financial Statements

7. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2014 as the Group did not generate any assessable profits arising in Hong Kong during the year (2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

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

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

	2014 RMB'000	2013 RMB'000
Group:		
Current — Hong Kong	—	—
Current — Mainland China		
Charge for the year	—	385
Underprovision in prior year	1,360	—
Total tax charge for the year	1,360	385

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

	2014 RMB'000	%	2013 RMB'000	%
Profit before tax	420,150		218,119	
Tax at the statutory tax rate	105,037	25.0	54,530	25.0
Effect of tax exemptions granted to agricultural entities	(103,677)	(24.7)	(54,145)	(24.8)
Tax charge at the Group's effective rate	1,360	0.3	385	0.2

Notes to the Consolidated Financial Statements

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration during the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014 RMB'000	2013 RMB'000
Fees	357	59
Other emoluments:		
Salaries, allowances and benefits in kind	396	396
Performance related bonuses	2,788	1,359
Equity-settled share option expense	1,601	—
Pension scheme contributions	219	—
	5,361	1,814

(a) Independent non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity- settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014						
Wu Chi Keung	159	—	—	17	—	176
Zhang Yuezhou	99	—	—	—	—	99
Zhu Zhanbo	99	—	—	—	—	99
	357	—	—	17	—	374
2013						
Wu Chi Keung	25	—	—	—	—	25
Zhang Yuezhou	17	—	—	—	—	17
Zhu Zhanbo	17	—	—	—	—	17
	59	—	—	—	—	59

Notes to the Consolidated Financial Statements

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity- settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014						
<i>Executive directors:</i>						
Fu Wenguo*	—	99	865	466	87	1,517
Wang Shaogang	—	99	821	326	89	1,335
Su Shiqin	—	99	201	186	9	495
Zhao Hongliang	—	99	901	606	34	1,640
	—	396	2,788	1,584	219	4,987
<i>Non-executive directors:</i>						
Sun Wei	—	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—	—
	—	396	2,788	1,584	219	4,987
2013						
<i>Executive directors:</i>						
Fu Wenguo*	—	99	502	—	—	601
Wang Shaogang	—	99	302	—	—	401
Su Shiqin	—	99	53	—	—	152
Zhao Hongliang	—	99	502	—	—	601
	—	396	1,359	—	—	1,755
<i>Non-executive directors:</i>						
Sun Wei	—	—	—	—	—	—
Lau Ho Fung	—	—	—	—	—	—
	—	396	1,359	—	—	1,755

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

There was no agreement under which a director or the chief executive officer waived or agreed to waive any remuneration during 2014 and 2013.

Notes to the Consolidated Financial Statements

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors and the chief executive officer (who is also a director) (2013: two directors and the chief executive officer), details of whose remuneration are set out in note 8 above.

The aggregate remuneration in respect of the remaining two (2013: two) non-director highest paid employees as follows:

	2014 RMB'000	2013 RMB'000
Salaries, allowances and benefits in kind	750	423
Equity-settled share option expense	372	—
Pension scheme contributions	28	—
	1,150	423

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

	2014 Number of employees	2013 Number of employees
Nil to HK\$1,000,000 (equivalent to RMB833,333)	2	2

Notes to the Consolidated Financial Statements

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2014 includes a profit of RMB15,769,000 (2013: a loss of RMB113,336,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

No dividend was paid or proposed during 2014, nor has any dividend been proposed since the end of the reporting period.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2014 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB418,790,000 (2013: RMB217,734,000) and the weighted average number of ordinary shares in issue of 3,908,747,000 (2013: 2,476,698,334).

No adjustment has been made to the basic earnings per share amounts for the years ended 31 December 2014 and 2013 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

Notes to the Consolidated Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2013, net of accumulated depreciation	1,035,194	701	123,594	5,327	44,611	89,692	1,299,119
Additions	70	2,399	4,753	5,261	6,598	74,556	93,637
Transfers	121,899	—	—	—	—	(121,899)	—
Depreciation provided during the year	(33,140)	(364)	(9,260)	(2,071)	(5,883)	—	(50,718)
Disposals/write-off	(452)	—	(46)	(1)	(179)	—	(678)
At 31 December 2013 and 1 January 2014, net of accumulated depreciation	1,123,571	2,736	119,041	8,516	45,147	42,349	1,341,360
Additions	385	3,753	12,349	8,125	4,518	502,612	531,742
Transfers	51,707	—	—	—	—	(51,707)	—
Depreciation provided during the year	(36,503)	(926)	(9,724)	(2,770)	(7,596)	—	(57,519)
Disposals/write-off	(35)	(10)	(396)	(1)	(772)	—	(1,214)
At 31 December 2014, net of accumulated depreciation	1,139,125	5,553	121,270	13,870	41,297	493,254	1,814,369
At 1 January 2013:							
Cost	1,089,758	1,147	138,101	7,360	54,903	89,692	1,380,961
Accumulated depreciation	(54,564)	(446)	(14,507)	(2,033)	(10,292)	—	(81,842)
Net carrying amount	1,035,194	701	123,594	5,327	44,611	89,692	1,299,119
At 31 December 2013 and 1 January 2014:							
Cost	1,210,837	3,529	142,770	12,618	61,051	42,349	1,473,154
Accumulated depreciation	(87,266)	(793)	(23,729)	(4,102)	(15,904)	—	(131,794)
Net carrying amount	1,123,571	2,736	119,041	8,516	45,147	42,349	1,341,360
At 31 December 2014:							
Cost	1,262,894	7,272	154,723	20,742	64,797	493,254	2,003,682
Accumulated depreciation	(123,769)	(1,719)	(33,453)	(6,872)	(23,500)	—	(189,313)
Net of accumulated depreciation	1,139,125	5,553	121,270	13,870	41,297	493,254	1,814,369

At 31 December 2014, no property, plant and equipment of the Group (2013: RMB219,415,000) were pledged to secure general bank loans granted to the Group (note 24).

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

Notes to the Consolidated Financial Statements

14. PREPAID LAND LEASE PAYMENTS

Group

	2014 RMB'000	2013 RMB'000
Carrying amount at beginning of the year	117,145	122,293
Additions	4,176	—
Recognised during the year	(5,427)	(5,148)
Carrying amount at end of the year	115,894	117,145
Current portion	(5,612)	(4,546)
Non-current portion	110,282	112,599

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

At 31 December 2014 and 2013, all the Group's leasehold lands located in the Mainland China did not have land use right certificates as all lands are leased from various independent third parties. The directors of the Company have sought for PRC legal advice and have confirmed that the Group is eligible to use the lands though the formal title to these lands will not be granted to the Group.

15. INVESTMENTS IN SUBSIDIARIES

	2014 RMB'000	2013 RMB'000
Unlisted shares, at cost	631	631

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB2,562,493,000 (2013: RMB893,025,000) and RMB7,292,000 (2013: RMB7,112,000), respectively, as at 31 December 2014 are unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Natural Dairy Farm Limited	BVI/Mainland China	USD100	100	—	Investment holding
Royal Dairy Farm Limited	Hong Kong/Mainland China	HK\$100	—	100	Investment holding
黑龍江甘南瑞信達原生態牧業有限公司 Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. ("Ruixinda Gannan")**	Mainland China	RMB38,000,000	—	100	Production and sale of milk
黑龍江克東和平原生態牧業有限公司 Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. ("YST Heping")**	Mainland China	RMB246,520,000	—	100	Production and sale of milk
黑龍江克東瑞信達原生態 牧業股份有限公司 Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.**	Mainland China	RMB186,850,000	—	100	Production and sale of milk
鎮賚瑞信達原生態牧業有限公司 Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd.**	Mainland China	RMB60,000,000	—	100	Production and sale of milk
哈爾濱市瑞信達牧業有限公司 Harbin Ruixinda Dairy Farming Co., Ltd. ("Ruixinda")**	Mainland China	RMB180,000,000	—	100	Investment holding
拜泉瑞信達原生態牧業有限公司 Baiquan Ruixinda YuanShengTai Dairy Farming Co., Ltd.**	Mainland China	RMB50,000,000	—	100	Production and sale of milk
克東勇進原生態牧業有限公司 Kedong Yongjin YuanShengTai Dairy Farming Joint Stock Co., Ltd.**	Mainland China	RMB30,000,000	—	100	Production and sale of milk
齊齊哈爾紅海原生態牧業股份有限公司 Qiqihar Honghai YuanShengTai Dairy Farming Joint Stock Husbandry Co., Ltd.**	Mainland China	RMB5,000,000	—	100	Inactive
齊齊哈爾四方原生態牧業股份有限公司 Qiqihar Sifang YuanShengTai Dairy Farming Joint Stock Co., Ltd.**	Mainland China	RMB5,000,000	—	100	Inactive
齊齊哈爾瑞信達生態養殖有限公司 Qiqihar Ruixinda ShengTai Dairy Farming Co., Ltd.**	Mainland China	RMB3,000,000	—	100	Inactive

Notes to the Consolidated Financial Statements

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation/ registration and operations	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
哈爾濱市瑞信誠商貿有限公司 Harbin Ruixincheng Trading Co., Ltd. ("Ruixincheng")**	Mainland China	RMB550,000,000	—	100	Inactive
克東瑞信達商貿有限公司 Kedong Ruixinda Commercial Trade Co., Ltd.**	Mainland China	RMB430,000,000	—	100	Inactive
甘南瑞信誠商貿有限公司 Gannan Ruixincheng Commercial Trade Co., Ltd.**	Mainland China	RMB400,000,000	—	100	Inactive
拜泉瑞信誠牧業有限公司 Baiquan Ruixincheng Dairy Farming Co., Ltd.**	Mainland China	RMB534,113,940	—	100	Inactive

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

* Registered as limited liability companies under PRC law.

16. PREPAYMENTS AND OTHER RECEIVABLES

Group

	2014 RMB'000	2013 RMB'000
Prepayments	144,729	62,945
Other receivables	28,030	10,415
	172,759	73,360
Non-current portion	(144,298)	(51,065)
Current portion	28,461	22,295

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

Notes to the Consolidated Financial Statements

17. BIOLOGICAL ASSETS

A – Nature of activities

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

The quantity of dairy cows owned by the Group at 31 December 2014 and 2013 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 31 December 2014 and 2013 are dairy cows that have not had their first calves.

	2014 heads	2013 heads
Dairy cows		
Milkable cows	26,005	21,544
Heifers and calves	18,618	18,852
Total dairy cows	44,623	40,396

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

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

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

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

(i) *Regulatory and environment risks*

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

(ii) *Climate, disease and other natural risks*

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

Notes to the Consolidated Financial Statements

17. BIOLOGICAL ASSETS (Continued)

B – Value of Dairy Cows

The value of dairy cows at the end of the reporting period was:

	2014 RMB'000	2013 RMB'000
Dairy cows	1,229,107	1,088,318

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance as at and 1 January 2013	325,713	615,907	941,620
Increase due to raising (feeding costs and others)	193,535	—	193,535
Transfer in/(out)	(131,032)	131,032	—
Decrease due to sales	(4,840)	(28,319)	(33,159)
Gain/(loss) arising from changes in fair value less costs to sell	28,282	(41,960)	(13,678)
Balance as at 31 December 2013 and 1 January 2014	411,658	676,660	1,088,318
Increase due to raising (feeding costs and others)	222,933	—	222,933
Transfer in/(out)	(319,635)	319,635	—
Decrease due to sales	(4,448)	(34,676)	(39,124)
Gain/(loss) arising from changes in fair value less costs to sell	49,629	(92,649)	(43,020)
Balance as at 31 December 2014	360,137	868,970	1,229,107

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

Notes to the Consolidated Financial Statements

17. BIOLOGICAL ASSETS (Continued)

B – Value of Dairy Cows (Continued)

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

- The quantities of the existing dairy cows at the end of the year will reduce at a certain culling rate due to natural or unnatural factors.
- The culling rates adopted are 10%, 13%, 15%, 23%, 35% and 100% for milkable cows in the first to sixth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.
- The average milk yield of each cow per day ranges from 20.93 to 24.30 kg during the projected period of six lactation cycles, which is the estimated amount of milk producible by a cow.
- The expected average prices of milk during the projected period of six lactation cycles, which is the estimated production period of a dairy cow, are estimated after taking into account 2% of growth for each projected year after considering future demand and inflation in Mainland China.
- The cash flows for financing the assets and taxation are not included as required by IAS 41 *Agriculture*.
- Costs are average costs based on historical cost information and taking into account a 4% growth for each projected year after considering future supply and inflation in Mainland China.
- The discount rate used is 14% (2013: 15%) for the year ended 31 December 2014.

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

- The valuation of fair value of biological assets has taken into consideration the transportation costs following IFRS 13 *Fair Value Measurement*. Because of the import and export control of livestock in Mainland China, the directors are of the view that Mainland China is the principal market in determining the fair value. The transportation costs for estimated importing heifers and calves amounted to RMB55,854,000 (2013: RMB56,556,000) as at 31 December 2014.
- The average market price of a heifer of 14 months old was RMB21,000 (2013: RMB21,000) for the year ended 31 December 2014 and the average feeding cost per day of each calf and heifer ranges from RMB11.64 to RMB41.33.

Notes to the Consolidated Financial Statements

17. BIOLOGICAL ASSETS (Continued)

B – Value of Dairy Cows (Continued)

The aggregate gain or loss arising during the years ended 31 December 2014 and 2013 on initial recognition of dairy cows and milk and from the changes in fair value less costs to sell of dairy cows is analysed as follows:

	2014 RMB'000	2013 RMB'000
Fair value of milk produced less costs to sell	1,141,398	861,512
Loss arising from changes in fair value less costs to sell	(43,020)	(13,678)
	1,098,378	847,834

C – Fair value hierarchy

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

	Fair value measurement using significant unobservable inputs (Level 3) RMB'000
As at 31 December 2014	1,229,107
As at 31 December 2013	1,088,318

D – Sensitivity analysis

Feeding costs sensitivity analysis for milkable cows

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

Group

	Increase/(decrease) Profit before tax	
	2014 RMB'000	2013 RMB'000
Increase in feeding costs of 10%	(48,562)	(39,487)
Decrease in feeding costs of 10%	48,562	39,487

Notes to the Consolidated Financial Statements

17. BIOLOGICAL ASSETS (Continued)

D – Sensitivity analysis (Continued)

Milk price sensitivity analysis for milkable cows

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

Group

	Increase/(decrease) Profit before tax	
	2014 RMB'000	2013 RMB'000
Increase in milk price of 10%	116,289	88,076
Decrease in milk price of 10%	(116,289)	(88,076)

18. INVENTORIES

Group

	2014 RMB'000	2013 RMB'000
Feeds	263,406	187,618
Others	13,728	13,259
	277,134	200,877

Notes to the Consolidated Financial Statements

19. TRADE RECEIVABLES

Group

	2014 RMB'000	2013 RMB'000
Trade receivables (note)	168,712	64,633

Note:

The balance included trade receivables from Heilongjiang Feihe Dairy Co., Ltd. ("Feihe Dairy HLJ") and its subsidiaries (collectively "Feihe Dairy Group") of approximately RMB114,373,000 as at 31 December 2014 (2013: RMB26,782,000).

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

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

Group

	2014 RMB'000	2013 RMB'000
Within one month	165,351	64,633
Over one month and within two months	—	—
Over two months	3,361	—
	168,712	64,633

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

Notes to the Consolidated Financial Statements

19. TRADE RECEIVABLES (Continued)

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

Group

	2014 RMB'000	2013 RMB'000
Neither past due nor impaired	165,351	64,633
Less than 1 month past due	—	—
1 month to 3 months past due	—	—
Over 3 months past due	3,361	—
	168,712	64,633

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

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

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

Particulars of the amounts due from a beneficial owner of a former shareholder, disclosed pursuant to section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

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

	2014 RMB'000	2013 RMB'000
Meng Fanqing	—	55,618

Notes to the Consolidated Financial Statements

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

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

	2014 RMB'000	2013 RMB'000
Meng Fanqing	—	54,950

An analysis of the amounts due to related companies is as follows:

		2014 RMB'000	2013 RMB'000
Heilongjiang Dinghe Feeds Company Limited ("Dinghe Feeds")	(note)	24,437	—
Heilongjiang Dinghe Modern Agricultural Company Limited ("Dinghe Modern")	(note)	463	30,700
Heilongjiang Dinghe Qinggang Husbandry Company Limited ("Dinghe Qinggang")	(note)	2,867	2,007
		27,767	32,707

Note: Zhao Hongliang (the "Major Shareholder") is the sole beneficial owner of these entities.

21. CASH AND CASH EQUIVALENTS

Group

	2014 RMB'000	2013 RMB'000
Cash and bank balances	445,937	2,026,204
Time deposits	849,658	—
	1,295,595	2,026,204
Cash and cash equivalents denominated in:		
RMB	1,237,030	1,752,087
HK\$	24,047	251,663
US\$	34,518	22,454
	1,295,595	2,026,204

Notes to the Consolidated Financial Statements

21. CASH AND CASH EQUIVALENTS (Continued)

Group (Continued)

At 31 December 2014, the Group's cash and bank balances denominated in RMB amounted to RMB1,237,030,000 (2013: RMB1,752,087,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

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

Group

	2014 RMB'000	2013 RMB'000
Within 2 months	162,208	154,358
2 to 6 months	70,371	33,718
6 to 12 months	13,229	12,618
Over 1 year	17,292	11,397
	263,100	212,091

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

Notes to the Consolidated Financial Statements

23. OTHER PAYABLES AND ACCRUALS

Group

	2014 RMB'000	2013 RMB'000
Deferred income	9,074	12,048
Other payables — construction	80,993	44,334
Other payables — equipment and materials	9,323	15,163
Amount due to Feihe Dairy Group (note a)	185,876	379,852
Others	111,248	85,614
	396,514	537,011
Non-current portion (note a)	—	(185,829)
	396,514	351,182

Note:

- (a) The balance contained other payable to Feihe Dairy Group of approximately RMB185,876,000 as at 31 December 2014 (2013: RMB379,852,000).

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

On 25 April 2013, the Group further entered into a supplementary agreement with Feihe Dairy Group regarding the repayment of the outstanding purchase consideration of RMB532,254,000. Pursuant to the supplementary agreement, the outstanding purchase consideration would be settled in 11 quarterly installments of RMB48,387,000 per quarter from 1 April 2013 to 31 December 2015 by either cash or delivery of raw milk, at the option of the Group. The extension of the repayment period gave rise to a gain of RMB48,786,000 in profit or loss, being the adjustment in recalculating the carrying amount of the outstanding payable to Feihe Dairy Group by computing the present value of the re-estimated future cash flows at the original effective interest rate (note 4).

Notes to the Consolidated Financial Statements

24. INTEREST-BEARING BANK BORROWINGS

Group

	2014			2013		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current						
Secured bank loans	–	–	–	6.0–7.2	2014	220,000
Unsecured bank loans	6.0	2015	50,000	–	–	–

	2014 RMB'000	2013 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	50,000	220,000

The Group's banking facilities amounting to RMB95,000,000 (2013: nil) of which RMB50,000,000 (2013: nil) had been utilized as at 31 December 2014.

No bank loans of the Group are secured by property, plant and equipment situated in Mainland China at 31 December 2014 (2013: RMB219,415,000).

The Group's bank borrowings at 31 December 2014 were guaranteed by Wang Shaogang, a director of the Company.

25. SHARE CAPITAL

Company

	2014 RMB'000	2013 RMB'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	406,897	406,897
Issued and fully paid:		
3,908,747,000 ordinary shares of HK\$0.01 each	30,727	30,727

No movement in share capital was noted during the year.

Notes to the Consolidated Financial Statements

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 54 of the annual report.

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

(b) Company

	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2013	—	—	—	—	—
Loss for the year	—	—	—	(113,336)	(113,336)
Other comprehensive expense for the year:					
Exchange differences on translation of foreign operations	—	—	(16,109)	—	(16,109)
Total comprehensive expense for the year	—	—	(16,109)	(113,336)	(129,445)
Issuance of shares (pre-IPO investors)	627,724	—	—	—	627,724
Share issue expenses	(16,814)	—	—	—	(16,814)
Capitalisation issue of shares	(23,042)	—	—	—	(23,042)
Issuance of shares on 26 November 2013	2,033,330	—	—	—	2,033,330
At 31 December 2013 and 1 January 2014	2,621,198	—	(16,109)	(113,336)	2,491,753
Income for the year	—	—	—	15,769	15,769
Other comprehensive expense for the year:					
Exchange differences on translation of foreign operations	—	—	33,578	—	33,578
Total comprehensive income for the year	—	—	33,578	15,769	49,347
Equity-settled share option arrangement	—	4,625	—	—	4,625
At 31 December 2014	2,621,198	4,625	17,469	(97,567)	2,545,725

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

Notes to the Consolidated Financial Statements

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

- (a) During the year, the Group delivered raw milk of RMB193,547,000 (2013: RMB161,964,000) to Feihe Dairy Group for the settlement of part of the considerations for the acquisition of Ruixinda Gannan and YST Heping.
- (b) During the years ended 31 December 2014 and 2013, the finance income and expenses on non-interest-bearing financial arrangements are non-cash items.

28. CAPITAL COMMITMENTS

The Group had the following commitments at the end of the reporting period:

	2014 RMB'000	2013 RMB'000
Contracted but not provided for:		
— Construction in progress	203,808	54,316
— Property and equipment	5,143	8,096
	208,951	62,412

29. RELATED PARTY TRANSACTIONS

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

	Notes	2014 RMB'000	2013 RMB'000
Payments for construction costs to:			
Sanhe	(iii)	—	54,218
Purchases of feeds from:			
Dinghe Modern	(i), (ii)	463	563
Dinghe Feeds	(i), (ii)	31,881	4,599
Dinghe Qinggang	(i), (ii)	860	3,121

Notes:

- (i) The transactions were conducted in accordance with the terms and conditions mutually agreed by both parties.
- (ii) The Major Shareholder is the sole beneficial owner of these entities.
- (iii) The Major Shareholder is a responsible person of this branch until May 2013.

Notes to the Consolidated Financial Statements

29. RELATED PARTY TRANSACTIONS (Continued)

- (b) Compensation of key management personnel (which included the directors of the Company) of the Group is as follows:

	2014 RMB'000	2013 RMB'000
Short term employee benefits	4,384	2,237
Post-employment benefits	247	—
Total compensation paid to key management personnel	4,631	2,237

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

30. FINANCIAL INSTRUMENTS BY CATEGORY

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

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Group

	Carrying amounts		Fair values	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Financial assets				
Amount due from a beneficial owner of a former shareholder	—	55,618	—	60,000

Notes to the Consolidated Financial Statements

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

Group (Continued)

	Carrying amounts		Fair values	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Financial liabilities				
Interest-bearing bank borrowings	50,000	220,000	51,733	230,314
Amount due to a beneficial owner of a former shareholder	—	54,950	—	60,000
	50,000	274,950	51,733	290,314

Management has assessed that the fair values of cash and cash equivalents, trade receivables, other receivables, and amounts due to related companies, approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The Group and the Company did not have any financial assets or financial liabilities measured at fair value as at 31 December 2014 (2013: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 for both assets and financial liabilities (2013: Nil).

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

Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input	
Amount due from/(to) a beneficial owner of a former shareholder	Discounted cash flow method	Incremental borrowing rate	2014: N/A (2013: 6% to 7%)	N/A (2013: 1%) increase/(decrease) in incremental borrowing rate would result in increase/(decrease) in fair value by N/A (2013: RMB993,000)
Interest-bearing bank borrowings	Discounted cash flow method	Incremental borrowing rate	2014: 6% to 7% (2013: 6% to 7%)	1% (2013: 1%) increase/(decrease) in incremental borrowing rate would result in increase/(decrease) in fair value by RMB289,000 (2013: RMB1,619,000)

Notes to the Consolidated Financial Statements

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

During the year, there were no financial assets for which fair values are disclosed.

Assets for which fair values are disclosed

Group

There were no assets for which fair values are disclosed as at 31 December 2014.

As at 31 December 2013

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

Liabilities for which fair values are disclosed

Group

As at 31 December 2014

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial liabilities				
Interest-bearing bank borrowings	—	—	51,733	51,733

Notes to the Consolidated Financial Statements

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

Liabilities for which fair values are disclosed (Continued)

Group (Continued)

As at 31 December 2013

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Notes to the Consolidated Financial Statements

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

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

	Group		Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2014				
RMB	100	(11,870)	—	—
HK\$	100	(240)	100	(224)
US\$	100	(345)	100	(44)
RMB	(100)	11,870	—	—
HK\$	(100)	240	(100)	224
US\$	(100)	345	(100)	44
2013				
RMB	100	(15,321)	100	(16,218)
HK\$	100	(2,517)	100	(241)
US\$	100	(225)	—	—
RMB	(100)	15,321	(100)	16,218
HK\$	(100)	2,517	(100)	241
US\$	(100)	225	—	—

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from bank deposits held by operating units in currencies other than the units' functional currencies. Approximately 5% (2013: 14%) of the Group's cash and cash equivalents were denominated in currencies other than the functional currency of the operating units.

Notes to the Consolidated Financial Statements

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

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

	Group		Company	
	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
2014				
If RMB weakens against HK\$	3%	721	3%	672
If RMB strengthens against HK\$	(3%)	(721)	(3%)	(672)
If RMB weakens against US\$	3%	1,036	3%	133
If RMB strengthens against US\$	(3%)	(1,036)	(3%)	(133)
2013				
If RMB weakens against HK\$	3%	7,550	3%	722
If RMB strengthens against HK\$	(3%)	(7,550)	(3%)	(722)
If RMB weakens against US\$	3%	674	3%	—
If RMB strengthens against US\$	(3%)	(674)	(3%)	—

Credit risk

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

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

At the end of the financial year ended 31 December 2014, the Group had certain concentrations of credit risk as 68% (2013: 57%) and 99% (2013: 100%) of the Group's trade receivables for the year ended 31 December 2014 were due from the Group's largest customer and the four largest customers, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines there are minimal concentrations of credit risk within the Group as the customers of the Group's trade receivables are recognised and creditworthy.

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

Notes to the Consolidated Financial Statements

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

Group

	On demand or no later than 1 year RMB'000	1 to 5 years RMB'000	Over 5 year RMB'000	Total RMB'000
2014				
Interest-bearing bank borrowings	51,733	—	—	51,733
Trade payables	263,100	—	—	263,100
Other payables and accruals	201,564	—	—	201,564
Amounts due to related companies	27,767	—	—	27,767
	544,164	—	—	544,164
2013				
Interest-bearing bank borrowings	230,314	—	—	230,314
Trade payables	212,091	—	—	212,091
Other payables and accruals	145,111	—	—	145,111
Amounts due to a beneficial owner of a former shareholder	—	60,000	—	60,000
Amounts due to related companies	32,707	—	—	32,707
	620,223	60,000	—	680,223

Notes to the Consolidated Financial Statements

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued) Company

	On demand or no later than 1 year RMB'000	1 to 5 years RMB'000	Over 5 year RMB'000	Total RMB'000
2014				
Amounts due to subsidiaries	7,292	—	—	7,292
Other payables and accruals	5,604	—	—	5,604
	12,896	—	—	12,896
2013				
Amounts due to subsidiaries	7,112	—	—	7,112
Other payables and accruals	9,311	—	—	9,311
	16,423	—	—	16,423

Capital management

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

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

The Group monitors capital using a gearing ratio, which is total interest-bearing bank borrowings divided by total equity.

Notes to the Consolidated Financial Statements

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group's policy is to maintain a healthy gearing ratio. The gearing ratio as at the end of each reporting period was as follows:

	2014 RMB'000	2013 RMB'000
Interest-bearing bank borrowings	50,000	220,000
Total equity	4,336,189	3,910,756
Gearing ratio	1.2%	5.6%

33. SHARE OPTION SCHEME

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

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

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

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

Notes to the Consolidated Financial Statements

33. SHARE OPTION SCHEME (Continued)

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

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

The following share options were outstanding under the Share Option Scheme during the year:

	2014		2013	
	Weighted average exercise price per share HK\$	Number of options '000	Weighted average exercise price per share HK\$	Number of options '000
At 1 January	—	—	—	—
Granted during the year	1.462	49,650	—	—
Expired/forfeited during the year	—	—	—	—
At 31 December	1.462	49,650	—	—

No share options were exercised during the year (2013: No share options were granted).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2014

Number of options '000	Exercise price HK\$ per share	Exercise period
14,895	1.462	22-8-2015 to 22-8-2021
14,895	1.462	22-8-2016 to 22-8-2021
19,860	1.462	22-8-2017 to 22-8-2021
49,650		

The fair value of the share options granted during the year was HK\$27,804,000 (equivalent to RMB22,040,000) (HK\$0.56 each) (2013: Nil), of which the Group recognised a share option expense of HK\$5,821,000 (equivalent to RMB4,625,000) (2013: Nil) during the year ended 31 December 2014.

Notes to the Consolidated Financial Statements

33. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2014
Dividend yield (%)	—
Expected volatility (%)	49.4
Historical volatility (%)	49.4
Risk-free interest rate (%)	1.19
Expected life of options (year)	4.55
Weighted average share price (HK\$ per share)	1.462

The expected life of the options is based on assumption that each tranche of options will be exercised in the middle point between the vesting date and the last exercise date and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 49,650,000 share options outstanding under the scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 49,650,000 additional ordinary shares of the Company and additional share capital of approximately HK\$497,000 (equivalent to RMB 394,000) and share premium of HK\$72,092,000 (equivalent to RMB57,280,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 49,650,000 share options outstanding under the Scheme, which represented approximately 1.3% of the Company's shares in issue as at that date.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2015.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements for the year ended 31 December 2013 and 2014 and from the prospectus of the Company dated 14 November 2013, for the years ended 31 December 2010, 2011 and 2012, is as follows.

RESULTS

	Year ended 31 December				
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Revenue	1,162,890	880,760	689,113	148,785	337
Profit for the year	418,790	217,734	209,741	189,853	8,109

ASSETS AND LIABILITIES

	Year ended 31 December				
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Total Assets	5,073,570	4,967,515	2,593,255	2,386,426	826,378
Total Liabilities	(737,381)	(1,056,759)	(2,002,785)	(2,005,697)	(635,502)
Total Equity	4,336,189	3,910,756	590,470	380,729	190,876



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