



中國輝山乳業控股有限公司
China Huishan Dairy Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 06863)

輝山乳業 品質如山

64年如一 我們以堅守回報信任

INTERIM REPORT 2015/16



自有奶源 追求卓越



ABOUT US



We are a leading and the most vertically integrated dairy company in China. Our business model covers the entire dairy value chain from plantation and processing of alfalfa and supplementary feeds and processing of concentrated feeds to dairy farming and manufacturing and sales of dairy products under the “Huishan” brand. Currently, we are the largest company in China capable of supplying 100% of raw milk required for the production of liquid milk and milk powder products by using raw milk produced by our own self-operated farms. Our excellent product safety records and high quality products stand behind a reliable brand in China.



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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-Executive Directors

Mr. Li Kar Cheung

Independent Non-Executive Directors

Mr. Kan Yu Leung Peter (*appointed on August 28, 2015*)
Mr. Song Kungang
Mr. Gu Ruixia
Mr. Tsui Kei Pang

Senior Management

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

Stock Code

Hong Kong Stock Exchange 6863

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Principal Place of Business and Head Office in the PRC

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Shenyang 110163
PRC

Principal Share Registrar

Royal Bank of Canada Trust Company (Cayman) Limited
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Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
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183 Queen's Road East
Hong Kong

Legal Advisor

Reed Smith Richards Butler
20th Floor Alexandra House
18 Chater Road
Central
Hong Kong

Principal Bank

Bank of China, Shenyang Branch
No. 253 Shifu Road
Shenhe District
Shenyang 110013
PRC

Auditor

KPMG
Certified Public Accountants
8th Floor, Prince's Building
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Central
Hong Kong

Public Relations Consultant

Strategic Public Relations Group
Unit A, 29/F
Admiralty Centre I
18 Harcourt Road
Hong Kong

The board (the "Board") of directors (the "Directors") of China Huishan Dairy Holdings Company Limited (the "Company") is pleased to present its interim report, together with the unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of the Company and its subsidiaries (the "Group" or "Huishan") for the six months ended September 30, 2015 (the "Reporting Period").

Financial Highlights

Operating results

	Six months ended September 30,			
	2015		2014	
	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000
Revenue	2,137,359	2,137,359	1,994,845	1,994,845
Gross profit margin	53.6%	20.5%	57.1%	22.2%
Profit for the period attributable to equity shareholders of the Company	383,384	753,549	483,623	789,252
Earnings per share (RMB) ⁽¹⁾		0.05		0.05

- Revenue increased by 7.1% as compared to the corresponding period in 2014
- Profit for the period decreased by 4.5% as compared to the corresponding period in 2014

⁽¹⁾ Please refer to Note 9(a) on page 63 for calculation of earnings per share.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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



During the Reporting Period, the domestic dairy industry experienced dramatic changes due to higher industry entry barrier and consolidation of existing dairy product enterprises by the government. Unfazed by market turmoil, we continued to strengthen and broaden the development model of our fully vertically integrated value chain. With vertical integration as the core, we pursued in-depth vertical development and continued to innovate on the basis of the existing agricultural planting, concentrated feeds processing, large-scale dairy farming and dairy products processing and selling resulting in further extension of our industrial chain to renewable energy segments such as biogas compressed natural gas

and organic fertiliser. Our core advantages brought by industrial consolidation are indeed the comprehensive manifestation of our enormous differentiated competitive strengths.

Notwithstanding the fierce competition in domestic dairy market, the delay in commencement of new production capacity of liquid milk and the slowdown in growth of liquid milk business, by leveraging on the cost efficiency accomplished by our upstream resources and unique product marketing strategies, the Group still managed to achieve sales revenue of RMB2,137.4 million (corresponding period in 2014: RMB1,994.8 million), representing a year-on-year growth of 7.1%. Gross profit margin of the Group reached 53.6%, though lower than that of the corresponding period in 2014 (57.1%), still it is far higher than the industry average level.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

With the aspiration for high-quality dairy products and full commitment of product safety to consumers, we have successfully established the most comprehensive fully integrated value chain in dairy industry in China, which achieved the full traceability of products from the dairy farm to our end consumers, gained respect from consumers by safety and outstanding quality and built up the corporate image of “the most reliable dairy product brand in China” and “the emerging safety power of China’s dairy industry”. We were bestowed with the national award of Excellent Model Enterprise for Commitment of “Trustworthy Quality

and Services” by China Quality Inspection Association. We were also on the list of “China’s Top 500 Most Valuable Brands by the Global Grand Brand Committee” for our outstanding product quality and exceptional brand trustworthiness, which demonstrated the recognition and liking we received among consumers and yet another step towards the goal of integrated dairy product and services provider on a global scale. In August 2015, we participated in the D20 Summit, the highest-level meeting in China’s dairy industry, and delivered the key note speech titled “Adhering to the Industrial Integrated Development and Promoting the Construction of a Modern Dairy Industry”. Our self-controlled farms and fully integrated model were recognized and highly praised by our peers and experts in the industry. We actively participated in the 2015 National “Quality Month” event jointly organized by 39 departments, including General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China, Publicity Department of CPC Central Committee and National Development and Reform Commission and were recognised as “National Benchmark Enterprise of Quality and Trustworthiness” for our contribution in building a strong nation of quality products. According to the 2015 consumer satisfaction assessment of the national liquid milk industry organized by the Users Committee of China Association for Quality, we ranked among top three in terms of brand image out of 27 brands receiving national and local assessments. Besides winning the title of “China’s Outstanding Dairy Enterprise” from China Dairy Industry Association, our Huishan Golden Queen infant milk formula and Jersey Farm organic pure milk each clinched an “Outstanding New Products Awards” of 2015 in dairy industry.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Reporting Period, the Hong Kong stock market had been volatile due to various external factors including deterioration in various economies and confidence in stock markets generally. During such period the share price of the Company remained what we believe to be below the intrinsic value of the Company. The Company has during this period repurchased its shares pursuant to the share repurchase mandate granted by its shareholders in annual general meetings. The Board believes such repurchases are in the interest of shareholders of the Company as a whole given the shares bought back would improve the net asset value per share of the Company. Please refer to the "Purchase, Sale or Redemption of The Company's Listed Securities" section below for further details.

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

Dairy farming

- Herd size

	At September 30, 2015 Head	At March 31, 2015 Head
Milkable cows	86,801	74,389
Heifers	77,427	79,951
Calves	26,683	25,991
	190,911	180,331

As at September 30, 2015, we operated the largest number of dairy farms in China with 78 standardized dairy farms and a herd size of 190,911 dairy cows in Liaoning Province, the PRC, compared to 69 standardized dairy farms with a herd size of 180,331 dairy cows as at March 31, 2015.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- **Milk yield**

Benefiting from the increasing number of milkable cows and advanced and effective farm management, for the period ended September 30, 2015, we produced a total of 356,200 tonnes of raw milk, representing a year-on-year increase of 23.2% as compared with 289,100 tonnes for the corresponding period in 2014, of which the external sales volume was approximately 113,700 tonnes (corresponding period in 2014: 110,900 tonnes), representing a decrease from 39.7% during the corresponding period in 2014 to 33.3% of the aggregate sales volume of raw milk.

Thanks to the sufficient, diversified and safe self-raised feeds, we are able to make timely adjustment to feeds formula in accordance with market environment to enhance the economic effectiveness of raw milk. Leveraging on the abundant resources of forage grass and feeds, we continuously adjusted and innovated feeds formula for dairy cows. Without compromising the high quality of raw milk, we continued to look for more cost-saving possibilities for raising dairy cows; we no longer limited our vision to solely pursue increasing milk yield, we looked for the optimal marginal benefit between feeding costs of dairy cows and production volume of milk in an innovative manner to ensure that every drop of raw milk can deliver the maximum level of economic benefit. During the Reporting Period, we recorded an average milk yield per milkable cow per annum of 8.7 tonnes; although the figure is lower than that of the corresponding period of 2014, the cost of raw milk also dropped from RMB2,193 per tonne for the corresponding period of 2014 to RMB2,138 per tonne for the Reporting Period, which effectively mitigated the challenges arising from the decline in domestic market price of raw milk and brought about bigger room for profit.

- **Average selling price of raw milk**

We are highly experienced in cow breeding and feeding management. Moreover, we have abundant self-produced feeds with high quality and advanced feeds formula. The geographical location of our farm is superior, which ensures that the quality of our raw milk far exceeds the average level of the industry. During the Reporting Period, notwithstanding the adverse market environment, the average selling price of our raw milk still achieved RMB4,483 per tonne (the corresponding period in 2014: RMB5,033 per tonne), which was higher than the average market price.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



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

The establishment of a fully integrated value chain and integrated industry-consolidation development shall begin with feed planting as feed is the critical factor in determining the cost of raw milk as well as the “first gateway” in controlling the quality of raw milk produced by dairy cows. Our efforts center on building milk sources. Plantation of forage grass and feed processing, at the upstream end of the value chain, offer fundamental safe guarantee and quality of raw milk. As a fully integrated dairy company that operates on the foundation of our scalable “self-operated farm” model, we strive to follow the philosophy of focusing on the source. We leased a vast area of agricultural land for large-scale planting on fixed rent. This strategic move was in line with the development trend and satisfying the demand from particular circumstances of modern agriculture in the PRC. By doing so, we are able to ensure ample supply of dairy cow feed materials, and their quality and safe supply is fundamentally secured. This can also help mitigate the risk of rising feed materials price in the future.

Our plantation field for dairy cow forage such as corn silage and oat has reached an area of approximately 380,000 mu. During the Reporting Period, we extended the application of two-harvest a year plantation model to around 88,000 mu of land for growing oat and corn silage. During the Reporting Period, we harvested approximately 222,000 tonnes of oat and approximately 1,121,000 tonnes of corn silage in total. Our innovative two-harvest cultivation method effectively enhanced the efficiency of land usage and averaged down the land rent. What is more important is that by leveraging on the diversity of feed types, there are more possibilities of improving the economics of the daily feed formula of dairy cows and generating more room for reducing feeding cost of dairy cows.



Our alfalfa plantation field has reached an aggregate area of approximately 140,000 mu. As the largest commercial alfalfa plantation field in China, 80,000 mu of our alfalfa plantation field was awarded the “National Demonstration Area for High Yield and Quality Alfalfa” upon acceptance check and evaluation. In order to shorten the hibernation period of alfalfa and increase the number of harvests from three to four times per year and further increase production volume, we plan to sow more advanced types of alfalfa seeds in the coming years. In order to achieve the above goal, during the Reporting Period, we started to grow oats on around 55,000 mu of alfalfa plantation field with the aim of improving the soil quality to meet the needs of the new type of alfalfa to be sown in the coming year. As at the date of this report, three harvests of alfalfa were all completed with volume amounting to approximately 83,000 tonnes.

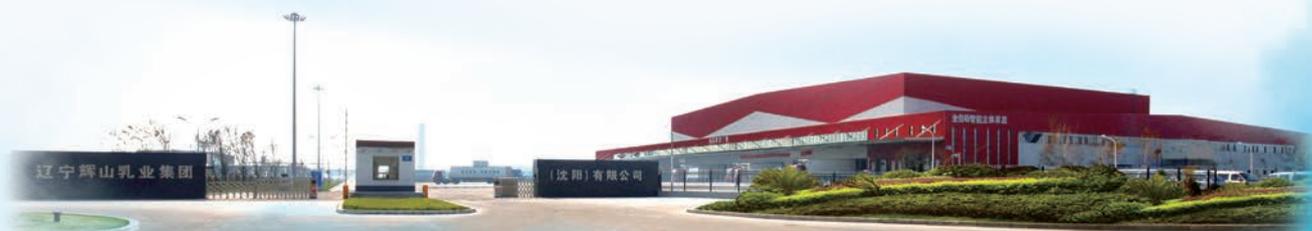
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The above mentioned fixed-rent conjunctive plantation field for dairy cow forage, including alfalfa, corn silage and oats, aggregate to an area exceeding 480,000 mu. We apply large-scale mechanized farming method from land leveling, sowing, fertilizing to harvesting. This significantly saves labor cost while raising efficiency. The proximity of our feeds plantations to dairy farms can on one hand saves transportation cost due to short distance and on the other hand addresses the environmental issues by directly utilizing biogas slurry from farm manure treatment at the plantations as a reliable source of fertilisers, thereby keeping the quality and moisture of soil of the plantations in good conditions. As we grew our own forage and feeds, we were able to save on import customs duties, freight costs and the profit typically retained by intermediaries. Therefore, our production cost was still substantially lower than the market price of similar products. This also grants us with feeding cost advantages while ensuring safe supply of feeds for dairy cows. As a result, more room for profit is created for our fully vertically integrated business model from upstream.

Liquid milk

The level of competition in the market of domestic dairy products, especially liquid milk products, intensified due to the decreasing prices of imported milk powder. In response to these market conditions, we kept optimizing our product mix using our advantages of milk sources produced from our own dairy farms and using our quality dairy products with high protein and using those that are fresh pasteurized dairy products, thus strengthening our differentiated competitiveness. At the same time, we continued to enrich the category of UHT dairy products in order to increase market share. While consolidating our No. 1 position in the liquid milk market in Northeastern China, we are also powered on in developing the Northern China market.

During the Reporting Period, our liquid milk processing plant in Shenbei New District, Shenyang commenced production in April 2015, raising the overall capacity of liquid milk to 620,000 tonnes. In the face of intensive market competition, we created differentiated competitive strengths through pasteurized milk products. We upgraded the package volume of pasteurized milk while maintaining steady selling price in order to attract more UHT milk consumers to buy pasteurized milk so as to raise the sales ratio of pasteurized milk. At the early stage of production of the new liquid milk processing plant, the production and sales of liquid milk products, especially pasteurized milk products, were slightly affected in the second quarter of 2015 by equipment relocation and the initial run-in. However, the above adverse effects have been gradually eliminated since the third quarter of 2015 and the sales of pasteurized milk products have been increasing steadily, especially in August and September 2015, sales volume of pasteurized milk increased for approximately 18.7% comparing with the corresponding period in 2014.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As a result of the adjustment in enhancing product structure and market expansion, for the six months ended September 30, 2015, the overall sales volume of our liquid milk products reached 182,403 tonnes, representing a growth of 31.6% from 138,572 tonnes in the corresponding period of 2014. The sales revenue of liquid milk products reached RMB1,347.5 million, representing a growth of 14.4% from RMB1,177.9 million in the corresponding period of 2014.

- **Optimizing and Enriching Liquid Milk Product Mix**

During the Reporting Period, we were engaged in producing and selling a variety of liquid milk products in four categories: pasteurized milk, ultra-high temperature (UHT) milk, yogurt and milk beverages. Leveraging our industry-leading upstream resources, we used our quality and fresh milk sources from our self-operated dairy farms as the cornerstone to achieve our differentiated competitiveness and optimized and upgraded our product mix through technological innovation.



Leveraging our milk source from Jersey cows at Huishan's self-operated farms, we launched a series of premium dairy products under the brand "Jersey Farm" with 3.6 grams of protein and further upgraded packaging by pioneering the use of Tetra Brik Aseptic Edge (無菌利樂峰) packaging equipment in China and adopting new Tetra Brik Aseptic Edge packaging design with higher hygiene and convenience LightCap (合意蓋) in order to bring consumers with excellent drinking and pouring experience, which in turn has proved to be favored by consumers. By marketing the brand under the slogan of "Jersey Farm milk, only from 1% dairy cows", we used the "Jersey Farm" brand to sponsor a CCTV6 film channel program titled Super Star Super Blast ("光影星播客"), with which we showcased Jersey Farm products across all time-slots with a very high frequency.



While we brought a brand new visual experience to our consumers, we drew attention from distributors. During the Reporting Period, the "Jersey Farm" products were primarily sold in the three Northeastern provinces and in key cities of regional market such as Shandong and Hebei.

In recent years, domestic pasteurized milk consumption has seen some rationalization. The sales growth of pasteurized milk in China has far exceeded that of UHT milk. For consumers, pasteurization technology can better preserve nutrition values and active substances. As more and more people come to appreciate the benefits of pasteurized milk, its consumption is rising gradually. Pasteurized milk must be produced by using quality and fresh milk sources and only by using raw fresh milk as the ingredient.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Only processors with their own milk source bases and raw milk of the EU standard are able to produce pasteurized milk on large scale and to better safeguard product safety. Over the years, having always adhered to the operation concept of “good cows, good grass and good milk”, we have built the most highly concentrated milk source base in China, thus procuring 100% of our milk sources from our modern self-operated farms. Therefore, we have an unparalleled advantage in milk sources. Leveraging high quality milk sources of Huishan’s self-operated farms, we have adopted strict standard to produce pasteurized milk. To further consolidate the dominating position in chilled dairy products in Northeast market, we continue to expand product categories of yogurt by adding new series such as additive-free yogurt, functional yogurt and cereal yogurt to boost mass consumption.

Under the vigorous market environment, we also constantly enrich our UHT dairy product categories in order to enhance the market share outside the Northeastern region, amplify the market influence of the “Huishan” brand in order to gain strength to accelerate our development outside Northeastern market.

- **Market Expansion**

As at September 30, 2015, our distribution network comprised 469 distributors, 400 direct-sale supermarkets and the number of milk delivery households increased from approximately 100,000 as at March 31, 2015 to 157,000. During the Reporting Period, we continued to enhance the initial roll-out in new regional markets in Jiangsu, Shandong, Hebei, Henan provinces, etc. At present, we are selectively cooperating with major supermarkets in key cities in these new regions. In the future, we will gradually increase the number of these key cities and supermarkets to increase our market shares in these new regions. During the Reporting Period, new crisis emerged in the dairy industry; undoubtedly, we, having just entered the national market, are also facing difficult challenges in a market downturn. Confronted by the predicament, we timely adjusted strategic direction in marketing and sales, broke away from convention, leveraged the upstream resource advantages that others in the dairy industry lack, sought great opportunities to break the market deadlock and creatively forged a new and integrated sales and marketing system that combines “brand building”, “product promotion” and “sales boosting”:





MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

We integrated marketing and communication resources, established the brand proposition of “Sipping milk, thinking source, good milk sources make great milk” (“飲奶思源·好奶源成就好牛奶”) and especially devised the “Caravan” national roadshow. We created a WeChat interactive platform to complement traditional media communication, and announced and promoted our promotional activities beforehand. We fully utilized advertising effects of social media platform to generate traffic flow for the roadshow. Our offline activities, such as simultaneously crafting impression stores, experience stores and selling in rural area markets (鄉鎮大集) and enhancing the promotion of the concept of quality milk sources by inviting Hua Shao (華少), “Tongue of China” (中國好舌頭), as our spokesperson in combination with ample interactive activities, led us to achieve the three goals, brand building, signature products promotion and boosting sales volume of liquid milk. The “Caravan” national roadshow went through more than a hundred cities in seven provinces, including Jilin, Heilongjiang, Shandong, Hebei, Tianjin and so on. The roadshow successfully attracted numerous strategic cooperation partners and led to multi-channel strategic cooperation. We acquired additional sales and marketing resources and achieved sustainable growth in regional sales, especially in Shandong, Henan and Hebei, where sales climbed to a new level.

To further consolidate our leading position in the Northeast market and to raise the proportion of pasteurized milk sales in overall liquid milk, we held the second international fresh milk festival, which was themed “Fresh Life, Fresh Experience”, to raise consumers’ awareness for dairy products, help consumers understand more about pasteurized milk in a more scientific way and start a healthy style of consuming milk. We forged a new sales and marketing model suited for the Internet+ era and initiated the O2O fresh milk sales system, which along with “Huishan Fresh Delivery”, the exclusive milk delivery service for households, enable consumers to share the freshness and nutrients of pasteurized milk without having to set foot out of home. Through innovation of sales and services, ordering milk online has become more convenient. Continuously eliminating consumers’ inconvenience in purchasing and storing pasteurized milk has led to a steadily growing sales volume of pasteurized milk.

The construction of our liquid milk processing plant in Yancheng, Jiangsu with designed production capacity of 180,000 tonnes per year commenced in late March 2015 and operation is expected to commence in the middle of 2016. Upon the commencement of our Jiangsu Yancheng integrated dairy value chain project, we will achieve full supply of pasteurized milk of consistently good quality across Shanghai and provinces of Jiangsu, Zhejiang and Anhui in the future.

During the Reporting Period, by means of using case studies of MBA courses, we organized all liquid milk sales and marketing staff to join the sales and marketing skills competition. The competition lasted for four months, involved several regional market sales teams, covered numerous important marketing disciplines, formed unique sales and marketing spirit and improved sales and marketing skills. These have further consolidated the leading position in liquid milk market in the Northeastern area as well as gathering strength for growing into a strong player in the markets outside the region.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Infant Milk Formula (“IMF”) powder

During the Reporting Period, we were dedicated to developing the market potential for domestically produced IMF powder products, widening our distribution network and expanding our product coverage. With Northeastern Region and Central China as our core markets and through continuously building up business presence in markets including Eastern China, Southern China and Southwestern region, the number of distributors increased to 999 from 825 of the corresponding period in 2014 while the number of retailer stores increased to 14,855 from 6,743 of the corresponding period in 2014. Our focus on growth of middle and high-end categories has boosted the overall sales amount, among which the growth rate of Golden Queen, an ultra-high-end product, has reached 70% while the revenue contribution from high-end Golden Label and Red Label series has increased to over 38%. We launched new “Huishan Red Label” (輝山紅裝) and “Huizhi” (輝智) IMF powder products and sold them directly to mother-and-baby stores without any marketing and intermediaries to enhance the profitability of these stores. This sales model fully utilized mother-and-baby stores’ advantage of having direct access to large consumer bases. As of September 30, 2015, we had a network of 540 mother-and-baby stores for direct sale of “Huishan Red Label” (輝山紅裝) (corresponding period in 2014: 333) and 40 mother-and-baby stores for direct sale of “Huizhi” (輝智) products (corresponding period in 2014: nil). For the six months ended September 30, 2015, we sold an aggregate of 1,840 tonnes of IMF powder products (corresponding period in 2014: 1,425 tonnes) with a year-on-year growth rate of 29.1%. The sales turnover reached RMB224.7 million (corresponding period in 2014: RMB154.0 million) with year-on-year growth rate of 45.9%. Currently, we choose key cities and key distributors to cooperate with in several provinces such as Henan, Shandong and Hebei. In the coming years, we will gradually increase the number of these cities and distributors so as to expand the product sales coverage.



During the Reporting Period, we participated in China Mother-Infant-Child Products Expo held in Beijing and Shanghai respectively. As an emerging power of safety in IMF powder industry in China, Huishan branded IMF milk powder gained deep recognition from distributors and consumers throughout the country because of its unique resource advantages of an integrated value chain, scientific milk powder formulas, advanced technology of one-time-process of drying fresh milk into powder and the safe and quality milk powder. Huishan’s three series of IMF powder products were a popular topic among consumers and distributors. Signing a spokesperson contract with Ms. Tao LIU, a popular film and television actress, and leveraging her positive image and high popularity, we produced a TVC of her acting as a mother consistent with our brand concept of “Giving, Just For You To Have More”. Thanks to this TVC, our products won the hearts of consumers within a short period of time and were experienced in-depth and accepted by a great number of consumers. Along with the TVC, we commenced follow-on activities for consumers to continuously

enhance their stickiness and effectively stimulated sales growth. At the same time, we provided 400 efficient and high-quality hotline customer services and established a member club in order to bring good interactive experience to consumers. With the thorough implementation of the country’s regulatory policies, the quality of products, as the foundation of a brand, has already become the core keyword, which the distributors and the consumers concern about. More distributors have shifted their attention from concerns such as brand source, promotion policies and marketing tools to the power behind the



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

enterprises, for example, establishment of milk source, technology level and product quality. Our accumulated know-how in building integrated dairy value chain is the key that distinguishes us from other IMF powder manufacturers. We were selected as a member of the “National Team of Milk Powder”, organized by the Ministry of Industry and Information Technology. We also became the nation’s first batch of quality safety traceable pilot enterprises and ranked in the top ten in 2014 Chinese Infant Milk Powder Brand Reputation Report. These are all perfectly vouching for the quality and strengths of our products.

On April 1, 2015, we formally completed the joint venture agreement with FrieslandCampina (Royal FrieslandCampina N.V., hereafter referred to as “Friesland”), and the joint venture is carrying out businesses smoothly in accordance with the predetermined development plan. Domestically produced IMF powder products specifically made for Chinese consumers with international quality are to be launched in 2016.

To establish dominance in the Northeast market and accelerate development in new regional markets, we inaugurated a brand new sales and marketing model named the “Battle of Hundred Divisions”, which covered 56 cities and 800 retailer stores. We also took on points of sales, constantly recruited new members to send our safe and quality-assured IMF powder to a great number of households. The “Battle of Hundred Divisions ” retained our IMF powder products dominant sales position in Shenyang area. It also helped our products secure a top three spot in Liaoning and Jilin provinces and achieved steady growth in the market in Hebei area.

Mobile Internet has had an increasingly large impact on consumers’ consumption behavior and purchasing habits and e-commerce has become the key path for traditional consumer goods to develop and grow. To cope with the e-commerce channel challenges faced by traditional marketing, we actively constructed the new marketing system of Internet+ era. We entered onto large-scaled e-commerce platforms such as Tmall.com and JD.com and focused on building our “WeChat-mall”. We comprehensively upgraded our product introduction, product purchase, payment methods and product delivery so as to provide consumers with more convenient consumption experience through innovation in sales and services. Currently, the number of active fans of Huishan Dairy “WeChat-mall” has already exceeded 150,000. We cooperated with JD.com in launching a reward activity themed “9.19 Enjoy and Love Huishan”, which created sale record of milk powder products on JD.com several times. The order volume retained the first position under milk powder products category on JD.com of the day and triggered JD.com e-commerce platform users’ active participation.



Dairy ingredients

We are committed to achieving domestic supply of quality, staple, deep-processed dairy ingredients. To achieve this goal, we conducted in-depth research on the dairy ingredient market and demand analysis of bakery and catering market in order to supply Huishan branded processed dairy ingredients to bakery, catering and food processing enterprises. We target to gradually meet the industry demand by providing high quality dairy ingredients, leveraging our fully integrated and self-controlled dairy value chain to create larger room for profitability.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In May 2015, along with laying down the foundation of continuous push for full range dairy ingredients, “Senscious”, the in-house-developed new brand of whipping cream products targeting bakery, catering and food processing enterprises, were officially launched in the market, marking the feat of becoming the first domestic manufacturer of low-temperature, whole milk fat and long shelf life whipping cream. Our high-quality milk sources and special formula design guarantees the products a 9-month shelf life at normal low temperature. This posed great level of challenges to all similar products around the world and gained great level of attention from industry insiders and customers at international expos such as “China Bakery” and “Ice Cream China”.

As at the end of the Reporting Period, we established the distribution network system covering 14 developed provinces and cities in Eastern China, Southern China, Northern/Northeastern China and Western China while having achieved almost 70 end-user customers, all are continuing customers since the commencement of their working with us. This created positive word-of-mouth for our brand image in the industry. Benefited from the rising brand awareness combined with “product-exhibiting marketing events” in multiple cities, we have been approached by a large number of distributors and customers in mainland and Hong Kong conveying eager interest for potential partnership with us.

To fulfill the requirements of application test and application R&D from food and bakery industry customers, we had established a well-equipped bakery application research and development center with advanced design in Shanghai, China before our product launch. This is not only a hallmark to us becoming a more professional manufacturing supplier designated for bakery and catering industry but also further enhancing our comprehensive ability to serve our customers and further strengthening our core competitiveness over those well-known international brands.

Quality control

Our core value lies in the safety and quality of our products. To ensure product quality, we rely on the most complete development model of integrated value chain in our industry to build a full quality control system from grass to glass, covering the entire production process including planting and processing of alfalfa and supplementary feeds, concentrated feed processing, dairy cow breeding, milking, raw milk processing, liquid milk processing and production of milk powder products and dairy ingredients, as well as all key procedures in the dairy value chain including storing and transportation of raw ingredients and products. We have also implemented strict quality control and safety precautions for production to assure “safety on tip of tongue”.

“Sipping milk, thinking source”, during the Reporting Period, we strived for “5A Milk Source” project to ensure unparalleled advantage in market competition with absolute safety and high quality in raw milk. Through across-the-board upgrade of feeding, breeding, dairy cow pedigree, processing and testing, we strive for our milk source quality to become No.1 in China’s marketplace and in the forefront of the global dairy market. At the same time, we enhanced the quality control of dairy products postproduction and established a “Rear Cold Chain” connecting system. We carried out “cold chain connection” throughout the entire process for low-temperature products such as pasteurized milk, yogurt and other short shelf life products. We have assured seamless connection from factory production to transportation and to sales and even at points of sale such as supermarkets and convenient stores so as to guarantee product quality.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

A traceable system for our IMF products has already been set up. We have also become one of China's first six pilot enterprises adopting such a system. Under the pilot scheme, 31 items of related information such as product standards, product labels and product qualified test reports of multiple series of IMF powder products, including Huishan Gold Queen (輝山金皇后), can now be viewed through the national tracing public service platform. We are now in full speed of building a liquid milk traceable system focused on the Group's internal quality control. In the future, we will continue establishing a consumer-oriented traceable system in more depth.

We started cooperation with a world-renowned ERP software company to jointly establish an electronic information tracing system for our production division. The system can automatically trace information of a certain specified batch of products through a computer, including material suppliers, production material information, material warehousing information and delivery directions. It can also computer-analyze information trends sieving through database so as to generate early warning and help quality control staff to identify and mitigate potential risks and raise quality control level.

Brand building

Brands reflect the core value of an enterprise. During the Reporting Period, we performed comprehensive planning and reorganization for our brand building efforts in order to identify the brand positioning and raise the core competitiveness of our brand. Adhering to our strategy of the "Fully Vertically Integrated Value Chain Business Model", we joined hands with leading professional brand-consulting and strategy-advisory firms to build a brand image of "Mt. Everest Quality" and "Emerging Safety Power in Dairy Industry" through continuous multi-faceted and three-dimensional brand advertising. We placed advertisements on state-level media platforms and other major media platforms in regions including Liaoning, Jilin, Shandong and Henan, in order to convey the advantages of our fully vertically integrated value chain business model strategy and our corporate core strength, thus increasing our brand awareness and influence in the industry, media and the public. We enhanced communication with consumers, expanded consumer base through word of mouth among consumers and shortened our distance with consumers through innovative channels such as mobile APP so as to build up a sound image for the Huishan brand and products, thereby laying the foundation to expand into key regional markets outside Northeastern China.



Our high requirements for high-protein perfectly match with athletes' stringent requirements for nutrition. Therefore, in July 2015, we collaborated with the organizer of the 14th Summer Special Olympics ("Special Olympics"). Leveraging the complete integrated dairy value chain development model and the practicable guarantee on dairy product safety, we became the only dairy product partner of the Special Olympics. We provided all China delegation members who participated in the Special Olympics with dairy nutrition support during their training. We are also committed to support the development of Special Olympics affairs in China by continuous donations in the coming 5 years as well as supporting Special Olympics throughout the country by providing dairy nutrition — leading to significant "Huishan" brand recognition and influence elevation throughout the country.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The more one understands our Company, the more one trusts our product quality. It has been two years since his first-time cooperation with our Company in 2013, Mr. Qiaohua HU (胡喬華) (“Hua Shao”) (“華少”), also known as the “Tongue of China”, will continue to be Huishan Dairy’s brand spokesperson. Having cooperated with Hua Shao for more than two years, Huishan Dairy and Hua Shao grew together. While his career has advanced to a higher development platform and Huishan Dairy has increased its brand recognition and become more popular to the public. Based on our persistent pursuit of the dream of bringing health to the people, we continue to uphold the idea of “the most reliable dairy product brand in China” and we have established a good image of the brand and the products of Huishan.

Ms. Tao LIU, a film and television actress who is famous for her competence, virtue and versatility, also started cooperation with us by becoming a spokesperson of Huishan Dairy’s IMF powder series. Ms. Liu’s healthy image as having a successful career, a positive mindset, elegance and confidence highly fits the image of Huishan brand. As a consumer and a mother of two children, Ms. Liu deeply understands every mother’s desire to let her children enjoy assured dairy products. After having gained a sufficient and comprehensive understanding of us, she completely trusts Huishan Dairy’s products. The filming of a television commercial of Huishan’s series of solid dairy products featuring Ms. Liu has already been completed. The commercial is scheduled to be aired on television channels and related internet media in Liaoning, Chongqing, Shandong and Henan to raise our brand influence and recognition.



We inaugurated the “Huishan Cup” (“輝山杯”) Primary Student Painting Competition, which aimed to fully promote all-round education and facilitate healthy balance of physical and intellectual development of Chinese children. The competition went to 100 primary schools in each of the 2 cities, namely Shenyang in Liaoning and Dalian, and reached approximately 700,000 people with about 100,000 primary school students directly participating in the competition. It lasted 2 months and was successfully taken in the books of “Guinness World Records” for the participation of 300 families. While feeling the joy of painting, every participant also deeply experienced the “Huishan” brand’s spirit of being innovative, striving for excellence and being well and fully prepared.

Crisis management public relations

The development path of a business could not always be smooth sailing. During the “false alarm” Hebei high calcium milk incident from mid to late September 2015, thanks to our excellent public relations crisis management skills, we responded instantaneously with highly efficiency, we openly and transparently disclosed information, supported ourselves with conclusive and credible evidence and tackled the incident in a professional and rigorous manner. We rationally and powerfully gave appropriate responses, which showed our capacity unaffected under-pressure in dealing with emergency situations.



On September 18, 2015, we were informed by an external party that the Food and Drug Administration of Hebei Province (“Hebei Food and Drug Administration”) issued a sale suspension notice directing at the Group’s high calcium milk (240ml) products in Tetra Pak pillow package (expiry date: August 25, 2015), which were produced on July 10, 2015 and were found in a sampling inspection to have “sodium thiocyanate exceeding the maximum limit” — an testing item that is under the bureau’s risk monitoring category.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The website of Hebei Food and Drug Administration also published a public notice titled “Liaoning Huishan Dairy’s High Calcium Milk Tested Containing Toxic Substance of Sodium Thiocyanate, Please Stop Purchasing and Using”. Followed by several local news channels reporting and opining the event with an emphasis, subsequently major portal websites published the report in reprint and even overseas websites followed suit as well.

Despite the fact that liquid milk sale volume in Hebei province only constituted 1.18% of the total liquid milk sale volume, and the sale revenue of the subject products was less than RMB280,000 in Hebei province (for the year ended March 31, 2015), still we sent products within shelf life to a third party testing organization with relevant testing qualifications for testing, out of our “be responsible to consumers” attitude and all results came back showing that the products were qualified. To tackle the situation that our product safety is being reported and broadcast falsely, we swiftly organized and set up a crisis management public relations team, which consisted of the senior management, domestic and overseas public relations companies as well as domestic and overseas lawyer firms. And we published a description of the situation at once through our official website. On September 28, 2015, we convened a press conference to challenge Hebei Food and Drug Administration’s way of law enforcement and test results, as well as to point out and to explain in details the four problems of Hebei Food and Drug Administration, those were non-compliant testing program, inaccurate test results, inappropriate judgements and conclusions and illegal information dissemination. At the same time, we actively communicated with and appealed to the National Food and Drug Administration; the Company also applied for one-day suspension of trading on September 29, 2015.

On September 28, 2015, the testing results of National Food Quality Supervision and Inspection Center showed that all products of the Group were qualified. On the same day, Hebei Food and Drug Administration released the results of an emergency sample-testing of 7 batches of products, which found the sodium thiocyanate content did not exceed the national food safety risk monitoring reference value. The next day, Hebei Food and Drug Administration released a notice confirming to withdraw the notice announced on September 24, 2015, which directed at the Company’s product safety. China Dairy Industry Association and Dairy Association of China released public statements on September 30, 2015 and October 1, 2015 respectively to comment on this incident objectively and impartially. In October 2015, Hebei Food and Drug Administration communicated candidly with the Company in Shenyang, admitted to have made errors in certain law enforcement procedures concerning the incident and hoped to further improve communication and understanding between both parties. At this point, the incident ended.

Not only are we confident in the quality of our products, we are also responsible towards the public. During this incident, we were under pressure from the supervision organizations, consumers and the media. However, our courage to question government supervision organizations as well as being outspoken, righteous and accountable for the future development of Chinese dairy industry have won us respect from government organizations and the dairy industry and even reputation of premium product quality among consumers.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Visiting activities

No matter for distributors or consumers, only through on-site experience of our integrated dairy value chain can they directly and first-handedly feel how Huishan has built its operational ideology of “Emerging Safety Power in China’s Dairy Industry” from the source and have an in-depth understanding of our products and our brand culture of “Mt. Everest Quality”. During the Reporting Period, we repeatedly invited consumers and distribution teams to carry out on-site visits and witness with their own eyes our achievements of industry integration:



Our newly built Shenbei modern dairy product processing plant had installed the most advanced production equipment and processing techniques in the world. It is an international first-class modern dairy product processing base with products covering multiple dairy categories. We built a modernized visitor gallery matching the standards of domestic top-level dairy museum in all aspects of conception, detail design and technological content. The gallery presents every step of Huishan’s integrated dairy value chain in a vivid way so

that the consumers can directly understand that how every single drop of Huishan milk is produced with traceability.

We invited around 500 IMF powder distributors and shop owners from more than 20 provinces and cities throughout the country to witness together the whole process, from raw milk processing to finished products. Through visiting our alfalfa plantation field, large-scale self-operated farm and modernized production base, the distributor teams gained first-hand experience of our claim that “every single drop of raw milk comes from 100% self-operated farm” is made on verifiable ground, thereby raising the trustworthiness and reputation of the “Huishan” brand. This large-scale visiting activity built distributors’ great level of confidence in our products. It has also established a solid foundation for the Huishan IMF powder brand proposition of “Enjoy with No Worries” and trumpeted the proposition to more consumers.

In June 2015, we commenced a tour dubbed “Appetizing Fresh Dairy Made By Heart” to witness our integrated dairy value chain for bakery and catering industry customers from 11 cities around the country and to experience together the production process of “Good Milk on Tip of Tongue” and “Senscious” whipping cream products. The visiting team was impressed by our made-by-heart quality, advantage in complete control of the integrated dairy value chain and perfection-seeking practices and relentless pursuit of product quality control. Our resource advantages under the integrated dairy value chain further reaffirmed the level of confidence of dairy ingredient customers in working with us.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business expansion

Considering the Group's business growth, especially the expansion of the herd size (increasing amount of bio-waste to be produced), renewable energy can provide the Group with material, stable and steadily increasing revenue and profit completely unaffected by the cyclical movement of the dairy industry, which in turn expand sources of future revenue for the Group. The Company believes that it is now an appropriate time to extend the Group's business to the renewable energy sector. As at September 29, 2015, the Company's indirectly controlled subsidiary entered into an Equity Transfer Agreement with the controlling shareholder and his son to acquire the entire equity interest of the renewable energy company held by them. The transaction was completed on October 21, 2015. The renewable energy company is mainly engaged in cattle manure processing for compressed natural gas ("CNG") and in organic fertiliser production as a byproduct. The renewable energy company has finished the construction of the first CNG biogas plant (annual production volume is approximately 18.25 million cubic meter) in Faku area, Liaoning, China and commenced trial operation of gas supply in August 2015. Please see the announcement of the Company dated September 30, 2015 for details of this acquisition.

We believe that the renewable energy business will develop into a major source of revenue and income as well as a major growth driver of the Group, and to subsequently become a major business segment for the Group. Along with the acquisition of the renewable energy assets, the Group is able to further explore the additional value embedded in our vertically integrated value chain. In the next two years, we plan to expand the scale of the renewable energy business, dedicated to becoming the largest renewable energy company and organic fertiliser producer in China.

Financial Overview

Revenue

The following table sets out the breakdown of our revenue by each business segment for the six months ended September 30, 2015 and 2014:

	Six months ended September 30,					
	2015			2014		
	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000
Dairy farming business	505,866	1,025,614	1,531,480	553,917	852,529	1,406,446
Liquid milk business	1,347,499	—	1,347,499	1,177,929	—	1,177,929
Milk powder business	283,994	—	283,994	262,999	—	262,999
Consolidated revenue	2,137,359			1,994,845		

Our revenue increased by 7.1% to approximately RMB2,137.4 million for the Reporting Period from approximately RMB1,994.8 million for the corresponding period in 2014 primarily due to the increase in our sales in the liquid milk business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- Dairy farming business**

Compared with the corresponding period in 2014, revenue from our dairy farming business increased substantially during the Reporting Period primarily due to the continuous growth of our cow herd size and the increase in our quality raw milk.

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

	Six months ended September 30,					
	2015			2014		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
Raw Milk						
External Sales	505,866	113,679	4,450	553,917	110,894	4,995
Internal Supplies	1,025,614	227,937	4,500	852,529	168,559	5,058
Total	1,531,480	341,616	4,483	1,406,446	279,453	5,033

Sales volume attributable to the internal use of raw milk increased substantially due to strong growth of our liquid milk business and milk powder business.

- Liquid milk business**

The following table sets out the breakdown of sales amount, sales volume and ASP of our liquid milk business for the Reporting Period as compared with the corresponding period in 2014:

	Six months ended September 30,					
	2015			2014		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
Liquid Milk Products						
Fresh Milk	305,417	41,795	7,308	380,843	45,999	8,279
UHT	476,556	83,966	5,676	392,122	56,745	6,910
Yogurt	520,118	43,578	11,935	403,878	35,596	11,346
Milk Beverage	45,408	13,064	3,476	1,086	232	4,681
Total	1,347,499	182,403	7,387	1,177,929	138,572	8,500

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Reporting Period, the sales from our liquid milk business increased by 14.4% to approximately RMB1,347.5 million from the corresponding period of 2014. For the six months ended September 30, 2015 and 2014, the sales from liquid milk accounted for 63.0% and 59.0% of consolidated revenue for the year, respectively. The increase in proportion was due to the significant increase in sales volume of our liquid milk business.

The revenue of our liquid milk business increased primarily due to the sales volume growth of our liquid milk products. Given the early stage of production of the new Shenbei processing plant, the production and sales of liquid milk products, especially pasteurized milk products, were slightly affected by equipment relocation and the initial run-in. However, the above adverse effects have been gradually eliminated since the third quarter of 2015 and the sales of pasteurized milk products have been increasing steadily. We continue carrying out efforts on enriching the product categories of yogurt by introducing new product series such as cereal yogurt. We also engaged in further variety of UHT products in order to expand our market share outside of the Northeastern region. During the Reporting Period, the sales volume of our liquid milk has increased by 31.6% to approximately 182,000 tonnes from approximately 139,000 tonnes in the corresponding period of 2014.

During the Reporting Period, being affected by the fluctuations in the dairy industry, our ASPs of each type of liquid milk products, except yogurt, was lower than that in the corresponding period of 2014. The ASPs of liquid milk products decreased to RMB7,387/tonne for the Reporting Period from RMB8,500/tonne for the corresponding period of 2014. This is mainly because that the package volume of pasteurized milk products was increased while the price remained steady so as to attract more consumers.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- **Milk powder business**

The following table sets out the breakdown of sales amount, sales volume and ASP of our milk powder business for the periods indicated.

	Six months ended September 30,					
	2015			2014		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
IMF products	224,717	1,840	122,129	153,956	1,425	108,039
Adult Milk Powder	39,220	849	46,196	3,168	53	59,774
Dairy Ingredients	20,057	1,041	19,267	105,875	7,998	13,238
Total	283,994	3,730	76,138	262,999	9,476	27,754

Our milk powder business consists of IMF products and adult milk powder targeted at consumers as well as dairy ingredient products targeted at industrial customers. During the Reporting Period, revenue from our milk powder business increased by 8.0% to approximately RMB284.0 million from approximately RMB263.0 million for the corresponding period of 2014 mainly due to the significant increase in sales volume of IMF products and adult milk powder.

Dairy ingredient products are customized to meet the demand from particular industrial customers. During the Reporting Period, our dairy ingredient products were primarily desalted whey protein powder and diluted cream products in a marked contrast to the non-dairy creamer and whole milk powder products in the corresponding period of 2014. As such, the ASPs of dairy ingredients for different periods are not comparable.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross profit and gross margin

The following table sets forth the breakdown of our gross profit by our three operating segments, as well as their respective gross margins, for the Reporting Period and corresponding period in 2014:

	Six months ended September 30,			
	2015		2014	
	Gross Profit RMB'000	Gross Margin %	Gross Profit RMB'000	Gross Margin %
Dairy farming business				
Before elimination	801,209	52.3	793,483	56.4
After elimination	266,522	52.7	317,377	57.3
Liquid milk business				
Before elimination	301,268	22.4	348,216	29.6
After elimination	686,225	50.9	724,520	61.5
Milk powder business				
Before elimination	133,163	46.9	78,959	30.0
After elimination	192,468	67.8	96,235	36.6

• Dairy farming business

Gross profit of our dairy farming business (before elimination of cost of sales related to internal supplies of raw milk) increased by 1.0% to approximately RMB801.2 million for the six months ended September 30, 2015 from approximately RMB793.5 million for the six months ended September 30, 2014. Gross profit of our dairy farming business (after elimination of cost of sales related to internal supplies of raw milk) decreased by 16.0% to approximately RMB266.5 million for the six months ended September 30, 2015 from approximately RMB317.4 million for the six months ended September 30, 2014. The above changes were due to the relatively huge growth of internal consumption of raw milk and the decrease in the ASP of our raw milk.

Gross margin of our dairy farming business (before elimination of cost of sales related to internal supplies of raw milk) remained at a relatively high level at 52.3% for the six months ended September 30, 2015 compared with 56.4% for the six months ended September 30, 2014. The decrease was primarily due to the decrease of ASP of our raw milk.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	Six months ended September 30,			
	2015		2014	
	Cost of Sales		Cost of Sales	
	RMB'000	%	RMB'000	%
Feed	559,386	76.6%	476,443	77.7%
Labor Cost	44,557	6.1%	28,362	4.6%
Depreciation	20,271	2.8%	16,203	2.7%
Veterinary Costs	34,927	4.8%	33,336	5.4%
Utility Costs	24,610	3.4%	21,754	3.6%
Others	46,520	6.3%	36,865	6.0%
Total	730,271	100%	612,963	100%

- ### Liquid milk business

Gross profit of our liquid milk business (before elimination of cost of sales related to internal supplies of raw milk) decreased by 13.5% to approximately RMB301.3 million for the six months ended September 30, 2015 from approximately RMB348.2 million for the six months ended September 30, 2014. Gross profit of our liquid milk business (after elimination of cost of sales of internal supplies of raw milk) decreased by 5.3% to approximately RMB686.2 million for the six months ended September 30, 2015 from approximately RMB724.5 million for the six months ended September 30, 2014. The decrease mentioned above was primarily due to the downward adjustment of the ASP of our liquid milk products under the impact of the industry.

Gross margin of our liquid milk business (before elimination of cost of sales related to internal supplies of raw milk) decreased to 22.4% for the six months ended September 30, 2015 from 29.6% for the six months ended September 30, 2014, primarily due to the increased package volume of pasteurized milk and the adjusted selling price of UHT milk products in order to increase market shares in the face of market competition.

- ### Milk powder business

Our milk powder business includes IMF powder, adult milk powder and dairy ingredients. Gross profit of our milk powder business (before elimination of cost of sales related to internal supplies of raw milk) increased by 68.6% to approximately RMB133.2 million for the six months ended September 30, 2015 from approximately RMB78.96 million for the six months ended September 30, 2014. Gross profit of our milk powder business (after elimination of cost of sales related to internal supplies of raw milk) increased by 100.0% to approximately RMB192.5 million for the six months ended September 30, 2015 from approximately RMB96.24 million for the six months ended September 30, 2014, primarily due to the increase in sales volume of our IMF products.

Gross margin of our milk powder business (before elimination of cost of sales related to internal supplies of raw milk) increased to 46.9% for the six months ended September 30, 2015 from 30.0% for the six months ended September 30, 2014, primarily due to the significant increase in the sales volume of our IMF products which had higher ASP.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased by 1.3% to approximately RMB1,089.2 million for the six months ended September 30, 2015 from approximately RMB1,075.2 million for the six months ended September 30, 2014, primarily due to the increase in production volume of our raw milk and crops.

As required by International Financial Reporting Standards, harvested agricultural products (consisting mainly of raw milk, alfalfa, oats and corn silage and other feed crops) are initially recognized at fair market values, and the differences between their fair market values and actual costs are recognized in profit or loss. Meanwhile, consumed agricultural products (consisting mainly of raw milk, alfalfa, oats and corn silage and other feed crops) recognized at fair market values are recognized in profit or loss as costs of sale. We have leased a vast area of land for planting alfalfa, oats, corn silage and other feed crops. The gain arising from initial recognition of agricultural products at fair values less costs to sell at the point of harvest can be interpreted as the differences in fair market values of our self-produced raw milk, alfalfa, oats, corn silage and other feed crops, which represents the costs saved by internally producing raw milk, alfalfa, oats, corn silage and other feed crops as opposed to purchasing such agricultural products externally.

Changes in fair value less costs to sell of biological assets

We recorded net losses arising from changes in fair value less costs to sell of biological assets, which amounted to approximately RMB12.29 million and approximately RMB74.46 million for the six months ended September 30, 2015 and 2014, respectively, primarily due to the culling of milkable cows with low milk production level on a regular and systematic basis.

Other income

Other income includes government grants and others. Government grants are generally provided in relation to our agricultural activities and listing. Government grants recognized for the six months ended September 30, 2015 and 2014 amounted to approximately RMB79.62 million and approximately RMB7.97 million, respectively.

Operating expenses

	Six months ended	
	September 30,	
	2015	2014
	RMB'000	RMB'000
Distribution costs	329,888	301,684
Administrative expenses		
— Equity-settled share option expenses (non-cash)	28,751	48,790
— Others	163,960	137,030
Total operating expenses	522,599	487,504

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Our operating expenses increased to approximately RMB522.6 million for the Reporting Period from approximately RMB487.5 million for the corresponding period of 2014.

Distribution costs are primarily related to labor costs, marketing expenses, channel expenses, advertising costs, transportation costs, etc. associated with liquid milk and milk powder products. During the Reporting Period, distribution costs amounted to approximately RMB329.9 million, up 9.3% from approximately RMB301.7 million for the corresponding period of 2014, primarily due to the increase in sales volume of our raw milk, liquid milk and IMF products and the increase of corresponding transportation expenses.

On September 27, 2013, 680,085,000 share options were granted to our employees under the employee share option scheme, and the equity-settled share option expenses included in administrative expenses during the Reporting Period were estimated to be approximately RMB28.75 million according to the valuation results of the independent third party valuer CBRE Limited.

The growth of the item of others under administrative expenses was primarily due to the higher labor costs resulting from the growth in the number of the management staff in line with the Company's business and scale expansion.

Net finance costs

Our net finance costs increased to approximately RMB351.1 million for the Reporting Period from approximately RMB155.8 million for the corresponding period in 2014, primarily due to interest expenses on increased bank loans of approximately RMB234.4 million (corresponding period in 2014: RMB211.7 million) and the exchange loss arising from the conversion of USD denominated loan to RMB given the depreciation of RMB of approximately RMB124.6 million (corresponding period in 2014: exchange gain of RMB2.68 million) during the Reporting Period.

Current ratio and debt ratio

As of September 30, 2015, our current ratio (current assets/current liabilities) was approximately 0.81 compared to 1.49 as of March 31, 2015. As of September 30, 2015, the debt ratio was 49.9% compared to 31.9% as of March 31, 2015. Debt ratio was calculated by net debt (aggregated bank loans and other borrowings net of cash and cash equivalents, term deposits, bank deposits and restricted cash and amounts receivable from banks for wealth management products purchased) over the equity attributable to shareholders of the Company.

Liquidity and capital resources

During the Reporting Period, we financed our operations primarily through net cash inflows from our operations and proceeds from bank loans. On September 27, 2013, proceeds of approximately RMB5,983.3 million were received upon listing. As of September 30, 2015, we had approximately RMB2,586.6 million in cash and cash equivalents, which were denominated in Renminbi, HK dollars and US dollars. Our cash and cash equivalents primarily consist of cash and bank deposits.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital expenditures

We had capital expenditures of approximately RMB1,381.0 million and approximately RMB2,675.8 million for the six months ended September 30, 2015 and 2014, respectively, which were primarily used to purchase property, plant and equipment, pay for lease prepayments and purchase dairy cows.

Working capital

As of September 30, 2015, we had net current liability of approximately RMB1,915.3 million (March 31, 2015: net current assets of approximately RMB2,553.1 million).

Indebtedness

As of September 30, 2015, our outstanding short-term bank loans due within one year, including the current portion of long-term loans, amounted to approximately RMB6,478.2 million at interest rates ranging from 1.52% to 6.15%. As of September 30, 2015, our outstanding long-term bank loans, net of amount due within one year, amounted to approximately RMB3,898.8 million at interest rates ranging from 2.02% to 7.32%. Inclusive of fixed-rate bank loans of approximately RMB3,206.5 million.

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

For the six months ended September 30, 2015, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed.

The book value of our lease prepayments and property, plant and equipment that were used to secure our long-term bank loans was approximately RMB2,716.3 million as of September 30, 2015. In addition, certain of our long-term bank loans were guaranteed by our related parties or third parties.

Contingent liabilities

As of September 30, 2015, we did not have significant contingent liabilities (March 31, 2015: Nil).

Use of Proceeds from Listing

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on September 27, 2013. Net proceeds from the global offering amounted to approximately HK\$7,544.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at September 30, 2015, such net proceeds have been applied extensively as disclosed in the prospectus of the Company dated September 13, 2013, where approximately 9% used for leasing lands for feed plantation, approximately 9% used for constructing a liquid milk production plant and purchasing relevant machinery and equipment and approximately 3% used for working capital and other corporate purposes have been fully expensed. Approximately RMB1,991.6 million was used in importing dairy cows and constructing new cow farms, approximately RMB118.8 million was used in constructing the forage processing plant and milk powder processing plant and purchasing relevant machinery and equipment, approximately RMB652.2 million was used in marketing activities and expanding distribution network, and the balance of approximately RMB1,964.6 million has been deposited in banks and licensed financial institutions in Hong Kong and Mainland China. We currently do not have any intention to change the plan for the use of proceeds as stated in the prospectus of the Company dated September 13, 2013.

Human Resources

We had approximately 12,082 employees in Mainland China and Hong Kong as at September 30, 2015. During the Reporting Period, total staff costs, including the portion accounted for in the profit and loss statement and capitalized to assets but excluding independent non-executive Directors' fees, were approximately RMB316.8 million as compared to approximately RMB236.8 million for the corresponding period in 2014.

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

In order to encourage innovations in our industry, operation model and management model, we have especially set up a fund to encourage our junior staff to keep innovating and discovering more growth points during daily operation and management with a view to ensuring continuous innovative corporate capabilities. The setting up of the fund is favorable to arouse the passion of innovation of staff and to achieve extraordinary results even in ordinary positions, which in turn will further facilitate the vertical integration of our industry and strengthen the leading position of each industrial chains.

We have initiated the "Proposal for the Development of Key Talents" for which we have devoted most of the attention of our managements and training resources. The proposal aims to enhance the problem-solving abilities of high-potential managers in each key positions and meet the demand for talents arising from the process of solving critical business problems at present or in the future. Through tackling the important issues faced by the Group, we achieve the dual goals of human resources development and performance achievement of the Group by letting learners to encounter difficulties and opportunities in practical works.

During the reporting period, in recognition of our image as an outstanding employer, we have been awarded "2015 Best Human Resources Management Companies in China — the Best Recruitment and Retain Strategy"; also, through our efforts in creating the brand image of an employer in campus recruitment, staff trainings and developments with the characteristics of human resources management model of Huishan, we have clinched the honour of "2015 100 Best Employers in China".



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook

The expected full implementation of “Two-child Policy” and the gradual increase of disposable income of consumers have laid down the foundation for a steady demand in the domestic dairy product industry and offered remarkable growth potential for the consumption of dairy products. Meanwhile, the continuous drop in prices of raw milk powder, together with the change in the consumption environment of the domestic market, has intensified the competition among domestic dairy product enterprises. Only through transforming and upgrading to adapt to the changes of market environment and keep achieving more innovation in different aspects can we stand out from our competitors. We have gained a head start in establishing the most complete comprehensive industry chain of the dairy industry in the PRC, which has demonstrated the greatest synergy of each segments and brought about tremendous advantages in costs and resource. On this basis, we will insist in developing industrial integration and unleashing the local market edges. We will adjust our product portfolio in accordance with local conditions, leverage on the linkage system of interest integration with virtuous cycle, move forward to high quality, high efficiency, strong comprehensive utilization of resources and ecological sustainable development for a healthy development. Adhering to the principle and responsibility of providing safe and high-quality dairy products to our consumers, we will formulate and implement our core development strategies in accordance with our operational philosophy of industrial integration:

Creating cost competitiveness through large-scale and modern cultivation

We have leased a land plot with a total area of approximately 480,000 mu for developing modern agriculture in Liaoning province. A diversified mix of self-planted feeds has not only fulfilled the demand for feeding dairy cows, but also guaranteed that we will have sufficient resources for adjusting and optimizing the feeds formula for dairy cows. We have achieved initial success in reducing our cost in dairy cows breeding. By leveraging on modern cultivation, we continue to explore every possibility to increase the production of corn silage and other feeds. We have extended the area for two-harvest trail and increased unit output volume by adopting two cultivate methods, so as to improve the efficiency of land. We will gradually reduce the proportion of purchased coarse fodders in order to enhance the cost competitiveness of raw milk at the source and provide strong guarantee as to the safety and high quality of raw milk.

Realising industrial upgrade by end-product adjustment

We will rely on the resources control and technical advantages brought about by industrial integration to further upgrade and adjust our end-products and build up an insurmountable product barrier for our competitors in the region. We focus on producing pasteurized milk under the brand “Dr. Fresh” (鮮博士) by high quality raw milk with a standard higher than that of EU. Jersey milk product series contains 3.6 grams of premium protein and has written down a new definition for the quality of high-end domestic milk. At the same time, we will further increase our presences in different markets, such as catering and food processing market, to realise the domestication of bulk supply of raw materials for dairy products and upgrade towards raw materials for dairy products such as cream which has wider business scope and higher technical requirements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In-depth exploration of market potential through innovative marketing model

With the annual average growth in disposable income per capita of urban households and net income per capita of rural households in China, third-tier cities have become the key bases for the rapid expansion of modern retail channels, where the numbers of new hypermarkets, supermarkets and convenient stores are far more than those in first and second tier cities. This is especially so with the arrival of the internet era which shifted the key target customers from first and second tier cities to third to sixth tier cities. The huge market potential in these cities will manifest itself and their demand for dairy products will also drastically increase. In order to promote cross-sector marketing integration and spearhead industry development with innovative models, we will take a further step to formulate various O2O sales strategies, extend our cooperation with institutions such as insurance firms and banks and speed up the distribution to third to sixth tier cities. We will also leverage on our resources advantages that we accumulated over the years to create tailor-made and premium dairy products to meet the demands of local consumers.

Strengthening our core competitiveness by adhering to brand strategy

Being the foundation of our brand, product quality has become the main concern of distributors and consumers. We will focus on putting more efforts in brand building, redefining brand value and developing Internet+ model. We will be in full swing setting a brand positioning with premium milk, detailed procedures and high quality through embracing large data as our new brand direction and adopting a more transparent comprehensive industry chain building to enhance our brand awareness, so as to realizing our high-end product image that combines resources advantages and responsibility.





MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Enhancing our economic efficiency by recycled economy

We attach great importance to environmental protection and are dedicated to developing a diversified recycled economy. After learning from both domestic and overseas advanced philosophy and techniques in environmental protection and taking into consideration the domestic situation and our practical situation, we have formulated a general principle for planting and breeding integration and applying organic fertilisers to the farmland. Through renewable energy companies, we will build a channel for the coordination and development which linked up planting and breeding industry to extend our industry chain. On one hand, this can solve the issue of feeds for the dairy cows; on the other hand, it will also solve the waste issue. Biogas project will transform cattle manure into valuable resources and release its energy value. Meanwhile, the fertilisers produced during the biogas producing process will in turn be used in our fields for further improving the soil. As a result, production and quality of feeds and feeds plantation will be improved, the price for fertilisers will be reduced and plantation costs will also decrease accordingly, which will finally achieve the dual economic benefits of “exploiting sources” and “cutting costs”.

Furthermore, we have started the feasibility analysis of implementing solar energy panels on our dairy farms, e.g. roof of barns, awnings and vacant ground, without occupying additional land resources. By leveraging the abundant solar energy resources in Liaoning Province, we will be able to develop an innovative “agri-solar” energy project, an efficient and eco-friendly consolidation of dairy farming and solar energy, which can enhance the profitability of solar energy project through the effective usage of dairy farming resources, therefore, contributing significant and stable income to the Group.

OTHER INFORMATION

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended September 30, 2015 (the six months ended September 30, 2014: Nil).

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at September 30, 2015, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

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

(i) In our Company

Name of Director	Nature of Interest	Total number of Shares/Underlying Shares	Approximate percentage in the issued share capital of the Company as of September 30, 2015
Mr. Yang Kai ⁽¹⁾⁽²⁾⁽³⁾	Interest in controlled corporation	9,612,086,316 (L)	70.72%
	Beneficial owner	124,093,000 (L)	0.91%
	Concert Party	2,000,000 (L)	0.01%
Ms. Ge Kun ⁽⁴⁾	Beneficial owner	2,000,000 (L)	0.01%
	Concert Party	9,736,179,316 (L)	71.63%
Mr. So Wing Hoi ⁽⁵⁾	Beneficial owner	101,250,000 (L)	0.74%
	Beneficial owner	3,000,000 (L)	0.02%
Mr. Xu Guangyi ⁽⁵⁾	Beneficial owner	101,250,000 (L)	0.74%
Mr. Kwok Hok Yin ⁽⁵⁾	Beneficial owner	33,750,000 (L)	0.25%

OTHER INFORMATION (CONTINUED)

(ii) In associated corporation

Name of Director	Name of associated corporation	Total number of shares	Percentage of shareholdings in the associated corporation's issued share capital
Mr. Yang Kai ⁽⁶⁾	Champ Harvest Limited ("Champ Harvest")	10,000 (L)	100%
Ms. Ge Kun ⁽⁶⁾	Champ Harvest	10,000 (L)	100%

Notes:

- (1) As at September 30, 2015, Champ Harvest directly held 9,612,086,316 Shares. Mr. Yang Kai directly held 70% of the total issued share capital of Champ Harvest, and indirectly held 20% of the total issued share capital of Champ Harvest through King Pavilion Limited, a company wholly-owned by Mr. Yang Kai. In light of the above, Mr. Yang Kai is deemed to be interested in the 9,612,086,316 Shares held by Champ Harvest, which is a substantial shareholder of our Company.
- (2) As at September 30, 2015, Mr. Yang Kai directly held 124,093,000 Shares.
- (3) As at September 30, 2015, Ms. Ge Kun directly held 2,000,000 Shares and indirectly held 10% of the total issued share capital of Champ Harvest through Gain Excellence Limited, a company wholly-owned by Ms. Ge Kun. Ms. Ge Kun held the economic interest in such shares in Champ Harvest on behalf of Mr. Yang Kai. Ms. Ge Kun was the concert party of Mr. Yang Kai. Mr. Yang Kai is deemed to be interested in 2,000,000 Shares held by Ms. Ge Kun.
- (4) As at September 30, 2015, Ms. Ge Kun indirectly held 10% of the total issued share capital of Champ Harvest through Gain Excellence Limited, a company wholly-owned by Ms. Ge Kun. Ms. Ge Kun held the economic interest in such shares in Champ Harvest on behalf of Mr. Yang Kai. Ms. Ge Kun, being the concert party of Mr. Yang Kai, is deemed to be interested in 9,736,179,316 Shares held by Mr. Yang Kai. At the same time, Ms. Ge Kun directly held 2,000,000 Shares.
- (5) Mr. So Wing Hoi, Mr. Xu Guangyi and Mr. Kwok Hok Yin were granted 101,250,000 Share Options, 101,250,000 Share Options and 33,750,000 Share Options respectively, on September 27, 2013. Upon full exercise of the above Share Options, Mr. So Wing Hoi, Mr. Xu Guangyi and Mr. Kwok Hok Yin will acquire 101,250,000 Shares, 101,250,000 Shares and 33,750,000 Shares respectively. As at September 30, 2015, Mr. So Wing Hoi also directly held 3,000,000 Shares.
- (6) As at September 30, 2015, Mr. Yang Kai directly held 7,000 shares in Champ Harvest, being 70% of its total issued share capital, and indirectly held 2,000 shares in Champ Harvest, being 20% of its total issued share capital. Ms. Ge Kun indirectly held 1,000 shares in Champ Harvest, being 10% of its total issued share capital and the economic interest thereof on behalf of Mr. Yang Kai. Mr. Yang Kai and Ms. Ge Kun, being concert parties, are deemed to have joint interest in 10,000 shares in Champ Harvest.

Save as disclosed above, as at September 30, 2015, none of the Directors and chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION (CONTINUED)

Substantial Shareholders' Interests

As at September 30, 2015, the interests or short positions of persons (other than the Directors and chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO were as follows:

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

Name of Substantial Shareholders	Nature of Interest	Total Number of Shares	Approximate percentage in the issued share capital of the Company as at September 30, 2015
Champ Harvest ⁽¹⁾	Beneficial Owner	9,612,086,316 (L)	70.72%
Ping An Insurance (Group) Company of China, Ltd.	Interest in Controlled Corporation	4,642,000,000 (L)	33.24%
PING AN BANK CO.,LTD	Beneficial Owner	4,642,000,000 (L)	33.24%

Note:

- (1) As at September 30, 2015, Champ Harvest directly held 9,612,086,316 Shares. Mr. Yang Kai directly held 70% of the total issued share capital of Champ Harvest and indirectly held 20% of the total issued share capital of Champ Harvest through King Pavilion Limited, a company wholly-owned by Mr. Yang Kai. Ms. Ge Kun indirectly held 1,000 shares of Champ Harvest and the economic interest thereof on behalf of Mr. Yang Kai, being 10% of the total issued share capital of Champ Harvest. Mr. Yang Kai and Ms. Ge Kun, being concert parties, are deemed to have joint interest in 10,000 shares of Champ Harvest.

Save as disclosed above, as at September 30, 2015, the Company had not been notified by any other persons (other than Directors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

OTHER INFORMATION (CONTINUED)

Share Option Scheme

The Company adopted the existing share option scheme on September 5, 2013 and a summary of Share Options granted is as follows:

Date of grant:	September 27, 2013
Total number of Share Options granted:	680,085,000 Share Options (each Share Option shall entitle the holder of the Share Option to subscribe for one Share)
Exercise price of the Share Options granted:	HK\$2.67 per Share, representing the highest of (i) HK\$2.59, being the closing price per Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) HK\$2.67, being the issue price of the Shares; and (iii) HK\$0.1, being the par value of the Shares
Validity period of the Share Options:	Six years from the date of grant (i.e. September 27, 2013)
Vesting schedules of the Share Options:	<ul style="list-style-type: none">(i) 30% of the Share Options were vested on the date of grant;(ii) 20% of the Share Options were vested upon the first anniversary of the date of grant;(iii) 15% of the Share Options were vested upon the second anniversary of the date of grant;(iv) 15% of the Share Options will be vested upon the third anniversary of the date of grant; and(v) 20% of the Share Options will be vested upon the fourth anniversary of the date of grant.

OTHER INFORMATION (CONTINUED)

The table below sets out the details of the movements in the Share Options granted under the existing Share Option Scheme of the Company for the six months ended September 30, 2015:

Name or Category of Participant	Number of Share Options				As at September 30, 2015	Date of grant of Share Options	Exercise period of Share Options (both dates inclusive)	Exercise price of Share Option (HK\$)
	As at March 31, 2015	Exercised during the period	Granted during the period	Lapsed/Cancelled during the period				
So Wing Hoi	101,250,000	Nil	Nil	Nil	101,250,000	September 27, 2013	September 27, 2013 to September 26, 2019	2.67
Xu Guangyi	101,250,000	Nil	Nil	Nil	101,250,000	September 27, 2013	September 27, 2013 to September 26, 2019	2.67
Kwok Hok Yin	33,750,000	Nil	Nil	Nil	33,750,000	September 27, 2013	September 27, 2013 to September 26, 2019	2.67
Mark Anthony Wilson	33,750,000	Nil	Nil	33,750,000	Nil	October 8, 2014	October 8, 2017 to October 8, 2020	1.72
Other Employees	442,147,500	2,188,000	Nil	1,462,500	438,497,000	September 27, 2013	September 27, 2013 to September 26, 2019	2.67
Total	712,147,500	2,188,000	Nil	35,212,500	674,747,000			

The weighted average closing price of the securities immediately before the dates on which the options were exercised was RMB2.89 per share.

No Participant of the Share Option Scheme was granted options in excess of the individual limit stated above during the six months ended September 30, 2015. Save as disclosed above, no option was granted, exercised, lapsed or cancelled during the six months ended September 30, 2015.

Other information related to the Scheme is set out in note 23 of the unaudited interim financial report.

Share Award Scheme

A share award scheme ("Share Award Scheme") was approved by shareholders of the Company at the extraordinary general meeting ("EGM") convened on August 28, 2015 for the purpose of recognising and motivating the contribution of Eligible Participants (as defined in the EGM circular dated August 13, 2015) and to provide incentives or awards for their commitment and/or contribution to the Group and to provide them with a direct economic interest in attaining the long-term business objectives of the Group. Pursuant to the Share Award Scheme, the Company commissioned Core Pacific-Yamaichi International (H.K.) Nominees Limited, which is an independent third party, as the trustee (the "Trustee") to purchase shares of the Company from the secondary market in accordance with the terms and conditions of the Share Award Scheme and the trust deed signed by the Company and the Trustee ("Trust Deed") as shares to be awarded. The Share Award Scheme is subject to the administration by the Board and the Trustee pursuant to the Share Award Scheme and the Trust Deed. The Trustee will hold the trust fund in accordance with the terms of the Trust Deed. The total number of shares to be awarded under the Share Award Scheme is not expected to exceed 3% of the total issued shares of the Company as at the date of the EGM (as at August 28, 2015, the number of total issued shares of the Company was 13,963,034,000 shares).

Details of the Share Award Scheme are set out in the Proposal for Adoption of Share Award Scheme and the Notice of EGM dated August 13, 2015.

No shares of the Company was awarded to any of the Eligible Participants pursuant to the Share Award Scheme from the date of its adoption up to September 30, 2015.

OTHER INFORMATION (CONTINUED)

Loan Agreements with Specific Performance Covenant of the Controlling Shareholders

On April 28, 2014, the Company, as borrower, signed an unsecured and uncommitted term loan facility letter with Bank of China Limited Macau Branch (“BOC Macau”) (the “BOC Facility Letter”) pursuant to which the Company expects to borrow US\$50,000,000 (equivalent to approximately HK\$388,000,000) (the “BOC Loan”) from BOC Macau. The BOC Loan has a tenure of three years from the date of signing of the BOC Facility Letter. Pursuant to the provisions of the BOC Facility Letter, if Mr. Yang Kai (“Mr. Yang”, the Company’s Chairman and Executive Director) and Ms. Ge Kun (“Ms. Ge”, an Executive Director) together ceases to be the ultimate single largest shareholder of the Company, BOC Macau may require mandatory prepayment of the BOC Loan together with all other sums due under the BOC Facility Letter. Details of the BOC Facility Letter have been published in the Company’s announcement dated April 28, 2014.

On January 6, 2015, the Company, as borrower, signed an unsecured term loan facility letter with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) (the “HSBC Facility Letter”) pursuant to which the Company may borrow up to US\$20,000,000 (equivalent to approximately HK\$156,000,000) (the “HSBC Loan”) from HSBC. The HSBC Loan has a tenure of three years and its withdrawal or application is subject to the conditions precedent under the HSBC Facility Letter. Pursuant to the provisions of the HSBC Facility Letter, it is a covenant that Mr. Yang and Ms. Ge will remain as the largest shareholders of the Company with aggregate direct and indirect shareholding of no less than 30% interests in the Company during the term of the HSBC Loan, failing which HSBC may require immediate repayment of the HSBC Loan together with all other sums due under the HSBC Facility Letter. Details of the HSBC Facility Letter have been published in the Company’s announcement dated January 6, 2015.

Pledge of Assets

As at September 30, 2015, the aggregate value of the secured lease prepayments and property, plant and equipment of the Group was approximately RMB2,716.3 million (March 31, 2015: RMB3,217.1 million). Further details are set out in the relevant notes in the unaudited interim financial report.

Capital Commitments

Details of capital commitments are set out in Note 26 to the unaudited interim financial report.

OTHER INFORMATION (CONTINUED)

Foreign Currency Risk

The Group primarily conducted its operations in Mainland China. All transactions are settled in Renminbi, except for purchase of imported equipment and dairy cows. As of September 30, 2015, the assets and liabilities of the Group are primarily denominated in RMB, except for cash and cash equivalents denominated in USD of approximately RMB105.0 million (RMB48.80 million as at March 31, 2015), cash and cash equivalents denominated in HKD of approximately RMBNil (RMB5 thousand as at March 31, 2015), cash and cash equivalents denominated in RMB of RMB53.70 million (RMB1,175.2 million as at March 31, 2015), and bank borrowings denominated in USD of approximately RMB2,312.2 million (RMB1,021.7 million as at March 31, 2015), RMB is the presentation currency of the Company. The Company currently did not have any foreign currency hedge. However, the management of the Company will monitor foreign currency risk and hedge significant foreign currency risk when necessary.

The directors of the Company consider that the currency risks may be material to the Group's financial performance for the six months ended September 30, 2015 and therefore, had already embarked on a plan to use financial instruments like forward foreign currency exchange contracts to hedge such risks.

Corporate Governance

The Company is committed to achieving sound corporate governance, in order to protect shareholders' interests and enhance investors' confidence, thus paving the way for future development of the Company. Save as set out below, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the six months ended September 30, 2015. Under the code provision A.2.1 of the Corporate Governance Code, the roles of the Board's chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yang Kai is the chairman of the Board and the Chief Executive Officer and he is principally responsible for the overall strategic planning and business development of the Group. The Board considers such structure beneficial to the Company as the Board believes that Mr. Yang Kai, who has extensive experience in the industry, can provide the Company with strong and consistent leadership and vision and also allows for effective and efficient planning and implementation of business decisions and strategies. He can also ensure timeliness of information flow between the Board and management. In addition, the Directors are of the view that the balanced composition of executive and non-executive Directors (including the independent non-executive Directors) of the Board and the various Committees of the Board (comprising all or a majority of independent non-executive Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority.

The Board of Directors

As at the date of this Interim Report, the board of directors of the Company comprises Mr. Yang Kai, Ms. Ge Kun, Mr. So Wing Hoi, Mr. Xu Guangyi and Mr. Kwok Hok Yin as executive Directors; Mr. Li Kar Cheung as non-executive Directors; Mr. Kan Yu Leung Peter, Mr. Song Kungang, Mr. Gu Ruixia and Mr. Tsui Kei Pang, as independent non-executive Directors.

OTHER INFORMATION (CONTINUED)

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by Directors. Upon specific enquiries made by the Company, all Directors have confirmed that they have complied with the required standards for security transactions by directors as set out in the Model Code throughout the six months ended September 30, 2015.

Purchase, Sale or Redemption of the Company's Listed Securities

For the six months ended September 30, 2015, the Company had purchased a total of 820,181,000 shares at an aggregate consideration of HK\$1,928,715,230 (excluding expenses) on the Stock Exchange. The repurchased shares were cancelled upon repurchase and accordingly, the issued shares of the Company were reduced by the nominal value thereof. Details of the repurchases of shares are set out as follows:

Date of the repurchase	Number of shares repurchased	The highest price paid	The lowest price paid
		HK\$	HK\$
July 9, 2015	4,238,000	1.69	1.55
July 10, 2015	170,000,000	2.05	1.85
July 17, 2015	76,389,000	2.21	2.18
July 20, 2015	5,000,000	2.19	2.18
July 21, 2015	7,688,000	2.18	2.18
July 22, 2015	14,533,000	2.19	2.18
July 24, 2015	25,000,000	2.23	2.18
July 27, 2015	3,232,000	2.21	2.21
July 29, 2015	26,946,000	2.27	2.23
July 31, 2015	8,415,000	2.35	2.34
August 4, 2015	5,589,000	2.36	2.34
August 5, 2015	10,000,000	2.41	2.38
August 6, 2015	56,392,000	2.35	2.31
August 7, 2015	26,232,000	2.36	2.35
August 21, 2015	83,000,000	2.58	2.50
August 24, 2015	196,145,000	2.55	2.44
August 25, 2015	10,000,000	2.66	2.63
September 30, 2015	91,382,000	2.88	2.39
	820,181,000		

OTHER INFORMATION (CONTINUED)

728,799,000 out of the 820,181,000 repurchased ordinary shares were cancelled during the Reporting Period. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares cancelled. The above repurchases were authorized by the Directors pursuant to the mandate from Shareholders and carried out with the view to enhance the net asset value per share of the Company. As at September 30, 2015, the total number of issued shares of the Company was 13,593,453,000. 91,382,000 repurchased ordinary shares were cancelled in October 2015.

Other details of purchase, sale or redemption of the Company's listed securities is set out in related note to unaudited interim financial report.

Saved as disclosed above, there was no repurchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the Reporting Period.

Audit Committee

The Audit Committee of the Company, comprising three independent non-executive Directors, namely Mr. Kan Yu Leung Peter (chairman), Mr. Song Kungang and Mr. Tsui Kei Pang, has reviewed the accounting principles and practices adopted by the Group and such matters as internal controls and financial reporting with the management of the Company, including the review of the interim report for the six months ended September 30, 2015.

Investor Relations and Communications

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

Appreciation

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

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

Hong Kong, November 27, 2015

REVIEW REPORT TO THE BOARD OF DIRECTORS



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

Introduction

We have reviewed the interim financial report set out on pages 43 to 84 which comprises the consolidated statement of financial position of China Huishan Dairy Holdings Company Limited (the "Company") as at September 30, 2015 and the related consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at September 30, 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

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

November 27, 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended September 30, 2015 — unaudited
(Expressed in Renminbi)

	Note	Six months ended September 30, 2015			Six months ended September 30, 2014		
		Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000	Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
Revenue	3	2,137,359	—	2,137,359	1,994,845	—	1,994,845
Cost of sales	3	(992,144)	(706,733)	(1,698,877)	(856,713)	(695,071)	(1,551,784)
Gross profit		1,145,215	(706,733)	438,482	1,138,132	(695,071)	443,061
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		—	1,089,187	1,089,187	—	1,075,157	1,075,157
Loss arising from changes in fair value less costs to sell of biological assets		—	(12,289)	(12,289)	—	(74,457)	(74,457)
Net gain on disposal of subsidiaries	7	59,214	—	59,214	—	—	—
Other income	4	82,747	—	82,747	20,771	—	20,771
Distribution costs		(329,888)	—	(329,888)	(301,684)	—	(301,684)
Administrative expenses		(192,711)	—	(192,711)	(185,820)	—	(185,820)
Profit from operations		764,577	370,165	1,134,742	671,399	305,629	977,028
Finance income		29,010	—	29,010	59,934	—	59,934
Finance costs		(380,106)	—	(380,106)	(215,771)	—	(215,771)
Net finance costs	5(a)	(351,096)	—	(351,096)	(155,837)	—	(155,837)
Share of losses of associates		(15,356)	—	(15,356)	—	—	—
Profit before taxation		398,125	370,165	768,290	515,562	305,629	821,191
Income tax	6	(16,097)	—	(16,097)	(31,939)	—	(31,939)
Profit for the period		382,028	370,165	752,193	483,623	305,629	789,252
Attributable to:							
Equity shareholders of the Company				753,549			789,252
Non-controlling interests				(1,356)			—
Profit for the period				752,193			789,252
Earnings per share							
— Basic and diluted (RMB)	9			0.05			0.05

Details of dividends payable to equity shareholders of the Company are set out in Note 24(a).

The notes on pages 50 to 84 from part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2015 — unaudited
(Expressed in Renminbi)

	Note	Six months ended	
		September 30, 2015 RMB'000	2014 RMB'000
Profit for the period		752,193	789,252
Other comprehensive income for the period (after tax)			
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation to presentation currency	8	47,074	(36,334)
— Exchange reserve reclassified to profit or loss on disposal of subsidiaries	8	(11,334)	—
Total comprehensive income for the period		787,933	752,918
Attributable to:			
Equity shareholders of the Company		789,287	752,918
Non-controlling interests		(1,354)	—
Total comprehensive income for the period		787,933	752,918

The notes on pages 50 to 84 from part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2015—unaudited
(Expressed in Renminbi)

	Note	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Non-current assets			
Property, plant and equipment	10	7,153,042	6,355,669
Prepayments for acquisition of property, plant and equipment		966,534	965,947
Lease prepayments	11	4,032,754	3,823,583
Biological assets	12	5,986,075	5,358,770
Prepayments for acquisition of biological assets		—	5,943
Interest in associates	13	681,611	—
Deferred tax assets		19,741	17,110
Other non-current assets	14	44,529	—
		18,884,286	16,527,022
Current assets			
Inventories		2,157,224	1,581,803
Trade receivables	15	403,117	270,933
Amounts due from the controlling shareholder	16	4,046	—
Deposits, prepayments and other receivables	17	2,194,900	1,011,613
Term deposits	18	566,400	527,050
Cash and cash equivalents	19	2,586,641	2,610,552
Assets held for sale		—	1,805,121
		7,912,328	7,807,072
Current liabilities			
Trade and bills payables	20	2,412,264	1,400,617
Receipts in advance		198,753	41,133
Accrued expenses and other payables	21	725,443	532,830
Bank loans	22	6,478,168	2,867,199
Income tax payable		12,997	10,963
Liabilities held for sale		—	401,216
		9,827,625	5,253,958
Net current (liabilities)/assets		(1,915,297)	2,553,114
Total assets less current liabilities		16,968,989	19,080,136

The notes on pages 50 to 84 from part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At September 30, 2015—unaudited
(Expressed in Renminbi)

	Note	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Non-current liabilities			
Bank loans	22	3,898,821	5,139,808
Deferred income		333,580	255,287
		4,232,401	5,395,095
NET ASSETS			
		12,736,588	13,685,041
CAPITAL AND RESERVES			
Share capital	24	1,077,344	1,135,678
Reserves	24	11,661,723	12,550,488
Total equity attributable to equity shareholders of the Company			
		12,739,067	13,686,166
Non-controlling interests			
		(2,479)	(1,125)
TOTAL EQUITY			
		12,736,588	13,685,041

The notes on pages 50 to 84 from part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2015 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Other reserves RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000			
Balance at April 1, 2014	1,142,619	8,913,219	—	193,793	132,232	44,031	2,769,300	13,195,194	—	13,195,194	
Changes in equity for the six months ended September 30, 2014:											
Profit for the period	—	—	—	—	—	—	789,252	789,252	—	789,252	
Other comprehensive income (Note 8)	—	—	—	—	—	(36,334)	—	(36,334)	—	(36,334)	
Total comprehensive income	—	—	—	—	—	(36,334)	789,252	752,918	—	752,918	
Equity-settled share-based transactions (share option) (Note 23)	—	—	—	48,790	—	—	—	48,790	—	48,790	
Dividends approved and paid in respect of the previous year (Note 24(a))	—	(311,208)	—	—	—	—	—	(311,208)	—	(311,208)	
Balance at September 30, 2014 and October 1, 2014	1,142,619	8,602,011	—	242,583	132,232	7,697	3,558,552	13,685,694	—	13,685,694	
Changes in equity for the six months ended March 31, 2015:											
Profit for the period	—	—	—	—	—	—	87,823	87,823	(1,147)	86,676	
Other comprehensive income	—	—	—	—	—	2,221	—	2,221	—	2,221	
Total comprehensive income	—	—	—	—	—	2,221	87,823	90,044	(1,147)	88,897	
Appropriation to reserves	—	—	—	—	110,525	—	(110,525)	—	—	—	
Purchase of own shares											
— par value paid	(6,941)	—	—	—	—	—	—	(6,941)	—	(6,941)	
— premium paid	—	(104,600)	—	—	—	—	—	(104,600)	—	(104,600)	
— transfer between reserves	—	(6,941)	6,941	—	—	—	—	—	—	—	
Equity-settled share-based transactions (share option) (Note 23)	—	—	—	21,969	—	—	—	21,969	—	21,969	
Forfeiture of share options	—	—	—	(118)	—	—	118	—	—	—	
Capital injection by a non-controlling shareholder	—	—	—	—	—	—	—	—	22	22	
Balance at March 31, 2015	1,135,678	8,490,470	6,941	264,434	242,757	9,918	3,535,968	13,686,166	(1,125)	13,685,041	

The notes on pages 50 to 84 from part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended September 30, 2015 — unaudited

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company										
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital redemption reserve RMB'000	Other reserves RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at April 1, 2015	1,135,678	8,490,470	—	6,941	264,434	242,757	9,918	3,535,968	13,686,166	(1,125)	13,685,041
Changes in equity for the six months ended September 30, 2015:											
Profit for the period	—	—	—	—	—	—	—	753,549	753,549	(1,356)	752,193
Other comprehensive income (Note 8)	—	—	—	—	—	—	35,738	—	35,738	2	35,740
Total comprehensive income	—	—	—	—	—	—	35,738	753,549	789,287	(1,354)	787,933
Issuance of shares under a share option scheme (Note 24(b)(i))	180	5,446	—	—	(821)	—	—	—	4,805	—	4,805
Purchase of own shares (Note 24(b)(ii)&(iii))											
— par value paid	(58,514)	—	(7,501)	—	—	—	—	—	(66,015)	—	(66,015)
— premium paid	—	(1,295,657)	(200,324)	—	—	—	—	—	(1,495,981)	—	(1,495,981)
— transfer between reserves	—	(58,514)	—	58,514	—	—	—	—	—	—	—
Equity-settled share-based transactions (share option) (Note 23)	—	—	—	—	28,751	—	—	—	28,751	—	28,751
Forfeiture of share options	—	—	—	—	(474)	—	—	474	—	—	—
Dividends approved and paid in respect of the previous year (Note 24(a))	—	(207,946)	—	—	—	—	—	—	(207,946)	—	(207,946)
Balance at September 30, 2015	1,077,344	6,933,799	(207,825)	65,455	291,890	242,757	45,656	4,289,991	12,739,067	(2,479)	12,736,588

The notes on pages 50 to 84 from part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2015 — unaudited
(Expressed in Renminbi)

	Note	Six months ended September 30,	
		2015 RMB'000	2014 RMB'000
Operating activities			
Cash generated from operations		1,187,610	1,033,417
Income tax paid		(18,388)	(42,579)
Net cash generated from operating activities		1,169,222	990,838
Investing activities			
Payments for purchase of property, plant and equipment		(866,998)	(1,481,558)
Lease prepayments		(499,610)	(1,006,307)
Payments for purchase of biological assets		(14,371)	(187,982)
Payments for breeding calves and heifers (breeding costs of calves and heifers capitalised other than depreciation and amortisation)		(519,285)	(574,822)
Proceeds from disposal of subsidiaries	7	692,270	—
Other cash flows arising from investing activities		(40,912)	(237,732)
Net cash used in investing activities		(1,248,906)	(3,488,401)
Financing activities			
Proceeds from new bank loans		4,068,204	2,708,432
Repayments of bank loans		(1,773,732)	(1,533,638)
Dividends paid to the equity shareholders of the Company	24(a)	(207,946)	(311,208)
Payments for purchase of own shares		(1,484,634)	—
Interest paid		(244,810)	(244,437)
Other cash flows arising from financing activities		(299,260)	(232,656)
Net cash generated from financing activities		57,822	386,493
Net decrease in cash and cash equivalents		(21,862)	(2,111,070)
Cash and cash equivalents at the beginning of the period		2,610,552	5,062,619
Effect of foreign exchange rate changes		(2,049)	2,849
Cash and cash equivalents at the end of the period	19	2,586,641	2,954,398

The notes on pages 50 to 84 from part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 Basis of Preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”). It was authorised for issue on November 27, 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended March 31, 2015, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ended March 31, 2016. Details of these changes in accounting policies are set out in Note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of China Huishan Dairy Holdings Company Limited (“the Company”) and its subsidiaries (collectively “the Group”) since the annual financial statements for the year ended March 31, 2015. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is included on page 42.

The financial information relating to the financial year ended March 31, 2015 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended March 31, 2015 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated June 22, 2015.

As at September 30, 2015, the Group’s current liabilities exceeded its current assets by RMB1,915,297,000. As at September 30, 2015, the Group had cash and cash equivalents of RMB2,586,641,000 and short term bank loans, including current portion of long-term bank loans of RMB6,478,168,000. The liquidity of the Group is primarily depending on its ability to maintain adequate cash flows from operations, to renew its short-term bank loans and to obtain adequate external financing to support its working capital and meet its obligations and commitments when they become due.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Basis of Preparation (Continued)

These condensed consolidated interim financial statements have been prepared on a going concern basis notwithstanding the net current liabilities as at September 30, 2015 because the directors of the Company are of the opinion that based on the banking facilities of RMB13,435,000,000 not yet utilised as at the date of issue of this interim financial report, the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

2 Changes in Accounting Policies

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

- Amendments to IAS 19, *Employee benefits “Defined Benefit Plans: Employee Contributions”*
- Annual Improvements to *IFRSs 2010–2012 Cycle*
- Annual Improvements to *IFRSs 2011–2013 Cycle*

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

3 Segment Reporting

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Segment Reporting (Continued)

(a) Segment results, assets and liabilities

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

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

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Segment Reporting (Continued)

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended September 30, 2015 and 2014 is set out below.

	Six months ended September 30, 2015			Total RMB'000
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powder Production RMB'000	
Revenue from external customers	505,866	1,347,499	283,994	2,137,359
Inter-segment revenue	1,025,614	—	—	1,025,614
Reportable segment revenue	1,531,480	1,347,499	283,994	3,162,973
Cost of sales related to revenue from external customers	239,344	1,046,231	150,831	1,436,406
Inter-segment cost of sales	490,927	—	—	490,927
Reportable segment cost of sales (cost of sales before biological fair value adjustments)	730,271	1,046,231	150,831	1,927,333
Reportable segment gross profit (gross profit before biological fair value adjustments)	801,209	301,268	133,163	1,235,640
Reportable segment profit (adjusted EBITDA)	788,931	81,022	29,644	899,597
Interest income	2,221	13,722	1,197	17,140
Interest expenses	143,726	45,550	17,575	206,851
Depreciation and amortisation	47,731	13,841	14,032	75,604
Net gain on disposal of subsidiaries	—	—	59,214	59,214
Share of losses of associates	—	—	15,356	15,356

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Segment Reporting (Continued)

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Segment Reporting (Continued)

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

	At September 30, 2015			Total RMB'000
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powder Production RMB'000	
Reportable segment assets (including interest in associates)	23,052,716	11,627,786	2,914,425	37,594,927
Increase in carrying amounts of non-current segment assets during the period	1,115,117	184,045	63,954	1,363,116
Capital expenditure	834,727	156,478	79,245	1,070,450
Reportable segment liabilities	15,048,670	4,130,311	1,675,055	20,854,036

	At March 31, 2015			Total RMB'000
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powder Production RMB'000	
Reportable segment assets	19,480,468	9,046,946	2,651,002	31,178,416
Increase in carrying amounts of non-current segment assets during the year	3,706,606	721,621	1,725	4,429,952
Capital expenditure	3,620,087	640,796	210,705	4,471,588
Reportable segment liabilities	12,621,544	2,611,343	1,786,646	17,019,533

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Segment Reporting (Continued)

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

	Six months ended September 30,	
	2015 RMB'000	2014 RMB'000
Revenue		
Reportable segment revenue	3,162,973	2,847,374
Elimination of inter-segment revenue	(1,025,614)	(852,529)
Consolidated revenue	2,137,359	1,994,845

	Six months ended September 30,	
	2015 RMB'000	2014 RMB'000
Cost of sales		
Reportable segment cost of sales	1,927,333	1,626,716
Inclusion of gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest charged to cost of sales	706,733	695,071
Elimination of inter-segment cost of sales	(935,189)	(770,003)
Consolidated cost of sales	1,698,877	1,551,784

	Six months ended September 30,	
	2015 RMB'000	2014 RMB'000
Gross profit		
Reportable segment gross profit	1,235,640	1,220,658
Inclusion of gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest charged to cost of sales	(706,733)	(695,071)
Elimination of inter-segment gross profit	(90,425)	(82,526)
Consolidated gross profit	438,482	443,061

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Segment Reporting (Continued)

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

	Six months ended	
	September 30,	
	2015	2014
	RMB'000	RMB'000
Profit		
Reportable segment profit	899,597	969,302
Interest income	29,010	59,934
Interest expenses	(234,409)	(211,748)
Depreciation and amortisation	(77,410)	(99,388)
Net gain on disposal of subsidiaries	59,214	—
Share of losses of associates	(15,356)	—
Unallocated headoffice and corporate expenses	(172,096)	(120,012)
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest, net of the amount already charged to cost of sales	382,454	380,086
Loss arising from the changes in fair value less costs to sell of biological assets	(12,289)	(74,457)
Elimination of inter-segment gross profit	(90,425)	(82,526)
Consolidated profit before taxation	768,290	821,191
	At	At
	September 30,	March 31,
	2015	2015
	RMB'000	RMB'000
Assets		
Reportable segment assets (including interest in associates)	37,594,927	31,178,416
Deferred tax assets	19,741	17,110
Goodwill and deferred tax assets reclassified as held for sale	—	975,548
Unallocated headoffice and corporate assets	7,262,162	7,146,182
Elimination between segments	(18,080,216)	(14,983,162)
Consolidated total assets	26,796,614	24,334,094

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Segment Reporting (Continued)

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

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Liabilities		
Reportable segment liabilities	20,854,036	17,019,533
Unallocated headoffice and corporate liabilities	11,286,206	8,612,682
Elimination between segments	(18,080,216)	(14,983,162)
Consolidated total liabilities	14,060,026	10,649,053

4 Other Income

	Six months ended September 30, 2015 RMB'000	2014 RMB'000
Government grants	79,620	7,968
Net profit/(loss) from sales of raw materials	834	(3,286)
Income from waiver of payables	—	6,203
Investment income on wealth management products purchased from banks	1,227	10,111
Net loss on disposal of non-current assets	(197)	(31)
Donation	(500)	—
Others	1,763	(194)
	82,747	20,771

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 Profit Before Taxation

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

(a) Net finance costs:

	Six months ended September 30,	
	2015 RMB'000	2014 RMB'000
Finance income — interest income	(29,010)	(59,934)
Interest expenses on bank loans		
— wholly repayable within five years	184,278	181,636
— repayable after five years	62,584	52,015
Less: interest expenses capitalised*	(12,453)	(21,903)
Bank charges and other finance costs	21,102	6,701
Net foreign exchange loss/(gain)	124,595	(2,678)
Finance costs	380,106	215,771
Net finance costs	351,096	155,837

* The borrowing costs have been capitalised at a rate of 4.90% to 6.55% (six months ended September 30, 2014: 4.83% to 7.58%) per annum.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 Profit Before Taxation (Continued)

(b) Staff costs:

	Six months ended September 30,	
	2015 RMB'000	2014 RMB'000
Salaries, bonuses and allowances	143,606	106,648
Pension insurance	22,181	16,269
Other social insurances	20,747	15,105
Fees charged for hiring workers from labour dispatching companies	68,402	52,122
Staff welfare	19,161	11,472
	274,097	201,616

(c) Other items:

	Six months ended September 30,	
	2015 RMB'000	2014 RMB'000
Depreciation and amortisation	77,410	99,388
Equity-settled share option expenses (Note 23)	28,751	48,790

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

6 Income Tax

	Six months ended September 30,	
	2015	2014
	RMB'000	RMB'000
Current taxation:		
PRC income tax	18,728	32,188
Deferred taxation:		
Origination and reversal of temporary differences	(2,631)	(249)
	16,097	31,939

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

No provision was made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the six months ended September 30, 2015 and 2014.

All the PRC subsidiaries of the Company are subject to PRC Enterprise Income Tax rate of 25% during the six months ended September 30, 2015 and 2014.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 Disposal of Subsidiaries

In October 2014, the Group entered into a sale and purchase agreement with FrieslandCampina Hong Kong Holding II B.V. to sell its 50% equity interests in China Huishan Dairy Investments (Hong Kong) Limited and Liaoning Huishan Group (Xiushui) Co., Ltd. (the "Disposal Group"). The disposal has been completed on April 1, 2015 when the Group received the payment pursuant to the sale and purchase agreement and the rights and duties under the agreement became enforceable. The total consideration is RMB698.25 million. The Group has accounted for its equity interests retained in the Disposal Group as an interest in associates after the disposal (Note 13).

The following summarises the effect of the disposal in the interim financial report:

	At April 1, 2015 RMB'000
Assets of the Disposal Group*	1,819,329
Liabilities of the Disposal Group*	(510,548)
Net assets of the Disposal Group	1,308,781
Reclassification of exchange reserve of the Disposal Group from exchange reserve to profit or loss	(11,334)
Fair value of the interests retained in the Disposal Group determined with the reference to the cash consideration received	(698,247)
Transaction tax	39,833
Net gain on disposal	59,214
Total consideration in cash	698,247
Amounts receivable from disposal of subsidiaries	(5,977)
Net cash received during six months ended September 30, 2015	692,270

* Assets of the Disposal Group include the receivables of RMB14.21 million due from other subsidiaries within the Group, and liabilities of the Disposal Group include the payables of RMB109.33 million due to other subsidiaries within the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

8 Other Comprehensive Income

	Six months ended September 30, 2015			Six months ended September 30, 2014		
	Before-tax amount RMB'000	Tax expense/ (benefit) RMB'000	Net-of-tax amount RMB'000	Before-tax amount RMB'000	Tax expense/ (benefit) RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation to presentation currency	47,074	—	47,074	(36,334)	—	(36,334)
Exchange reserve reclassified to profit or loss on disposal of subsidiaries (Note 7)	(11,334)	—	(11,334)	—	—	—
Other comprehensive income	35,740	—	35,740	(36,334)	—	(36,334)

9 Basic and Diluted Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended September 30, 2015 is based on the profit attributable to equity shareholders of the Company of RMB753.55 million (six months ended September 30, 2014: profit of RMB789.25 million) and the weighted average of 14,084,119,906 ordinary shares of the Company in issue during the six months ended September 30, 2015 (six months ended September 30, 2014: 14,407,788,000 ordinary shares) as calculated in Note 9(b).

(b) Weighted average number of ordinary shares

	Six months ended September 30,	
	2015	2014
Issued ordinary shares at April 1	14,320,064,000	14,407,788,000
Effect of shares issued under a share option scheme (Note 24b(i))	226,873	—
Effect of own shares purchased and cancelled during the period (Note 24b(ii))	(235,671,612)	—
Effect of treasury shares (Note 24b(iii))	(499,355)	—
Weighted average number of ordinary shares for the six months ended September 30	14,084,119,906	14,407,788,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

9 Basic and Diluted Earnings Per Share (Continued)

(c) Diluted earnings per share

There were no dilutive potential ordinary shares outstanding during the six months ended September 30, 2015 and 2014. For the six months ended September 30, 2015 and 2014, the share options as disclosed in Note 23 did not have any dilutive effect because the average market price of the Company's ordinary shares during the periods did not exceed the sum of the exercise prices of the options and the fair values of the services to be received by the Group from the employees granted with the options (i.e. the fair values of the options at the dates of grant), details of which are disclosed in Note 23.

10 Property, Plant and Equipment

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Balance as at April 1	6,355,669	4,317,163
Additions	929,972	2,832,553
Depreciation	(131,914)	(215,716)
Disposals	(685)	(1,785)
Other decrease	—	(29,005)
Reclassification to assets held for sale	—	(547,541)
Impairment loss	—	—
Balance as at September 30/March 31	7,153,042	6,355,669

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 Lease Prepayments

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Balance as at April 1	3,823,583	3,043,258
Additions	482,162	1,179,641
Amortisation	(272,991)	(318,765)
Reclassification to assets held for sale	—	(80,551)
Impairment loss	—	—
Balance as at September 30/March 31	4,032,754	3,823,583

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

12 Biological Assets

(a) Nature of the Group's agricultural activities

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

The quantities of the dairy cows owned by the Group as at September 30, 2015 and March 31, 2015 are shown below. The Group's dairy cows are milkable cows held for raw milk production and heifers and calves that have not reached the age to produce raw milk.

	At September 30, 2015 Head	At March 31, 2015 Head
Milkable cows	86,801	74,389
Heifers	77,427	79,951
Calves	26,683	25,991
	190,911	180,331

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

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

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

At September 30, 2015, the Group owned about 480,000 mu fields for planting alfalfa grass and other feed crops. (March 31, 2015: about 480,000 mu).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

12 Biological Assets (Continued)

(b) Value of the Group's biological assets

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

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Milkable cows	3,317,388	2,884,696
Heifers	2,071,354	2,140,744
Calves	343,397	328,054
Alfalfa grass	5,438	5,276
Other feed crops	248,498	—
	5,986,075	5,358,770

The fair values of the Group's dairy cows and alfalfa grass and other feed crops as at September 30, 2015 were estimated by using the same valuation techniques as adopted in the annual financial statements for the year ended March 31, 2015.

13 Interest in Associates

The following list contains the particulars of the associates, which are unlisted corporate entities:

Name of associate	Form of business structure	Place of incorporation and principal place of operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
				The Group's effective interest	Held by the Company	Held by a subsidiary	
China Huishan Dairy Investments (Hong Kong) Limited	Incorporated	Hong Kong	696,000,000 shares	50%	—	50%	Investment holding
Friesland Huishan Dairy Co., Ltd.* (previous name: Liaoning Huishan Group (Xiushui) Co., Ltd.)	Established	The PRC	RMB588,000,000	50%	—	50%	Milk powder production

* China Huishan Dairy Investments (Hong Kong) Limited held 100% equity interests in Friesland Huishan Dairy Co., Ltd.

Both of the above associates are accounted for using the equity method in the interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

13 Interest in Associates (Continued)

Summarised consolidated financial information of the associates and reconciled to the carrying amounts in the interim financial report, are disclosed below:

	At September 30, 2015 RMB'000
Gross amounts of the associates'	
Non-current assets	659,381
Current assets	198,696
Non-current liabilities	(365,210)
Current liabilities	(146,707)
Net assets	346,160
Revenue	212,649
Loss for the period	(30,712)
Other comprehensive income	76
Total comprehensive income	(30,636)
Reconciled to the Group's interests in the associates	
Gross amounts of net assets of the associates	346,160
Group's effective interest	50%
Unrealised profits on downstream transactions	(1,318)
Group's share of net assets of the associates	171,762
Goodwill	509,849
Carrying amount in the interim financial report	681,611

14 Other Non-Current Assets

Other non-current assets represent the deposits with banks to secure long-term bank loans which were expected to be recovered in two years.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 Trade Receivables

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Trade receivable due from third parties	392,857	270,933
Trade receivable due from the associates	10,260	—
	403,117	270,933
Less: allowance for impairment of doubtful debts	—	—
	403,117	270,933

(a) Aging analysis

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

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Less than 3 months	290,818	162,750
More than 3 months but less than 6 months	41,215	48,806
More than 6 months but less than 1 year	53,660	53,903
More than 1 year but less than 2 years	15,699	5,474
More than 2 years but less than 3 years	1,725	—
	403,117	270,933

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 Trade Receivables (Continued)

(b) Trade receivables that are not impaired

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Neither past due nor impaired	345,217	229,528
Less than 1 month past due	19,194	14,584
More than 1 month but less than 3 months past due	21,940	12,077
More than 3 months but less than 6 months past due	9,720	7,749
More than 6 months past due	7,046	6,995
	57,900	41,405
	403,117	270,933

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

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. These receivables mainly relate to sales of liquid milk products and milk powder products. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

16 Amounts Due from the Controlling Shareholder

The amounts as at September 30, 2015 were unsecured, non-interest bearing and had no fixed terms of repayment.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Deposits, Prepayments and Other Receivables

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Deposits with banks to secure bills payables	654,824	314,259
Deposits to secure purchase of own shares (Note (i))	123,120	—
Deposits with banks to secure letters of credit	—	193,377
Prepayments for purchase of raw materials	930,883	242,275
Amounts due from the associates of the Group (Note (ii))	125,000	—
Downpayments for acquisition of lands held under operating leases at annual rent	13,032	10,050
Advances to staff	25,399	21,055
Deductible value added tax	85,201	54,818
Prepaid income tax	8,300	6,606
Prepaid advertising and promotion expenses	15,737	21,370
Interest receivable on bank deposits	16,808	10,842
Amounts receivable from banks for wealth management products purchased (over 3 months) (Note (iii))	50,000	—
Amounts receivable from disposal of dairy cows		
— Third parties	12,050	39,610
— Affiliates of the controlling shareholder	24,698	—
Prepayments to be returned for cancelled purchases of property, plant and equipment	47,795	47,795
Amounts receivable from disposal of subsidiaries	5,977	—
Others	56,076	49,556
	2,194,900	1,011,613
Less: allowance for impairment of doubtful debts	—	—
	2,194,900	1,011,613

Notes:

- (i) This represents the performance deposits paid to an agency for it to purchase the Company's shares on behalf of the Company.
- (ii) The amounts due from associates are unsecured, non-interest bearing and has no fixed terms of repayment.
- (iii) This represents the RMB wealth management product purchased by the Group from China Guangfa Bank Co., Ltd. during the six months ended September 30, 2015 and having not been due or early redeemed yet as of September 30, 2015. The principal was RMB50.00 million and the annualised rate of return was 5.00%. Given that the amount of return of the wealth management product are determinable, the Group recorded the amount at amortised cost using the effective interest method as other receivables in this account.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Deposits, Prepayments and Other Receivables (Continued)

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

Impairment of deposits, prepayments and other receivables

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

At September 30, 2015 and March 31, 2015, no deposits, prepayments and other receivables are individually determined to be impaired.

18 Term Deposits

The effective interest rate of the Group's term deposits placed with banks with initial terms of over three months but within 1 year for the six months ended September 30, 2015 is 2.90% to 4.50% (the year ended March 31, 2015: 2.80% to 4.50%).

19 Cash and Cash Equivalents

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Cash at bank and in hand	2,586,641	2,560,552
Amounts receivable from banks for wealth management products purchased (within 3 months) (Note (i))	—	50,000
	2,586,641	2,610,552

Note:

- (i) Amount receivable from banks for wealth management product purchased (within 3 months) as at March 31, 2015 represented the RMB wealth management products purchased by the Group from China Guangfa Bank Co., Ltd. during the year ended March 31, 2015 and having been redeemed in April 2015. The principal as at March 31, 2015 was RMB50.00 million. Given that the amount of return of this wealth management products was determinable by known amount of cash and the maturity was within three months from acquisition, the Group recorded the amount as cash equivalents.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

20 Trade and Bills Payables

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Trade payable for purchase of raw materials		
— Third parties	984,630	566,920
— Associates of the Group	26,976	—
Trade payable for purchase of products		
— Associates of the Group	14,325	—
Bills payable	1,386,333	833,697
	2,412,264	1,400,617

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

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

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Within 1 month	696,957	567,967
Over 1 month but within 3 months	735,817	597,369
Over 3 months but within 6 months	942,853	211,435
Over 6 months but within 1 year	24,222	14,677
Over 1 year but within 2 years	5,678	4,339
Over 2 years	6,737	4,830
	2,412,264	1,400,617

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 Accrued Expenses and Other Payables

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Payables for acquisition of property, plant and equipment	310,289	244,468
Payables for operating leases		
— Third parties	16,228	16,334
— Affiliates of the controlling shareholder	32,813	12,558
Payables for taxes related to acquisition of lands held under operating leases	22,039	22,039
Payables for professional services	7,307	6,628
Payables for purchase of own shares	77,362	—
Employee benefits payables	45,172	38,597
Accrued advertising and promotion expenses	36,979	45,217
Payables for interest expenses	12,389	10,337
Payables for value added tax and other taxes	5,085	4,279
Conditional government grants received but not yet recognised (<i>Note (i)</i>)	39,900	59,370
Payables for freight charges	34,328	23,351
Capital injected by a non-controlling shareholder but not yet registered	35,972	25,200
Others	49,580	24,452
	725,443	532,830

Note:

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

The amount of the Group's payables for acquisition of property, plant and equipment expected to be settled after more than one year was RMB3.47 million as at September 30, 2015 (March 31, 2015: RMB22.30 million). All of the other accrued expenses and other payables are expected to be settled or recognised in profit or loss or to other items in the statement of financial position within one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

22 Bank Loans

At September 30, 2015, the Group's bank loans were repayable as follows:

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Within 1 year	6,478,168	2,867,199
After 1 year but within 2 years	1,201,304	2,062,497
After 2 years but within 5 years	1,998,967	2,290,961
After 5 years	698,550	786,350
	3,898,821	5,139,808
	10,376,989	8,007,007

At September 30, 2015, the Group's bank loans were secured as follows:

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Jointly secured by lease prepayments and property, plant and equipment and own equity interests of the Group and guaranteed by intra-group entities	359,404	418,870
Secured by property, plant and equipment of the Group and guaranteed by third parties	125,000	150,000
Secured by lease prepayments and property, plant and equipment of the Group	1,253,750	1,265,250
Secured by deposits with banks to secure letters of credit and guaranteed by intra-group entities	—	644,590
Secured by deposits with banks and guaranteed by third parties	139,949	—
Secured by the Group's own equity interests and guaranteed by intra-group entities	109,675	109,675
Secured by the Group's own equity interests	400,000	532,000
Guaranteed by intra-group entities	5,259,121	3,797,802
Guaranteed by associates of the Group	295,926	—
Guaranteed by third parties	1,047,434	8,000
Unguaranteed and unsecured	1,386,730	1,080,820
	10,376,989	8,007,007

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

22 Bank Loans (Continued)

At September 30, 2015, the secured bank loans were secured over property, plant and equipment and lease prepayments with an aggregate carrying value of RMB2,716.26million (March 31, 2015: RMB3,217.13 million).

Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. At September 30, 2015, none of the covenants relating to the bank loans had been breached.

23 Equity Settled Share-Based Transactions (Share Option)

The Company adopted a share option scheme on September 5, 2013, whereby the directors of the Company are authorised, at their discretion, to invite certain directors and qualified employees of the Group, to take up options to subscribe for the shares in the Company. On September 27, 2013, 680,085,000 share options were granted, among which, 204,025,500 share options will vest immediately from the date of grant, 136,017,000 share options will vest after one year from the date of grant, 102,012,750 share options will vest after two years from the date of grant, 102,012,750 share options will vest after three years from the date of grant, and the remaining 136,017,000 share options will vest after four years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company at an exercise price of HK\$2.67 per share. The above share options granted will lapse on September 26, 2019. On October 8, 2014, another 33,750,000 share options were granted to a newly hired director, which will vest after three years from the date of grant subject to the share price of the Company having reached HK\$2.67 at any time during the first three years from October 8, 2014 and the director remaining in continuous employment with the Company pursuant to the service contract from October 8, 2014 for at least two calendar years, or after four years from the date of grant if the share price of the Company does not reach HK\$2.67 during the three years from October 8, 2014. Each option gives this director the right to subscribe for one ordinary share in the Company at an exercise price of HK\$1.72 per share. During the six months ended September 30, 2015, this director resigned from the Company and thus these 33,750,000 share options have been forfeited.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

23 Equity Settled Share-Based Transactions (Share Option) (Continued)

(a) The fair values of the share options

The fair values of the services received from the holders in return for share options granted are measured by reference to the fair values of the share options granted which were valued by the independent valuers, CBRE Limited and Crowe Horwath (HK) Consulting & Valuation Limited, by using the binomial lattice model. The details are as follows:

	The share options granted on September 27, 2013	The share options granted on October 8, 2014
Fair value at the date of grant per share	HK\$0.4739	HK\$0.5057
Closing price per share on the date of grant	HK\$2.59	HK\$1.69
Exercise price per share	HK\$2.67	HK\$1.72
Expected volatility (weighted average)	35.21%	38.23%
Contractual life of the options	6 years	6 years
Expected dividends	0%	2.02%
Risk-free interest rate (based on the Hong Kong Exchange Notes)	1.22%	1.49%
Expected price increase of exercise	35%	35%

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

The fair values of the services received from the holders in return for the share options granted are recognised as a staff cost with a corresponding increase in other reserves within equity. During the six months ended September 30, 2015, the Group has charged RMB28.75 million (six months ended September 30, 2014: RMB48.79 million) share option expenses in "Administrative expenses" with the same amount credited to "Other reserves".

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

23 Equity Settled Share-Based Transactions (Share Option) (Continued)

(b) The number and weighted average exercise price of the share options are as follows:

	Six months ended September 30, 2015		Year ended March 31, 2015	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the period/year	HK\$2.63	712,147,500	HK\$2.67	680,085,000
Granted during the period/year	—	—	HK\$1.72	33,750,000
Forfeited during the period/year	HK\$1.76	(35,212,500)	HK\$2.67	(1,687,500)
Exercised during the period/year	HK\$2.67	(2,188,000)	—	—
Outstanding at the end of the period/year	HK\$2.67	674,747,000	HK\$2.63	712,147,500
Exercisable at the end of the period/year	HK\$2.67	437,819,750	HK\$2.67	339,198,750

The weighted average share price at the date of exercise for share options exercised during the six months ended September 30, 2015 was HK\$2.90. No share options were exercised during the year ended March 31, 2015.

The share options outstanding at September 30, 2015 had a weighted average exercise price of HK\$2.67 (March 31, 2015: HK\$2.63) and a weighted average remaining contractual life of 4 years (March 31, 2015: 4.55 years).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Capital, Reserves and Dividends

(a) Dividends

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

The directors did not recommend the payment of a dividend in respect of the six months ended September 30, 2015 (six months ended September 30, 2014: RMBNil).

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

	Six months ended September 30,	
	2015 RMB'000	2014 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB0.0153 per ordinary share (six months ended September 30, 2014: RMB0.0216 per ordinary share)	207,946	311,208

(b) Share capital

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

	Six months ended September 30, 2015		Year ended March 31, 2015	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
At April 1	14,320,064,000	1,135,678	14,407,788,000	1,142,619
Issuance of shares under a share option scheme (HK\$0.1 each) (Note (i))	2,188,000	180	—	—
Purchase of own shares and cancelled (HK\$0.1 each) (Note (ii))	(728,799,000)	(58,514)	(87,724,000)	(6,941)
At September 30/March 31	13,593,453,000	1,077,344	14,320,064,000	1,135,678

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Capital, Reserves and Dividends (Continued)

(b) Share capital (Continued)

Notes:

(i) *Issuance of shares under a share option scheme*

During the six months ended September 30, 2015, share options granted under the Company's share option schemes were exercised to subscribe for 2,188,000 ordinary shares in the Company at a total consideration of HK\$5,841,960 (equivalent to RMB4,805,372) (see Note 23), of which HK\$218,800 (equivalent to RMB179,977) has been credited to the Company's share capital, and the remaining proceeds of HK\$5,623,160 (equivalent to RMB4,625,395) and an amount of HK\$1,036,893 (equivalent to RMB821,302) from the other reserves have been recorded and transferred to the share premium account.

(ii) *Purchase of own shares and cancelled*

During the six months ended September 30, 2015, the Company purchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	No. of shares purchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid RMB'000
July 2015	341,441,000	2.35	1.55	568,175
August 2015	387,358,000	2.66	2.31	785,996
	728,799,000			1,354,171

The 341,441,000 and 387,358,000 purchased shares were cancelled in August 2015 and September 2015 and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, the par value of the shares cancelled of HK\$72,879,900 (equivalent to RMB58,513,823) was transferred from the share premium to the capital redemption reserve. The premium paid on the purchase of the shares of HK\$1,610,973,133 (equivalent to RMB1,295,656,884) was charged to the share premium.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Capital, Reserves and Dividends (Continued)

(b) Share capital (Continued)

Notes: (Continued)

(iii) Treasury shares

During the six months ended September 30, 2015, the Company purchased 91,382,000 of its own ordinary shares on The Stock Exchange of Hong Kong Limited, at a total consideration of HK\$253,193,530 (equivalent to RMB207,825,273) which were cancelled on October 19, 2015.

Details of treasury shares purchased during the six months ended September 30, 2015 are as follows:

Month/year	No. of shares purchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid RMB'000
September 2015	91,382,000	2.88	2.39	207,825

(c) Nature and purpose of reserves

(1) Share premium

- (i) On August 30, 2012, the Company acquired 100% equity interests in a group of companies engaged in production and sale of milk powder products (China Huishan Dairy Investments International Limited and its subsidiaries, China Huishan Dairy Investments (Hong Kong) Limited, Liaoning Cheungrui Trading Company Limited and Liaoning Huishan Group (Xiushui) Co., Ltd.) controlled by a third party by issuing 1,494,252 shares of US\$0.001 each. The surplus of the fair value of the above newly issued shares over their par values was credited to equity as share premium.
- (ii) Pursuant to the board resolution dated March 30, 2013, the controlling shareholder, through an affiliate 100% held by him, Talent Pool Holdings Limited, injected US\$144.31 million cash to the Company. In return, the Company newly issued 1 share with the par value of US\$0.001 to the affiliate. The surplus of the amount of the cash injected over the par value of the share issued was credited to equity as share premium.
- (iii) Pursuant to the board resolution dated March 30, 2013, an amount of US\$317.19 million standing advances from the Company's parent company, Champ Harvest Limited, a wholly-owned affiliate of the controlling shareholder, was applied in paying up in full 1 share of the Company at US\$0.001, which was allotted and distributed as fully paid to Champ Harvest Limited. The surplus of the amount of the advances capitalised over the par value of the share issued was credited to equity as share premium.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Capital, Reserves and Dividends (Continued)

(c) Nature and purpose of reserves (Continued)

(2) Other reserves

The other reserves represented (i) the surplus of the carrying values of the controlling equity interests in the subsidiaries under common control acquired over the considerations paid under the group reorganisation completed on March 13, 2013 to effect the structure for listing, (ii) the amount of the derivative financial liability, i.e. the credit derivatives provided to the Company's parent company for its issuance of secured exchangeable bonds, initially recognised in equity in the year ended March 31, 2012 and (iii) the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments (further details are disclosed in Note 23).

25 Fair Value Measurement of Financial Instruments

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at September 30, 2015 and March 31, 2015.

26 Capital Commitments

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

	At September 30, 2015 RMB'000	At March 31, 2015 RMB'000
Contracted for:		
— Property, plant and equipment	414,725	778,154
Authorised but not contracted for:	—	—
	414,725	778,154

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

27 Material Related Party Transactions

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

(a) Transactions with associates and the controlling shareholder and his affiliates

	Six months ended	
	September 30,	
	2015	2014
	RMB'000	RMB'000
Sales of raw milk and dairy ingredient products to associates	71,057	—
Purchase of goods from associates	157,209	6,849
Operating leases of dairy farms, properties and office buildings from the affiliates of the controlling shareholder	20,420	3,800
Sales of dairy cows to the affiliates of the controlling shareholder	10,769	—
Net increase in advances granted to associates	50,295	—
Net increase in advances granted to the controlling shareholder	4,046	—
Guarantees provided by the controlling shareholder and his affiliates for the Group's bank loans	295,926	117,670

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

	At	At
	September 30,	March 31,
	2015	2015
	RMB'000	RMB'000
Trade receivables	10,260	—
Amounts due from the controlling shareholder	4,046	—
Deposits, prepayments and other receivables	149,698	—
Trade and bills payables	(41,301)	—
Receipts in advance	(27,881)	—
Accrued expenses and other payables	(32,813)	(12,558)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Non-Adjusting Events After the Reporting Period

On September 29, 2015, the Group entered into an agreement with Mr. Yang Kai, the controlling shareholder of the Company, and his son, Mr. Yang Jianing, to acquire their entire equity interest in Zhao Ji Investment Co., Ltd. and its subsidiaries for a total cash consideration of RMB83,200,000. The principal activities of Zhao Ji Investment Co., Ltd. and its subsidiaries are the development of renewable energy and production of organic fertiliser. The transaction has been completed on October 21, 2015.