



*Huishan*

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



以初心，致匠心  
2016/2017 INTERIM REPORT





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 Director

Mr. Li Kar Cheung

#### Independent Non-Executive Directors

Mr. Kan Yu Leung Peter  
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

### Investor Relations Contact

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### Place of Business in Hong Kong

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### Registered Office

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### Principal Place of Business and Head Office in the PRC

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### Principal Share Registrar

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### Hong Kong Branch Share Registrar

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### Legal Advisor

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### Principal Bank

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### Auditor

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*Certified Public Accountants*  
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Central  
Hong Kong

### Public Relations Consultant

Strategic Public Relations Group  
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## HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of China Huishan Dairy Holdings Company Limited (the "Company") is pleased to present its interim report, together with 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, 2016 (the "Reporting Period").

### Financial Highlights

#### Operating results

	Six months ended September 30,			
	2016		2015 <sup>(1)</sup>	
	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000 (Restated)	Results after biological fair value adjustments RMB'000 (Restated)
Revenue	<b>2,516,434</b>	<b>2,516,434</b>	2,137,359	2,137,359
Gross profit margin	<b>51.7%</b>	<b>22.6%</b>	53.6%	20.4%
Profit from operations	<b>774,173</b>	<b>1,045,104</b>	757,051	1,126,200
Profit for the period attributable to equity shareholders of the Company	<b>347,390</b>	<b>618,321</b>	375,996	745,145
Earnings per share (RMB) <sup>(2)</sup>		<b>0.05</b>		0.05

- Revenue was RMB2,516.4 million, representing an increase of 17.7% as compared to the corresponding period in 2015
- Gross profit margin (before biological fair value adjustments) was 51.7%
- Profit from operations (before biological fair value adjustments) was RMB774.2 million, representing an increase of 2.3% as compared to the corresponding period in 2015
- Profit for the period attributable to equity shareholders of the Company (before biological fair value adjustments) was RMB347.4 million, representing a decrease of 7.6% as compared to the corresponding period in 2015

<sup>(1)</sup> The figures for the corresponding period in 2015 were restated due to the influence brought about by the acquisition of renewable energy companies through the merger of enterprises under common control and the changes in accounting policies.

<sup>(2)</sup> Please refer to Note 8 on page 63 for calculation of earnings per share.





## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

During the Reporting Period, the domestic consumer market remained downturn and the international milk prices continued to drop, while China's overall consumption of dairy products experienced a downward trend and production growth slowed down, making it a difficult transition for dairy farming and dairy product processing companies. Despite this situation, in general, China's dairy industry still continues its in-depth adjustment. With the wave triggered by economic development and consumption upgrade, on one hand, the dairy consumption upgrade becomes inevitable as the consumption demand shows a trend of pursuing quality, function and leisure, while on the other hand, the supply quality and capacity of China's dairy industry are not able to fully satisfy this consumption demand for quality and diversification, leading to a gap between supply side and consumption side of China's dairy industry. The solution in respect of establishing the overall industry upgrade by improving supply quality and efficiency of dairy and adjusting the industry structure in response to the demand, becomes an urgent and difficult mission for China's dairy industry.

The convergence with international standard by domestic dairy industry speeded up, which further exacerbated the industry cyclical fluctuations. As the price of imported whole-milk powder remained low, a portion of the domestic dairy beverages and yogurt products used imported whole-milk powder as their ingredient, resulting in a continuous downturn of domestic raw milk prices, which also brought a serious impact to raw milk industry. The loss of dairy farming industry keeps increasing, under which huge number of small-scale farms closed down and the large-scale farms experienced a decline in terms of profitability and entered into the adjustment phase. Anticipating the beginning of new cycle, these farms maintained their operation by way of reducing the capital expenditure and dairy production volume. The total domestic dairy cows herd size rapidly decreased. Since September 2016, the large multinational dairy enterprises gradually increased their purchase price of raw milk, while the bidding price of whole-milk powder in Global Dairy Trade (GDT) continuously rose, which reassures the turning point of international medium-and-long term milk price becoming clearer. However, since the dairy cows were eliminated in a large extent due to the weak price of raw milk in the early stage, the domestic milk suppliers kept decreasing and would not be easily recovered in a short-term. After that, the supply and demand of domestic raw milk market began to change, and the raw milk price started to increase and showed a trend of potential rebound.

Despite the overall slowdown in the development of China's dairy industry, the consumption of low-temperature yogurt and pasteurized milk maintained a rapid pace of increase. New dairy products such as lactobacillus beverage are favoured by the market, showing a hot trend of development. China's huge market space still attracted the imported dairy products, which includes not only the huge number of whole-milk powder and Infant Milk Formula ("IMF") products in China's market but also imported liquid milk products as an independent power capturing the domestic consumer market, and used low-cost strategy to struggle in the cross-border and e-commerce channels, and gradually started a positive competition with domestic liquid milk products in the supermarket channel. This is a sharp contrast that the consumers prefer to purchase imported dairy products while the domestic dairy industry remains weak, which has brought a great impact to the high-end liquid milk market in the 1st and 2nd-tier cities of China. However, frequent food safety incidents involving imported liquid milk products occurred. Many batches of products were destroyed



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

due to quality problems. The regulation for imported pasteurized milk by the Chinese government was also becoming more stringent and the threshold for entry of pasteurized milk was gradually elevated, in order to strike out the imported “fake pasteurized milk” products with shelf-life exceeding the industry standard (normally 7 days), so as to guide consumers to rational choices, representing a great development opportunity for domestic pasteurized milk companies who have regional advantage.

The Regulation of Registration of the Formula of Infant Milk Formula Powder, dubbed “the most stringent policy of milk powder in history”, was enacted on June 2016 and duly implemented from October 1, 2016. Facing such stringent new policy, each dairy company had early started to positively adjust their brand strategy as well as integrated their resources in order to survive or take such chance to strive for larger market share and to deal with the new pattern brought by the new policy of milk powder. The implementation of such new policy would further regulate the milk powder industry with higher requirement towards the safety of milk sources and production. The enterprises are not allowed to use unclear information such as “imported milk resources” and “from foreign dairy farms” for their label on milk powder. A huge number of milk powder with small and medium brands and labelled manufacturing brands would fade out of the market. The registration also indicates the higher entry threshold for “foreign milk powder”. After the implementation, IMF products industry would enter the phase of optimization upgrade. The construction of fully vertically integrated value chain would become a new trend of industry consolidation, and the quality and safety of domestic IMF products are of the best period of historical protection.

### Business Overview

We are a leading and the most vertically integrated dairy company in China. In contrast to dairy farming or 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, processing of concentrated feeds to dairy farming and manufacturing and sales of dairy products under the “Huishan” brand. Such “fully vertically integrated” business model maximizes the value throughout upstream and downstream on the dairy value chain by



effectively integrating each segment while ensuring the safety of raw materials and products, enabling us to enjoy leading profitability in the dairy industry. Currently, we are the largest self-sustaining company in China capable of supplying 100% of raw milk required for the production of liquid milk and milk powder products under our own brand by using raw milk from self-operated farms. Our excellent product safety records and high quality products forge our reliable brand in China.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Reporting Period, the Group's external selling prices of raw milk were affected by the drop in domestic market prices of raw milk. Nevertheless, by leveraging on our pioneered vertically integrated and self-controlled business model, spanning from large-scale feeds plantation, customized feeds processing, scientific dairy farming, fine dairy production to highly-fresh dairy products delivery, industry risk of upstream milk prices, which was in a low point, is effectively resolved and interest in various sections in the fully vertically integrated value chain are separated, at the same time, the Group's overall profitability and safety of products are ensured. Under the macro situation of weak market of domestic dairy products, our Group managed to achieve a turnover of RMB2,516.4 million (the corresponding period in 2015: RMB2,137.4 million), representing a year-on-year growth of 17.7%. The overall gross profit margin of the Group has reached 51.7% which is above the average level in the industry.

### Successful replication of "fully vertically integrated value chain" in East China market in other place

The economically developed East China market is one of the largest markets of dairy product consumption in China, of which pasteurized milk market, having strict requirements to milk sources, is the most attractive and will be our strategic direction to set foot in the market nationwide. We chose East China as the region for our first trial of replicating the fully vertically integrated value chain project in a new market. Construction of Jiangsu industrial cluster project in Yancheng City, China represents an important step for our nationalization. The construction of our liquid milk processing plant in Yancheng, Jiangsu, with a designed production capacity of 180,000 tonnes per year, commenced at the end of March 2015 and obtained the production permit in May 2016. Apart from the building up of production capacity, we will also adopt a parallel strategy of production innovation and marketing innovation in East China market. For the products, we will start with low-temperature dairy products, which can embody Huishan's advantages of the vertically integrated milk source, in terms of characteristics and differences, so as to build up the brand position of "Source makes a great difference" of "Huishan" in East China market. Pasteurized milk produced in the Yancheng plant has been launched to the East China market since August 2016. In terms of marketing, we will adopt a new "Internet+" marketing system to establish various combination models, including "brand image cross-sectors upgrade", "product combination with milk source advantages", "in-depth alliance with distributors", "consumers education on freshness", "marketing on panoramic experience" and "all channels and multi-dimensions construction". Leveraging on the highest level of our milk source, we will produce quality low-temperature dairy products and other high-end dairy products. Through a retailing system combining online and offline approaches, we will provide services for East China market to satisfy the demand for quality pasteurized milk and other high-end dairy products in the East China.



### Launch the first dairy O2O brand in China with "Hema Xiansheng" (盒馬鮮生)

Shanghai market has higher consumption demand for high-end dairy products, especially a rapid growth for demand of low-temperature liquid milk products. Since we obtained the production permit for liquid milk processing plant in Yancheng, Jiangsu, we entered into a new phase for developing East China market. On July 23, 2016, we signed an in-depth strategic cooperation agreement with 上海盒福實業有限公司 and 上海翌恒網路科技有





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

限公司 (“Hema Xiansheng”) (盒馬鮮生), under which both parties will achieve cross-sectors integration of supply chain management and jointly launch China’s first dairy O2O brand — “Mou Ke (眸客)” with first exploration in Shanghai market. We have a solid and reliable dairy supply chain basis that can provide the domestic premium quality dairy products in the upstream with quality guarantee; leveraging on its advantages of big data and logistics in the downstream of industrial chain, Hema Xiansheng will not only improve the experience of fresh dairy products, but also give us feedback about diversified dairy consumer demand on a timely basis. The development of “Mou Ke” brand will be driven by continuous innovation research and development and lean management. Our development model of fully vertically integrated value chain will be merged with retail model of ecological reshaping of Hema Xiansheng, in order to exactly achieve the closing loop of fully vertically integrated value chain which can allow Shanghai, a modern city, to have the advantage of enjoying the “Internet milk” first via the vertical integration of dairy farms, factories and offline retail outlets and cold chain distribution team by innovative online and offline consolidation. “Mou Ke” products were unveiled in Hema Xiansheng store, at Jinqiao, Shangai in September 2016.

### Innovative layout of national market with differentiation

Currently, the dairy industry is highly competitive. The enterprises who manage to consolidate their own advantages need to keep on upgrade and innovation in respect of products and marketing, forming a product base that meets the current consumer demand. It will not only create a new sales growth driver, but also inject new vitality to enterprises. Subject to the change of consumer demand, with the positive innovation, we will strengthen and enrich the product mix. We will also be in full swing developing strategic products which stand out from the others: “good fresh milk speaks with data, Dr. Fresh”, “the first 10 Days yogurt made with only three ingredients”, “developing Jersey Farm Milk with a new high standard containing 3.6 gram of protein”, “Jinxiaoshun, a lactobacillus beverage produced by fermentation of milk”, “Wolingka, a naturally fermented good yogurt”, “sipping milk, thinking source, milk which can be traced back good milk sources”.

### Forge a new cross-sector marketing system

With China’s rapid economic development, residents’ dairy consumption structure and consumption trends are changing and generations born after 1985s, 1990s and 2000s are gradually becoming major consumption groups. The demand for dairy products of these consumers has elevated from simple pursuit of safety and quality to requiring nutrition and character. We always take the consumer demand as a starting point, to give the brands the more time-connotative symbols of “young, stylish and high-end” of marketing concept. We integrate multiple resources, including media, the Internet and sales channels, with “Huayaozhengguoshu (花妖珍果蔬)” and “10 Days” to create a new model for cross-sector marketing, and continuously innovate and subvert the marketing strategies to gradually lodge the new image of “Huishan” brand into the consumers’ mind.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Significant increase in the brand value

In the 2016 Hurun Brand List (《2016胡潤品牌榜》) issued by Hurun Research Institute, our brand value increased by 119%, and ranked 4th in the top 10 leading brands of growth (十大增長領先品牌) while we became the top 3 dairy companies with brand value of RMB7 billion. In accordance with the corporate headquarters of national top 200 enterprises set out in 2016 Hurun Brand List, we were the only one enterprise from Liaoning on the list.

With the outstanding achievements in terms of brand building, we are successfully selected to be “Top 500 Asian brand” in 2016 jointly prepared and issued by World Brand Lab and World Executive Group and become one of the China’s only three listed dairy companies.

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 ingredients.



### Dairy Farming

- Herd size

	<b>September 30, 2016 Head</b>	March 31, 2016 Head
Milkable cows	<b>95,093</b>	96,339
Heifers	<b>73,503</b>	70,624
Calves	<b>28,400</b>	33,929
	<b>196,996</b>	200,892

As at September 30, 2016, we operated China’s largest number of dairy farms in Liaoning Province, China with 81 standardized dairy farms (March 31, 2016: 82 standardized dairy farms) and a total herd size of 196,996 dairy cows (March 31, 2016: 200,892 dairy cows), of which milkable cows accounted for 48.3% (March 31, 2016: 48.0%).

- Milk yield

We produced a total of 378,500 tonnes of raw milk for the period ended September 30, 2016, an increase of 6.3% from 356,200 tonnes for the corresponding period in 2015. With the growing production capacity of liquid milk, the internal sales of raw milk increased to 253,400 tonnes (the corresponding period in 2015: 227,900 tonnes), accounting for 70.9% of the total sales of raw milk, up from 66.7% for the corresponding period in 2015.

It is our target to ensure that every drop of raw milk can deliver the greatest economic benefit. Without compromising the outstanding quality of our raw milk, we maximize the marginal benefit between the feeding cost of milkable cows and milk yield through a spate of measures: striving for a comprehensive balance between the milk yield of milkable cows and feeding cost of dairy cows on the basis of the market environment and demand and supply of raw milk; making reference

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

to the professional proposals of American nutritionists and implementing long-term tracking and finetuning of feeding through building up a database and making use of internet technology and professional software; and continuously adjusting and innovating our dairy cow feed formula by leveraging on our abundant feeds and forage grass resources. During the Reporting Period, the average yield of each milkable cow of the Group was lowered to 7.8 tonnes (the corresponding period in 2015: 8.7 tonnes) in order to further reduce the cost of raw milk and control our production volume; although the yield was lower than that of the corresponding period in 2015, the cost of raw milk was also effectively reduced to RMB1,998 per tonne for the Reporting Period from RMB2,138 per tonne for the corresponding period in 2015.

- **Average selling price of raw milk**

We are highly experienced in dairy cow breeding and feeding management. Moreover, we have abundant high quality self-produced feeds and advanced feed formula. The geographical locations of our dairy farms are superior; therefore, the quality of our raw milk far exceeds the average level of the industry. During the Reporting Period, the average selling price of our raw milk was higher than average selling price in the market, reaching RMB4,144 per tonne (the corresponding period in 2015: RMB4,483 per tonne).



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

"Excellent grass breeds healthy cows which produce high-quality milk" is a well-recognized fact in the dairy industry. We were the pioneer to plant alfalfa in extensive area among the domestic dairy enterprises. We successfully implemented the ground breaking model of two-harvest cultivation of corn silage and oat in Northeastern China. Our innovative model of "integrating plantation and farming" effectively improves the efficiency of land use and lowers the rental of land in unit cost. More importantly, the diversity of crops of planting feeds provided more possibility for improving the economic efficiency of formula of daily feeds for dairy cows and provided better room for reducing the feeding costs of dairy cows. As a result, we realize the modernized farming model of "integration of grass and farm" in China ahead of other market players.

### Liquid Milk

The level of competition in the market of domestic dairy products, especially liquid milk products, has intensified due to the continuously low prices of imported whole-milk powder. In response to this market environment, we strengthened our differentiated competitiveness by continuously optimizing our product mix through high-protein dairy products with outstanding quality and fresh low-temperature products, which is made possible by our resources advantages brought about by self-operated farms. At the same time, we continued to enrich the category of UHT sterilized milk (which is ultra-high temperature milk and hereinafter referred to as "UHT" milk) to increase market share, strengthen our top position in the liquid milk market in Northeastern China and ratchet up our market development efforts in North China market. We also spent increasing efforts in respect of research and development and launched new products of lactobacillus beverage in order to be differentiated from similar products in market and used whole-milk powder for production. We gained market share with characterized lactobacillus beverage products made by the fresh milk source. As at September 30, 2016, our marketing network comprised 494 dealers (of which East China represented 100) and 498 direct retailers (of which East China represented 13) while milk delivery customers increased to 245,000 households (the corresponding period in 2015: approximately 157,000 households). We will continuously strengthen our footprint in new areas such as Jiangsu, Shandong, Hebei and Henan. With the kick off of the fully vertically integrated value chain project in Yancheng, Jiangsu, we will be able to fully supply the supreme and low-temperature products with the same quality to Shanghai, Jiangsu and Zhejiang in the future.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Facing intensive market competition, we created differentiated competitive strengths through pasteurized dairy products. We maintained a steady growth of sales volume while the selling prices increased. During the Reporting Period, our sales volume of pasteurized milk products was 49,673 tonnes (the corresponding period in 2015: 41,795 tonnes) with an increase of 18.8%. In order to further consolidate our leading position in Northeastern China market and increase the sales proportion of pasteurized milk in overall liquid milk, we organized the 3rd International Milk Festival (第三屆國際鮮奶節) themed “Just Want Fresh” around the “fresh quality, fresh life, fresh experience” to lead consumers concern about dairy products, allowing them to have a deep-in-mind concept of fresh and healthy life during the further recognition of pasteurized milk. In the milk festival, we promoted “Fresh Allies of Chinese Premium Milk Industry (中國優質乳全產業鏈新鮮聯盟)” to work with all the outstanding industry partners in the fully vertically integrated value chain in order to enhance the quality of domestic pasteurized milk and establish a more reasonable, standardized and high-level safety standard of fully vertically integrated industry chain.

Our liquid milk processing plant in Yancheng, Jiangsu obtained the production permit in May 2016 with the overall production capacity of liquid milk increased to 800,000 tonnes per year. As a result of the adjustment in enhancing product structure and market expansion, the overall sales volume of our liquid milk products reached 219,458 tonnes during the Reporting Period (the corresponding period in 2015: 182,403 tonnes) despite the downward market trend, representing a year-on-year growth of 20.3%. The sales of liquid milk products reached RMB1,739.7 million in the Reporting Period (the corresponding period in 2015: RMB1,347.5 million), representing a year-on-year growth of 29.1%.



- **Strengthening product mix and optimizing product structure**

Our product structure was optimized and upgraded by innovation of technology based on our differentiated competitiveness of high quality self-provided milk source with focus on strengthening the quality of pasteurized milk, optimizing the quality of yogurt, maximizing the sales of UHT milk and improving the productivity of milk beverages. Our pasteurized dairy products under the brand “Dr. Fresh” (鮮博士) continued to promote freshness and high quality with fresh milk source. With the gradually increasing sales of pasteurized milk, we introduced “Dr. Fresh” products to mass consumers paying high attention to healthy and fresh lifestyle through the annual “Fresh Milk Festival”. We developed the “Jersey Farm” pasteurized milk from the scarce milk source of Jersey cows with 3.6 grams of protein through the pasteurization treatment, which cannot be easily duplicated by our competitors. The “Jersey Farm” pasteurized milk enriched our product range under pasteurized milk category, created a luxurious taste of pasteurized milk and became another star product within our dominant market of low-temperature products in the Northeastern region. Our short shelf-life and additive-free low temperature yogurt products, “10 Days” and “10 Days for Kids”, now represent the terms “trendy” and “healthy”. With “good yogurt only comprises three ingredients” as the product education, it accomplished brand rejuvenation with its refreshing and outstanding design, attracting a lot of customers. “10 Days” will continue its development of additive-free fruit jam yogurt and functional yogurt, further consolidating our dominant market position in low temperature dairy products in the Northeastern region.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As a star product of our self-operated farms, “Jersey Farm” plays as a cornerstone in promoting high quality and healthy dairy products and serves as an important medium for promoting and channeling our high-quality source of milk. Leveraging on the foundation of the parent “Huishan” brand, we promote our brand under the slogan of “Only 1% Dairy Cows Qualify for Jersey Farm Milk” and produce high-end UHT dairy products of “Jersey Farm” with utmost care and passion. Packaging of the brand has adopted the Tetra Brik Aseptic Edge technology and also been carefully designed with unique, full page printing to create an advantage in expressive ability and brand awareness on the shelf. At the 18th World Congress of Food Science and Technology took place in Ireland in August 2016, which was the highest and the most authoritative meeting in food industry, our “Jersey Farm” competed with each international first-class dairy product and obtained “Global Food Industry Awards” with unanimous affirmation from International Union of Food Science and Technology (IUFOST).



Lactobacillus beverage can fulfill the integrated consumer demand for beverages and healthiness and satisfy the need for nutrition and functionality of young consumers. As such product can be conveniently consumed under different environment and easily cater to the specific needs of the customers, it is developing into an essential item boasting the fastest growth among the series of products of dairy enterprises. During the Reporting Period, we developed new beverage products, namely UHT “Zhengguoshu” (珍果蔬), an ambient lactobacillus beverage with real fruits and vegetables juice, the low-temperature lactobacillus beverage “Jinxiaoshun” (今小顺) characterized by cleanness, freshness and sweetness and UHT “Wolingka” (沃灵卡), a brown room temperature yogurt product with an exotic taste for the unique demand of customers longed for new products. Among which, “Wolingka” (沃灵卡) product became the “The Best Potential New Product of the Year (年度最佳杰出潜力新品)” in dairy category during the assessment of 2016 10th Rising Star in the Food Industry in China (二零一六年第十届中国食品产业“成长之星”), leveraging on its large growth space and outstanding performance in many aspects in terms of consumption development trend, such as safety, health, nutrition and convenience.







## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- Featured products preliminarily explore the East China market

Entry into the East China market is an important part for our strategy to expand in the national market. Being an important city of East China, Shanghai is not only one of the world's largest metropolises in scale and size, but also one of the cities with the best habit and highest level of milk consumption nationwide, therefore, it represents profound strategic meaning to the whole dairy market of the East China. With the intensive market surveys conducted in the early stage and the continuous efforts of our research and development department, we have customized "tailor-made products" for the East China market. One of the most representative products, "Jersey Farm" pasteurized dairy products were unveiled in August 2016. "Jersey Farm" pasteurized dairy products packaged with neat and distinct style in black and white tone reflect their high-end product image, which directly hit the intrinsic demand for high-quality dairy products of customers in Shanghai. Taking the grand opening opportunity of Qian Jia Hui Mart located in Wenfeng Square, Shanghai as a starting point, "Jersey Farm" pasteurized dairy products have attracted remarkable customers and attention once launched to the market and widely praised as "great milk which deserves hearty taste". The products we jointly launched with Hema Xiansheng, "Mou Ke" pasteurized milk products, were unveiled in Hema Xiansheng store at Jinqiao, Shanghai in September 2016. Display, experience, sales and interaction were combined through a 12-day campaign, which made consumers more familiar with our brand and gradually establish our brand effect.



As a brand from the Northeastern region, we have generally recognized by local consumers leveraged on our "good milk sources". Facing the new East China market, we took our advantage of milk sources as a barrier embracing Jiangsu region and focusing on Nanjing and Yancheng, while leveraging on "good milk sources plus" to develop a new market in East China through promoting the brand by "experiential marketing" and "featured products". We achieved the "first close interaction" with local consumers under the new upgraded "source-tracking campaign", which enabled our customers to learn about our origins of "good milk sources" with experience by new and high technology equipment, and allowed participants understand our "value of source" of the integrated industry chain from easy to hard through the experiential zone of "mobile farm". We created an effective "Huishan" brand memory by "good milk sources + marketing effort", and through intensive contact with target audiences, we have expanded our brand, and at the same time, explored market potential faster and better and achieved continuous market extension more effectively. After all, our brand still relies on the conversation between our products and consumers. With in-depth market insight and analysis, we build our reputation of "good milk sources" and "high quality" on pure milk products featured "Drinking milk, grateful for its source", while focused on young communities with "Wolingka", a room temperature yoghurt product, to cultivate stylish, energetic brand image and high-end positioning. Our various type of products covering different consumption groups drive our brand to win reputation and dissemination.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- **Enhance brand communication, upgrade O2O marketing model**

In 2015, “Caravan” activity accumulated our brand awareness and consumers’ understanding towards the “value of source”. During the Reporting Period, we have put more resources in brand promotion and dissemination, continued the journey of brand communication with “Drinking milk, grateful for its source; sources make a great difference” as our core, carried out ground breaking brand communication by our differentiation on industrial integration, product differentiation and strength of resources difference. Other initiatives include shaping our milk source value through online communication and on-site interaction, allowing consumers to understand our high-quality milk source advantages through lively creation with self-operated fully vertically integrated value chain as offline experience, carrying out accurate cross-sectors communication using several exclusively available products under “Drinking milk, grateful for its source” category and jointly promoting with the channels. We will build on perseverance and persistence of Huishan people and constantly demonstrate the brand’s stylish and high-end temperament and Huishan’s “value of source”.



To provide “better, faster and fresher” consumption experience to consumers is the key of the rapid development of pasteurized dairy products. We comprehensively upgraded the O2O marketing model to build a fresh direct delivery service platform for the community, using “direct delivery + cooperation” delivery model as its core, own milk delivery service system as its base, to consolidate cold chain resources in convenient stores. Being a fresh direct delivery platform for the community based on mobile terminal positioning technique, it forged an innovative cooperation mode between e-commerce platform and traditional retail industry. Consumers can order milk products easily in just one-click through a WeChat public account of “Huishan Fresh Delivery” or WeChat-mall. We have started promotion campaigns in middle and high end communities and offices in Shenyang. The platform, on one hand, makes our brand to respond to the purchasing demand from consumers in the fastest speed, and on the other hand, enables consumers to buy our products in the most convenient channel, which further promotes the robust development of milk delivery channel for households and laid an extensive foundation for future increases in sales of pasteurized dairy products.

### Milk Powder — IMF Products, Adult Milk Powder and Dairy Ingredients

Leveraging on our unique advantage of resources from the fully vertically integrated value chain and scientific formula, the advanced technique of one-off powdering from fresh milk, the safety and quality of our milk powder and the IMF products under our own brands are extensively recognized by customers all over China. We launched new products under the five main brands of Golden Queen, Gold Label (金装), 5A, Red Label (红装) and Supreme Label (优装). With these five brands, we consolidated our market position during the process of building business presence in key markets all over the country. Meanwhile, we adopted a triumviral marketing model by integrating the three marketing channels, namely supermarkets, mother-and- baby stores and e-commerce, in order to build up the image of “Huishan” brand in the macro social network of mothers. To fulfill the sales demand of customers at different ages and in different regions of market, we continued to launch new products under our brand of adult milk powder and extended their reach to customers. We adhered to the development strategy of key regional markets categorized in five regions. The major markets are the Northeastern region and Central China and follow up efforts were made in extending our sales coverage in East China, South China, Northwestern and Southwestern regions. We





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

have expanded our sales operation scale and recorded steady growth of results. As at September 30, 2016, our sales network of IMF products covered 24 provinces and 4 municipalities with approximately 1,523 distributors and a network of 12,665 retail stores. We launched several new adult milk powder products such as the “Quanjiayu” (全家福) series, “Milk Powder rich in calcium and vitamin for Elderly” (中老年高鈣多維), “Huishan Strong Teenager” (輝山少年強), “Jersey Golden Queen” (傑茜金皇后) and “Colostrum Nutrients Milk Formula Powder” (牛初乳營養配方奶粉) to broaden our product range. We also completed the initial market layout of KA channels, traditional channels and special sales channels. As at September 30, 2016, our sales network of adult milk powder covered 17 provinces and 1 municipality with approximately 816 distributors and a network of 3,053 retail stores.

During the Reporting Period, on one hand, as undergoing the consultation period of the Regulation of Registration of the Formula of Infant Milk Formula Powder, which was described as the ever strictest regulation, we emphasized on channel planning, customer rationalization and innovative options, while decelerated the development progress of Infant Milk Formula Powder to a certain extent prior to the introduction of specific implementation rules. We consolidated our existing terminals and member services, and waited for clearer regulatory information. On the other hand, our business of liquid milk rapidly grew during the Reporting Period. More own raw milk resources were allocated to the liquid milk business segment to ensure a higher general profitability of the Group. Given the above



reasons, our sales income and sales revenue of IMF products and adult milk powder decreased as compared with the corresponding period in 2015. During the Reporting Period, we increased efforts in selling whole milk powder products which resulted in sales volume of dairy ingredients amounting to 13,484 tonnes (the corresponding period in 2015: 1,041 tonnes). However, those sales were exceptional cases in operation and not sustainable.

With the strengthening supervision by the government, consumers become more concern about the quality of milk powder. Leveraging on the unique strength of resources brought about by the vertically integrated industry chain, we have been continuously carrying out communication with and education for consumers. During the Reporting Period, we joined hands with distributors to launch the caravan roadshow campaign “Enjoy Huishan and Grow Up with No Worry” (樂享輝山·無憂成長), which allowed us to have all-encompassing and zero-distance interaction with consumers in 5 major regions, 23 provinces and cities and on 250 websites. Through VR technology, consumers who participated in the campaign can have a first-hand experience of the construction of our vertically integrated industry chain and get a virtually real experience of visiting our production sites, which increased consumers’ knowledge of the vertically integrated industry chain and recognition of our brand. Through gaining deep market penetration, we enhanced the impact on target consumer base and continually boosted brand recognition and influence. We also leveraged on retail marketing to expand market share in third-tier to sixth-tier cities to reap the benefits of batch orders.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Along with the urbanization process of China, the consumption level of third-tier to sixth-tier cities are on the rise, creating huge market potential for domestic milk powders. During the Reporting Period, we catered to the consumption habits of consumers in third-tier to sixth-tier cities to actively carry out channel innovation. In order to meet the demand of health and quality life of consumers in third-tier to sixth-tier cities as well as offering more tailored health services to target consumer base, the Company entered into cross-sector cooperation with Xiuzheng Pharmaceutical, under which we introduced our IMF product “超級星恩” to the healthcare channels of Xiuzheng Pharmaceutical on village and county levels to build up marketing networks. We established a strategic partnership with Bei Bei La Mu, a large scale baby and children chain stores, to combine the strength in supply chain, management, branding, services, O2O, training, information and competitiveness of both parties with the aim to rapidly stimulate the vigor of channels, reduce the operational cost of both parties and enhance operation efficiency. Leveraging on the expansion of new channels of Xiuzheng Pharmaceutical and Bei Bei La Mu, we will build up business presence and service capability in the markets on county and village levels in a swift manner and cover the third-tier to sixth-tier markets with a prudent approach.



During the Reporting Period, we participated in the China Mother-Infant-Child Products Expo held in Beijing and Shanghai respectively. 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 brand source, promotion policies and marketing tools to the underlying strength of an enterprise — building up the milk source of an enterprise, technology level and product quality, etc. As an emerging power of safety in China's Infant Milk Formula powder industry, Huishan branded IMF products gained deep recognition from and were a popular topic among distributors and consumers throughout the country due to its unique resource advantages of vertically integrated value chain, scientific milk powder formulas, advanced technology of one-time-process of drying fresh milk into powder as well as the safety level and quality of milk powder.

Our joint venture established with FrieslandCampina has kick-started various businesses smoothly in accordance with the existing business plan, and passed two audits conducted by SGS, the leading global institution for inspection, appraisal, testing and accreditation. The joint venture will use high quality local milk source from Huishan's self-operated farms for producing IMF products with international quality. In order to improve recipe development and quality control, the joint venture will carry out comprehensive and stringent monitoring and inspection on the indicators and parameters of milk sources. The joint venture has received an approval for adding new products for its production permit and was allowed to use local milk sources for production. The “Dutch Lady” series milk powder products tailored for Chinese consumers, including “Mama” Milk Powder for Pregnant and Lactating Mothers, “New Born” IMF products, “First Steps” Follow-on Formula Milk Powder and “Explore” Growing-up Formula Milk Powder, were first launched in certain provinces in China in September 2016.







## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

We are committed to achieving domestic supply of quality, staple and deep-processed dairy ingredients. To achieve this goal, we conducted in-depth research on the staple/deep-processed dairy ingredient market and in-depth study and analysis of the demand in bakery and catering market in order to supply locally-produced deep-processed dairy ingredients under Huishan brand to bakery, catering and food processing enterprises by leveraging the quality raw milk resources owned by Huishan. Leveraging our fully-integrated and self-controlled dairy value chain, we target to gradually meet the industry demand by providing high quality dairy ingredients in order to create larger room for profitability. "Senscious", the in-house-developed new brand of whipping cream and liquid milk products targeting bakery, catering and food processing enterprises, was 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. We always adhere to the principle of "Appetizing Fresh Dairy Made By Heart" for every single product we delivered under the "Senscious" brand and are dedicated to promote the high-quality dairy products to food and bakery industry throughout the country in order to increase the influence of "Senscious" brand. We participate in the events of consumers and distributors in different ways in order to provide strong support to brand promotion and market development in the future. Thanks to the unique and unadulterated dairy flavor created by the perfect mix of exceptional dairy flavor with coffee or tea, "Senscious" products proved to be a huge success in the Nineteenth China International Bakery & Confectionery Exhibition (第十九屆中國國際烘焙展會). Besides letting more consumers to get a taste of "Senscious" brand, we also attracted a large number of industry players to enter into purchase negotiation.



### Quality Control

Our core value lies in the safety and quality of our products; commitment to quality is the foundation of an enterprise and it is also an important mission that should be taken. Since our establishment, we have always adopted "Quality Goes First (品質至上)" as our most important production standard. By always adhering to the philosophy of "establishing the most trusted national dairy brand", we strive hard to ensure the safety on the tip of tongue. With years of efforts, we established a comprehensive quality management system all the way from farm to dining tables and implemented stringent quality control and food safety inspection which cover the whole production process spanning from 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 storage and transportation of raw ingredients and products. We have the honor to receive two recognitions of "The Leading Quality Brand in Dairy Industry throughout the Country (全國乳品行業品質領先品牌)" and "The Quality Trustworthy Advance Enterprise throughout the Country (全國品質信用先進企業)" awarded by China Quality Inspection Association at the 39th National "Quality Month".



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

We were long included in the official traceability platform website of the Ministry of Industry and Information Technology of the PRC since 2013. In May 2016, we were bestowed with “2016 China Food Industry Smart Production Trial Model Enterprise (2016年中國食品工業智慧製造試點示範企業)” at China’s Food Internet Summit held by China Food and Packaging Machinery Industry Association, which is a recognition of our products’ quality safety management system and moreover an encouragement and motivation for the development of our digital factor. We will use the national food safety traceability platform as a starting point and the traceability codes as a carrier to continually perfect the traceability system and to fulfill the unshakable commitment to food safety.

### Brand building

Brand embodies the core value of an enterprise. We target to supply our products to all over the nation aiming at enhancing the national confidence on domestic dairy products. The awareness of customers is the first hurdle in achieving such goal. The first step of brand building is to increase market competitiveness and enhance the brand value of trustworthiness, safety and high quality with our advantage of resources from our fully vertically integrated value chain. We view brand value as an important part of corporate’s core value, and actively carry out brand building. We invited LIU Tao, a famous actress, as the spokesperson of our milk powder products in order to deeply impress the consumers and further enhance the popularity and reputation of our brand. We continued the contract with Hua Shao (HU Qiaohua), a well-known TV presenter, for his engagement as our spokesperson in order to lead consumers in closely seeking the nature of milk industry, which prompts us towards a “consumer need as core driver” operational model upgrade as Mr. Hu will take questions raised by consumers and embark on a “fully transparent and zero-distance” exploration on our full industry chain operational model, as well as communicating our brand image of “Quality at the utmost priority” and “The New Safety Power for China’s Dairy Industry” to consumers through various forms of interactions.



For both distributors and consumers, it is essential for them to have a field experience of our fully vertically integrated value chain to have a personal understanding of Huishan’s operation strategy of developing “A New Safety Power for China’s Dairy Industry” from the origin and get to know our products and the brand culture of “Quality at the utmost priority” thoroughly. During the Reporting Period, we invited several groups of customers and distributors to visit our plantation field of alfalfa, large-scale self-operated dairy farms and advanced production plant. We built a modernized exhibition corridor in our newly opened dairy products processing plant in Shenbei. The corridor, which was up to the standard of the top milk museum in China in terms of outline, details of our design and technological level, vividly illustrated each sector of the development of the fully vertically integrated value chain of Huishan. It enables consumers to understand directly how every drop of safe milk of Huishan is produced and its traceability and allows distributors to have a personal experience of how our commitment of “every single drop of original fresh milk comes from our 100% self-operated dairy farm” withstands tests and trials. As a result, the trust and reputation of “Huishan” brand was raised, the confidence of our distributors towards our products was boosted and such confidence was spread to more consumers.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

“Champion” is not only the title and glory of a few people in professional competition, every common people who are passionate about sports, striving for excellence, and constantly going beyond oneself can all be called champions. This is consistent with our insistence in planting quality grass and breeding quality cows for the corporate target of producing premium cow’s milk of champion quality and Huishan spirit. We promote public sports, make cultivation of healthy lifestyle the value which the brand upholds and produce healthy and nutritious quality dairy products for Chinese people in a practical way. Starting from July 2016, we kick started the sports for all series activity, which includes badminton for all, table tennis competition, primary and secondary school basketball, soccer and painting competition. The activity covers groups of each age range including teenagers, young and middle-aged, as well as the old- aged, extending to a total of 360 thousand number of people. We hope to encourage the public to participate in sports proactively through this activity, to gather people who love sports and are passionate about healthy lifestyle and form a community. Multi-dimensional promotion and channeling were carried out through forging a comprehensive three-dimensional integrated promotion, and through forms such as two-dimensional mass media, internet media, Weibo, WeChat, live, as well as offline communities, so as to let the brand interact closely with consumers and raise brand recognition, hence conveying brand philosophy.

The list of “China’s 500 Most Valuable Brands” was announced in the 13th “World Brand Summit and News Release for China’s 500 Most Valuable Brands” in June 2016. The list was based on financial analysis, consumer behavior analysis and brand strength analysis, embodying the utmost strength of China enterprises’ brands. Leveraging on a comprehensive full industry chain operational model, we were again awarded the “China’s 500 Most Valuable Brands”. Being selected as “China’s 500 Most Valuable Brands” for two consecutive years is the best praise to our stringent control on quality and safety of dairy products. It even recognized our outstanding product quality and exceptional brand trustworthiness, and illustrated that we have made great achievements in brand building as a global dairy product integrated service provider.

The 5th China Finance Summit & “Glory and Dreams” Five Years Influential Brand Release Ceremony was held in Beijing in July 2016. The theme of this summit was “China’s qualitative change: New Challenges, New Opportunities”, where various market leaders discussed the upgrade path of China’s economy through forms of speeches, forums and sharing. Meanwhile, the summit also selected exemplary persons and companies in promoting economic growth and social advancement under the new norm. Given our excellent brand building and good brand reputation, we were granted “2016 Outstanding Brand Image Award” in this year’s China Finance Summit.

In September 2016, the Hurun Research Institute announced the “2016 Hurun Brands List”. Our brand value rose by 119% and we ranked the fourth in the top ten leading brands in terms of growth, and ranked top three among dairy product enterprises with our brand value of RMB7 billion. In terms of the nation’s top 200 enterprises in 2016 Hurun Brands List, we are the one and only enterprise in Liaoning on the list.

In September 2016, the 2016 “Top 500 Asian Brands” list jointly prepared and announced by the World Brand Lab and World Executives Group was revealed in Hong Kong. In recognition of our outstanding achievements in brand building, we were selected as “Top 500 Asian Brands” and became one of the only three dairy enterprises in China breaking into the list.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Overview

#### Revenue

The following table sets out the breakdown of our revenue by each operating segments for the six months ended September 30, 2016 and 2015:

	Six months ended September 30,					
	2016			2015		
	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	390,987	1,090,040	1,481,027	505,866	1,025,614	1,531,480
Liquid milk business	1,739,671	—	1,739,671	1,347,499	—	1,347,499
Milk powder business	385,542	—	385,542	283,994	—	283,994
Other — clean energy	234	—	234	—	—	—
Consolidated revenue	2,516,434			2,137,359		

Our revenue increased by 17.7% to approximately RMB2,516.4 million during the Reporting Period from approximately RMB2,137.4 million for the corresponding period in 2015 primarily due to the increase in our sales in the liquid milk business.

- **Dairy farming business**

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,					
	2016			2015		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
Raw Milk						
External Sales	390,987	103,972	3,761	505,866	113,679	4,450
Internal Supplies	1,090,040	253,417	4,301	1,025,614	227,937	4,500
Total	1,481,027	357,389	4,144	1,531,480	341,616	4,483

During the Reporting Period, the sales from our dairy farming business decreased by 3.3% to approximately RMB1,481.0 million from the corresponding period in 2015. This change was due to the low prices of imported whole-milk powder which led to the drop of domestic raw milk prices, but this effect has gradually eliminated since September 2016.

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





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- **Liquid milk business**

The following table sets out the breakdown of sales amount, sales volume and ASP of our liquid milk business during the Reporting Period as compared with the corresponding period in 2015:

	Six months ended September 30,					
	2016			2015		
	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	<b>372,260</b>	<b>49,673</b>	<b>7,494</b>	305,417	41,795	7,308
UHT	<b>639,540</b>	<b>100,748</b>	<b>6,348</b>	476,556	83,966	5,676
Yogurt	<b>653,753</b>	<b>52,131</b>	<b>12,541</b>	520,118	43,578	11,935
Milk Beverage	<b>74,118</b>	<b>16,906</b>	<b>4,384</b>	45,408	13,064	3,476
<b>Total</b>	<b>1,739,671</b>	<b>219,458</b>	<b>7,927</b>	1,347,499	182,403	7,387

During the Reporting Period, the sales from our liquid milk business increased by 29.1% to approximately RMB1,739.7 million from the corresponding period in 2015. For the six months ended September 30, 2016 and 2015, the sales from our liquid milk accounted for 69.1% and 63.0% of the 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 increase in both sales volume and sales price of our liquid milk products despite the downward market trend, mainly because of our expansion in sales channel, enhancement in market promotion efforts, and also adjustment in the product structure of liquid milk. During the Reporting Period, the sales volume of our liquid milk has increased by 20.3% to approximately 219,000 tonnes from approximately 182,000 tonnes for the corresponding period in 2015. The overall ASP of liquid milk products increased to RMB7,927/tonne for the Reporting Period from RMB7,387/tonne for the corresponding period in 2015.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- **Milk powder business**

The following table sets out the breakdown of sales amount, sales volume and ASPs of our milk powder business during the Reporting Period:

	Six months ended September 30,					
	2016			2015		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
IMF products	<b>193,164</b>	<b>1,423</b>	<b>135,744</b>	224,717	1,840	122,129
Adult Milk Powder	<b>20,974</b>	<b>470</b>	<b>44,626</b>	39,220	849	46,196
Dairy Ingredients	<b>171,404</b>	<b>13,484</b>	<b>12,712</b>	20,057	1,041	19,267
<b>Total</b>	<b>385,542</b>	<b>15,377</b>	<b>25,073</b>	283,994	3,730	76,138

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 35.8% to approximately RMB385.5 million from approximately RMB284.0 million for the corresponding period in 2015 mainly due to our increased efforts in selling whole milk powder, which resulted in sales volume of dairy ingredients amounting to 13,484 tonnes (the corresponding period in 2015: 1,041 tonnes). However, those sales were exceptional cases in operation and not sustainable.

During the Reporting Period, on one hand, as undergoing the consultation period of the Regulation of Registration of the Formula of Infant Milk Formula Powder, which was described as the ever strictest regulation, we intended to slow down the development pace of IMF products but to rationalize our own brand prior to the introduction of specific implementation rules, and wait for clearer regulatory information. On the other hand, our business of liquid milk grew rapidly during the Reporting Period. More own raw milk resources were allocated to the liquid milk business segment to ensure a higher general profitability of the Group. Given the above reasons, our sales income and sales revenue of IMF products and adult milk powder decreased as compared with the corresponding period in 2015.

During the Reporting Period, our dairy ingredient products were primarily diluted cream, pure milk and whole milk powder products in a marked contrast to the desalted whey protein powder and diluted cream produced in the corresponding period in 2015. 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 the corresponding period in 2015:

	Six months ended September 30,		2015	
	2016			
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
<b>Dairy farming business</b>				
Before elimination	766,826	51.8	801,209	52.3
After elimination	184,168	47.1	266,522	52.7
<b>Liquid milk business</b>				
Before elimination	490,782	28.2	301,268	22.4
After elimination	980,517	56.4	686,225	50.9
<b>Milk powder business</b>				
Before elimination	(33,548)	-8.7	133,163	46.9
After elimination	136,382	35.4	192,468	67.8

- Dairy farming business**

Gross profit of our dairy farming business (before elimination of cost of sales related to internal supplies of raw milk) decreased by 4.3% to approximately RMB766.8 million for the six months ended September 30, 2016 from approximately RMB801.2 million for the six months ended September 30, 2015. Gross profit of our dairy farming business (after elimination of cost of sales related to internal supplies of raw milk) decreased by 30.9% to approximately RMB184.2 million for the six months ended September 30, 2016 from approximately RMB266.5 million for the six months ended September 30, 2015. The above changes were due to various degrees of decreases in the ASPs of internal and external sources of raw milk.

Gross profit margin of our dairy farming business (after elimination of cost of sales related to internal supplies of raw milk) remained at a relatively high level at 47.1% for the six months ended September 30, 2016 compared with 52.7% for the six months ended September 30, 2015. The decrease was primarily due to the decrease of ASP of raw milk.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	<b>Six months ended September 30,</b>			
	<b>2016</b>		2015	
	<b>Cost of Sales</b>		Cost of Sales	
	<b>RMB'000</b>	<b>%</b>	RMB'000	%
Feed	<b>492,798</b>	<b>69.0</b>	559,386	76.6
Labor Cost	<b>59,354</b>	<b>8.3</b>	44,557	6.1
Depreciation	<b>35,844</b>	<b>5.0</b>	20,271	2.8
Veterinary Costs	<b>36,790</b>	<b>5.2</b>	34,927	4.8
Utility Costs	<b>42,362</b>	<b>5.9</b>	24,610	3.4
Others	<b>47,053</b>	<b>6.6</b>	46,520	6.3
<b>Total</b>	<b>714,201</b>	<b>100.0</b>	730,271	100.0

- **Liquid milk business**

Gross profit of our liquid milk business (before elimination of cost of sales related to internal supplies of raw milk) increased by 62.9% to approximately RMB490.8 million for the six months ended September 30, 2016 from approximately RMB301.3 million for the six months ended September 30, 2015. Gross profit of our liquid milk business (after elimination of cost of sales of internal supplies of raw milk) increased by 42.9% to approximately RMB980.5 million for the six months ended September 30, 2016 from approximately RMB686.2 million for the six months ended September 30, 2015. The increase mentioned above was primarily due to the increase of the ASP of our liquid milk products and the significant increase in sales volume of our liquid milk products.



Gross profit margin of our liquid milk business (after elimination of cost of sales related to internal supplies of raw milk) increased to 56.4% for the six months ended September 30, 2016 from 50.9% for the six months ended September 30, 2015, primarily due to our adjustment in product structure by increasing the proportion of mid and high-end liquid milk products.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- **Milk powder business**

Our milk powder business includes IMF products, adult milk powder and dairy ingredients. Our milk powder business (before elimination of cost of sales related to internal supplies of raw milk) recorded a decrease of 125.2% to negative gross profit of approximately RMB33.5 million for the six months ended September 30, 2016 from gross profit of approximately RMB133.2 million for the six months ended September 30, 2015. Gross profit of our milk powder business (after elimination of cost of sales related to internal supplies of raw milk) decreased by 29.1% to approximately RMB136.4 million for the six months ended September 30, 2016 from approximately RMB192.5 million for the six months ended September 30, 2015. The above decrease was primarily due to our increased efforts in selling whole milk powder products. Our increased efforts in selling whole milk powder products resulted in sales volume of dairy ingredients of 13,484 tonnes (the corresponding period in 2015: 1,041 tonnes). However, those sales were exceptional cases in operation and not sustainable.



Gross profit margin of our milk powder business (after elimination of cost of sales related to internal supplies of raw milk) decreased to 35.4% for the six months ended September 30, 2016 from 67.8% for the six months ended September 30, 2015, primarily due to the increase in sales of whole milk powder products. Those sales were exceptional cases in operation and not sustainable.

### 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 decreased by 13.9% to approximately RMB937.4 million for the six months ended September 30, 2016 from approximately RMB1,089.2 million for the six months ended September 30, 2015, primarily due to the expansion of land area for two-harvest cultivation by us, leading to a general delay in harvests.

The International Financial Reporting Standards (the "IFRSs") require initial measurement of the harvested agricultural produce (mainly includes raw milk, alfalfa, oat, corn silage and other feed crops) at market fair value and recognition of profit and loss at the difference between market fair value and actual costs, while the consumed crops (primarily including raw milk, alfalfa, oat, corn silage and other feed crops) will be measured at market fair value and recognized as cost of sales in profit and loss statement. Vast area of our leased land is utilized for the plantation of alfalfa, oat, corn silage and other feed crops. The gain arising from crops initially recognized at fair value less costs to sell at the point of harvest can be regarded as the difference between market fair value and feeding and plantation costs of the raw milk, alfalfa, oat, corn silage and other feed crops produced and cultivated on our own, representing the cost saving arising from our own production and cultivation of raw milk, alfalfa, oat, corn silage and other feed crops instead of purchasing from external sources.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Changes in fair value less costs to sell of biological assets

We recorded net gains and net loss arising from changes in fair value less costs to sell of biological assets, which amounted to approximately RMB66.5 million and approximately RMB11.6 million for the six months ended September 30, 2016 and 2015, respectively, primarily due to the expected increase in selling price of raw milk and 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, 2016 and 2015 amounted to approximately RMB53.67 million and approximately RMB79.62 million, respectively.

### Operating expenses

	<b>Six months ended September 30, 2016 RMB'000</b>	2015 RMB'000 (Restated)
Distribution costs	<b>358,837</b>	329,888
Administrative expenses		
— Equity-settled share option expenses (non-cash)	<b>17,898</b>	28,751
— Others	<b>195,407</b>	171,421
<b>Total operating expenses</b>	<b>572,142</b>	530,060

Our operating expenses increased to approximately RMB572.1 million for the Reporting Period from approximately RMB530.1 million for the corresponding period in 2015.

Distribution costs are primarily related to labor costs, marketing expenses, channel expenses, advertising costs and transportation costs, etc. associated with liquid milk and milk powder products. During the Reporting Period, distribution costs amounted to approximately RMB358.8 million, up 8.8% from approximately RMB329.9 million for the corresponding period in 2015, primarily due to the increase in sales volume of our raw milk, liquid milk and dairy ingredients and the increase of corresponding promotion and 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 RMB17.9 million according to the valuation results of the independent third party valuer CBRE Limited.

The increase in the item of others under administrative expenses was primarily due to the increase in asset depreciation of the newly established Huishan Building.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Net finance costs

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000 (Restated)
Finance income — interest income	<b>(48,988)</b>	(29,150)
Bank loans and other borrowings interest	<b>347,287</b>	250,881
Less: interest expenses capitalized	<b>(6,732)</b>	(16,472)
Bank charges and other finance costs	<b>53,816</b>	21,104
Net foreign exchange loss	<b>56,944</b>	124,595
Finance costs	<b>451,315</b>	380,108
Net finance costs	<b>402,327</b>	350,958

Our net finance costs increased to approximately RMB402.3 million for the Reporting Period from approximately RMB351.0 million for the corresponding period in 2015, primarily due to the increase in interest expenses to approximately RMB340.6 million (the corresponding period in 2015: RMB234.4 million) as a result of the increased bank borrowings during the period.

### Current ratio and debt ratio

As of September 30, 2016, our current ratio (current assets/current liabilities) was approximately 0.88 compared to 0.92 as of March 31, 2016. As of September 30, 2016, the debt ratio was 40.7% compared to 55.9% as of March 31, 2016. 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 daily 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, 2016 and March 31, 2016, we had approximately RMB8,156.8 million and RMB2,185.3 million in cash and cash equivalents balance, 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 RMB398.9 million and approximately RMB1,393.1 million for the six months ended September 30, 2016 and 2015, respectively, which were primarily used to purchase property, plant and equipment and pay for land lease.

### Working capital

As of September 30, 2016, we had net current liability of approximately RMB1,870.8 million (March 31, 2016: net current liability of approximately RMB913.3 million).

### Indebtedness

As of September 30, 2016, our outstanding short-term loans due within one year, including the current portion of long-term loans, amounted to approximately RMB11,087.5 million at interest rates ranging from 2.31% to 8.88%. As of September 30, 2016, our outstanding long-term loans, net of amount due within one year, amounted to approximately RMB4,953.6 million at interest rates ranging from 3.41% to 8.88%. Of which, fixed-rate bank loans amounted to approximately RMB4,651.8 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, 2016, 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, property, plant and equipment, and biological assets that were used as collaterals was approximately RMB3,461.2 million as of September 30, 2016. In addition, certain of our long-term borrowings were guaranteed by our related parties or independent third parties.

### Contingent liabilities

As of September 30, 2016, we did not have significant contingent liabilities (March 31, 2016: Nil).





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Use of Proceeds from Listing

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

As at September 30, 2016, 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, approximately 14% used for sales and marketing activities and expanding our distribution network, and approximately 3% used for working capital and other corporate purposes have been fully expensed. Approximately RMB2,310.6 million was used in importing dairy cows and constructing new cow farms, approximately RMB180.3 million was used in constructing the forage processing plant and milk powder processing plant and purchasing relevant machinery and equipment, and the balance of approximately RMB1,398.5 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 11,643 employees in Mainland China and Hong Kong as at September 30, 2016. 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 RMB333.0 million (the corresponding period in 2015: approximately RMB318.1 million).

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.

Our fully vertically integrated production chain business model has been widely recognized by our industry and the society in recent years, while the importance of strategic development of talents has been lifted to a new level. During the course of accomplishing our grand mission and dreams, we became aware that attracting and developing like-minded management talents and professionals would contribute to the everlasting motivating force driving our Group's progress, and it would also be one of the core competitiveness supporting the expansion and enhancement of a modernized corporation. We recruit, develop and nurture talents through various talents development projects. We stand out from others on the Eighth China E-Learning Forum & Exhibition by leveraging on the people-subject-management trinity E-learning platform operation programme and outstanding practical experience, and was awarded "Outstanding Platform Operation Programme Award" (优秀平台运营方案奖). We will adhere to the management philosophy of strategy as the foundation, contents as the core, and operation as the means in building a highly efficient, practical and entertaining learning platform for all staff.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Outlook

It is our vision, as well as our responsibility to China's families and consumers to work more for the safety of the milk source of China's dairy industry with our consistency; provide leading world-class quality dairy products for Chinese families with our efforts; and promote the recovery of Chinese consumer confidence on domestic dairy products with the sincerity shown in our fully transparent dairy value chain.

The "China Dairy Industry Quality Report (2016)" showed that after years of brand building, the quality of China's dairy industry has already reached or exceeded the international standard. Currently, the production and quality and safety of dairy products of domestic dairy industry is in the best period of the history, having the capability to compete with international top dairy enterprises. The central government has strengthened control in view of the frequent food safety incidents of imported dairy products. Along with the recovery of consumer's rational consumption, imported dairy products may no longer be blindly trusted by domestic consumers, and for those domestic dairy enterprises which have been paying great efforts, it is undoubtedly the best chance to spring up. Lately, signs of recovery in the global milk industry is obvious, and various factors foster the domestic raw milk prices into a growth phase, which bode well for the development of China's dairy enterprises, and show that China's dairy enterprises will encounter new development opportunities.

The core of the future dairy industry's competition is not only driven by consumption upgrade, but even more by quality milk sources. China's dairy industry should go back to the basics starting from planting quality grass, breeding quality cows, and producing quality milk to vigorously develop a full industry chain model, so as to practically restore people's confidence on domestic dairy products inherently. As the leader in establishing a vertically-integrated dairy product value chain in China, we are the first to make the China dairy industry integrated operational model, which utilized the synergy effect of each segment to the fullest, bringing out enormous cost advantages and resources advantages. With the development of China's economic and social development, dairy product consumption is undergoing a revolution, and through promotion of industrial supply side reform through milk source and service upgrade, following the big trend of China dairy industry consumption upgrade, as well as developing featured dairy products, we will build a differentiated dairy industry competitive landscape.







## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Innovative “city centered dairy industry” model to guarantee dairy product quality for China’s consumers

The level of urbanization in China is increasing and city clusters forming around core cities will spring up. We have been practicing the integrated full industry chain model, and leveraging on the Shenyang urban cluster to carry out grid layout, hence forming a sizeable dairy product industry cluster with core competitive advantages. Meanwhile, along with the economic development, China’s dairy consumption structure is undergoing changes, with fresh, nutritious and low temperature dairy products becoming more and more popular. With deepening market education and increasing consumption awareness, the future demand for low-temperature milk will continue to grow rapidly. The emergence of modernized city clusters and the rapid development of modern transportation and logistics provided us with great development opportunities. To satisfy higher level of demand on dairy product consumption, we will innovatively develop and expand the “city centered dairy industry” model, which is to leverage on the dairy industry’s full industry chain integrated operational model to establish dairy product processing factory with the cities as the core, and establish dairy farms with the dairy product processing factory as the core, in order to deliver fresh and high quality dairy products into the consumer’s hand in the shortest time.

“City centered dairy industry” model not only shortens the transportation diameter of low-temperature dairy products, letting city consumers enjoy fresh and high quality dairy products, but also enables the provision of fresh and high quality raw milk for dairy product production enterprises, which lowers production cost and raises product quality, making dairy enterprise which uses imported whole-milk powder fat for production to shift to raw milk, in turn providing more high quality dairy products to Chinese consumers. In the future, we will cover the Liaoning economic zone city belt with the industrial cluster of our sizeable self-operated farms and modernized production and processing base in Liaoning province, which extends to Jilin, Heilongjiang, and northern China provinces, and covers Jiangsu and East China city belt with Yancheng industry and dairy industry cluster project, with the aim to establish both cities and factories as cores and form a double layout in both the south and the north. We will also make efforts in raising the core value of the national dairy industry and endeavor in letting consumers consume high quality dairy products made in China.



### Leveraging on Yancheng’s “city centered dairy industry” to build up presence in East China’s market

East China is one of the fastest developing economic zone in China and the zone with largest consumption volume of liquid milk in the whole nation, with especially huge demand for pasteurized milk that has strict requirement in milk sources, and where the trend of high-end consumption is obvious. Our dairy product project in Jiangsu completely copies the mature full industry chain model in Liaoning district. It has the ability to leverage on the milk source advantage to make low-temperature liquid milk product as the main product and supply East China market such as Shanghai, Jiangsu, Zhejiang and Anhui. The obtaining of production permit by Jiangsu processing factory signify that we have Shenyang in the North and Yancheng in the South as two “city centered dairy industry”, solving a series of problems arising from product production, quality inspection, transportation and logistics, and sales, as well as enabling the provision of high quality dairy products to consumers of East China market, thus completing an important step in expanding the brand to the whole nation.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



We will leverage on “differentiated brand positioning”, “featured product portfolio”, “youthful consolidated advertisement”, “partnership distribution system”, “solid market expansion plan” to fully promote the East China market. We will start from the low-temperature milk, which best embodies the integrated milk source advantages of the full dairy industry, to characterize, differentiate and establish the “Sources make a great difference” brand status of “Huishan” in East China market, with a focus on building five model markets, which are Yancheng, Nanjing, Suzhou, Nantong, and Hangzhou. We will use our unique Jersey pasteurized dairy products with 3.6% protein as starting point in building the highest end of “Jersey Farm” pasteurized milk, and differentiating ourselves and providing high quality tailored services through home milk delivery channel. The “Sources make a great difference” will be our main line in promoting the “Drinking milk, grateful for its source” integrated advantages throughout the industry chain, coupled with the brand experience activities under the “Caravan” to continuously interact with target groups in strengthening customer base for brand implementation, and we will kick start the “Source-tracking journey” processing factory visit interactive activity, so as to let the consumers of East China perceive our advantages directly.

“Mou Ke” (眸客) is the first China dairy industry O2O brand jointly made by us and Hema Xiansheng\* (盒馬鮮生). This cross-sector partnership between traditional dairy industry and internet e-commerce industry will bring profound influence to China’s dairy product consumers. We will collaborate with Hema Xiansheng to open up the O2O channel, and test the market response of “within 5 km, delivered in 30 mins” in Shanghai to vertically integrate farms, factories and offline suppliers and cold-chain distribution team, in order to forge a new cross-sector integrated retailing system of the “Internet +” era, strengthen brand influence, thus making a solid step forward to accelerate our layout in East China market.

### Conform to consumption upgrade, strengthen the competitiveness of differentiated low-temperature products

Along with the consumption upgrade, low-temperature liquid milk products have been maintaining a continuously strong growth in recent years, which is several times of the overall dairy industry growth. Pasteurized milk will become the core in leading the China’s dairy industry in resuming rapid growth. Freshness is the key in pasteurized milk. Its production and processing process has higher demand on the quality of raw milk. We will use high quality raw milk as guarantee to proactively respond to the upgrade in consumer’s need, and develop a series of fresh, high quality, as well as featured and personalized new products. During the product upgrade, we will provide consumers with a “better, faster, fresher” consumption experience, by leveraging on the “city centered dairy industry” model to expand the width of low-temperature cold-chain coverage, speed up the distribution speed of fresh dairy products, and raise the depth of response to consumer’s need. Through differentiated high quality products and the last one kilometer fresh distribution service, we will create the real 360 degrees’ fresh closed-loop full industry chain, explore deeply into the growth potential of the third- and fourth-tier of the existing north eastern market, and increase the sales of pasteurized milk products continuously, so as to strengthen our strong position in low-temperature market, as well as continuously enhance product standard and profitability.



\* for identification purposes only





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Seize opportunities amid dairy industry recovery, expand the core competitive advantage of raw milk

Recently, the Ministry of Agriculture of China revised the Identification of Reconstituted Milk in Pasteurized Milk and UHT Sterilized Milk (巴氏殺菌乳和UHT滅菌乳中復原乳的鑒定) which was implemented on April 1, 2016. The promulgation of the revised standard improved the identification standard of reconstituted milk in China and provided scientific basis for identifying illegally added reconstituted milk. Lately, China Dairy Farming Union (中國農墾乳業聯盟) considered and approved the Production and Quality Standards of Fresh Milk of China's Farms (中國農墾生鮮乳生產和品質標準) (hereafter the "New Standard") on the Joint Chairman Meeting. The New Standard is in line with international standards such as those adopted by Europe and the USA and is also the highest enterprise standard in China. It aims to guide dairy production enterprises to use more raw milk as raw materials in order to raise consumers' confidence. The promulgation of the aforesaid policies fully illustrated that the dairy industry has started to develop from market-driven to milk source-driven. As milk source is the starting point of solving all problems, milk source advantages will become core competitiveness of dairy products in the future.

While others in the dairy industry thinking highly of short term interests to snatch market share, we focus on long term development, uphold the simple concept of "planting quality grass, breeding quality cows", pay attention to digging deep from source and are committed to exploration and implementation of contemporary farming techniques in upstream industry chain and promotion of industrial supply side reform through milk source upgrade, forming significant cost advantages and resource advantages, reducing the influence of cyclical fluctuation of international raw milk market to the largest extent. Currently, the global milk industry is recovering, the domestic raw milk prices starting to rebound, and the raw milk market supply and demand balance changing, several key indicators of our raw milk are better than the New Standard promulgated by China Dairy Farming Union, and several large-scale dairy product enterprises has already signed raw milk supply agreement with us at a price higher than that during the Reporting Period, which implies that the raw milk produced by us does not only satisfy the demand of our self-operated processed dairy products in contributing more quality dairy products to consumers, but is expected to become an important raw material procurement source of other dairy product enterprises.







## OTHER INFORMATION

### Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended September 30, 2016 (the six months ended September 30, 2015: Nil).

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

As at September 30, 2016, 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, 2016
Mr. Yang Kai <sup>(1)(2)(3)</sup>	Interest in controlled corporation	9,809,192,316 (L)	72.79%
	Beneficial owner	124,093,000 (L)	0.92%
	Concert Party	2,000,000 (L)	0.01%
Ms. Ge Kun <sup>(4)</sup>	Beneficial owner	2,000,000 (L)	0.01%
	Concert Party	9,933,285,316 (L)	73.71%
Mr. So Wing Hoi <sup>(5)</sup>	Beneficial owner	101,250,000 (L)	0.75%
	Beneficial owner	3,000,000 (L)	0.02%
Mr. Xu Guangyi <sup>(5)</sup>	Beneficial owner	101,250,000 (L)	0.75%
Mr. Kwok Hok Yin <sup>(5)</sup>	Beneficial owner	33,750,000 (L)	0.25%



## OTHER INFORMATION (CONTINUED)

### (ii) In associated corporation

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

Notes:

- (1) As at September 30, 2016, Champ Harvest directly held 9,809,192,316 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 9,809,192,316 Shares held by Champ Harvest, which is a substantial shareholder of our Company.
- (2) As at September 30, 2016, Mr. Yang Kai directly held 124,093,000 Shares.
- (3) As at September 30, 2016, 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, 2016, 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 9,933,285,316 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, 2016, Mr. So Wing Hoi also directly held 3,000,000 Shares.
- (6) As at September 30, 2016, 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, 2016, 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, 2016, 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, 2016
Champ Harvest <sup>(1)</sup>	Beneficial Owner	9,809,192,316 (L)	72.79%
Ping An Insurance (Group) Company of China, Ltd.	Interest in Controlled Corporation	3,792,000,000 (L)	28.14%
PING AN BANK CO.,LTD	Person having a security interest in shares	3,792,000,000 (L)	28.14%

Note:

(1) As at September 30, 2016, Champ Harvest directly held 9,809,192,316 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, 2016, 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"><li>(i) 30% of the Share Options were vested on the date of grant;</li><li>(ii) 20% of the Share Options were vested upon the first anniversary of the date of grant;</li><li>(iii) 15% of the Share Options were vested upon the second anniversary of the date of grant;</li><li>(iv) 15% of the Share Options were vested upon the third anniversary of the date of grant; and</li><li>(v) 20% of the Share Options will be vested upon the fourth anniversary of the date of grant.</li></ul>

## 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, 2016:

Name or Category of Participant	Number of Share Options				As at September 30, 2016	Date of grant of Share Options	Exercise period of Share Options (both dates inclusive)	Exercise price of Share Option (HK\$)
	As at March 31, 2016	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
Other Employees	437,591,000	1,530,000	Nil	Nil	436,061,000	September 27, 2013	September 27, 2013 to September 26, 2019	2.67
Total	673,841,000	1,530,000	Nil	Nil	672,311,000			

The weighted average closing price of the securities immediately before the dates on which the options were exercised was HK\$2.91 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, 2016. Save as disclosed above, no option was granted, exercised, lapsed or cancelled during the six months ended September 30, 2016.

Other information related to the Scheme is set out in note 26 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.



## OTHER INFORMATION (CONTINUED)

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, 2016.

### 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.

On October 26, 2015, the Company, as borrower, signed a term loan facility agreement (the "Syndicated Facility Agreement") pursuant to which the Company may borrow up to an aggregate amount of US\$200,000,000 (equivalent to approximately HK\$1,560,000,000) divided into a US dollar tranche of up to US\$180,000,000 and a Hong Kong dollar tranche of up to HK\$156,000,000 (the "Loan") from The Hongkong and Shanghai Banking Corporation Limited, China CITIC Bank International Limited, Hang Seng Bank Limited, Bank of Shanghai (Hong Kong) Limited, China Merchants Bank., Ltd., Hong Kong Branch and Chong Hing Bank Limited (collectively, "the Lenders") for the general corporate funding purposes of the Group. The Loan has a tenure of 3 years. Under the Syndicated Facility Agreement, it is a covenant that, during the term of the Loan (i) Mr. Yang will remain as the chairman of the Company or able to act in such capacity; (ii) Ms. Ge will remain as an executive Director of the Company or able to act in such capacity; and (iii) Mr. Yang and Ms. Ge together will continue to own, directly and indirectly, at least 30% of the issued share capital of the Company, remain as the single largest shareholder of the Company and continue to have management control over the Company. In the case of any breach of the above mentioned covenant, the Lenders may, among others, cancel the facility granted to the Company under the Syndicated Facility Agreement or any part thereof and/or require immediate repayment of the Loan together with all other sums due under the Syndicated Facility Agreement. Details of the Syndicated Facility Agreement have been published in the Company's announcement dated October 26, 2015.

### Pledge of Assets

As at September 30, 2016, the aggregate value of the secured lease prepayments, property, plant and equipment, and biological assets of the Group was approximately RMB3,461.2 million (March 31, 2016: RMB2,992.1 million). Further details are set out in the relevant notes in the unaudited interim financial report.



## OTHER INFORMATION (CONTINUED)

### Capital Commitments

Details of capital commitments are set out in Note 30 to the unaudited interim financial report.

### 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, 2016, the assets and liabilities of the Group are primarily denominated in RMB, except for cash and cash equivalents denominated in USD of approximately RMB1.5 million (RMB8.1 million as at March 31, 2016), cash and cash equivalents denominated in RMB of RMB1.1 million (RMB1.3 million as at March 31, 2016), and bank borrowings denominated in USD of approximately RMB2,394.6 million (RMB2,371.2 million as at March 31, 2016), RMB is the presentation currency of the Company.

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, 2016 and therefore, had already used financial instruments like foreign currency forward and foreign exchange option 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, 2016. 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, 2016.

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the six months ended September 30, 2016.

### 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, 2016.

### 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 29, 2016



# 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 42 to 84 which comprises the consolidated statement of financial position of China Huishan Dairy Holdings Company Limited (the "Company") as at September 30, 2016 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, 2016 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 29, 2016





# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended September 30, 2016—unaudited  
(Expressed in Renminbi)

	Note	Six months ended September 30, 2016			Six months ended September 30, 2015		
		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 (Restated)	Biological fair value adjustments RMB'000 (Restated)	Total RMB'000 (Restated)
<b>Revenue</b>	3	<b>2,516,434</b>	<b>—</b>	<b>2,516,434</b>	2,137,359	—	2,137,359
Cost of sales	3, 5(a)	<b>(1,215,309)</b>	<b>(732,981)</b>	<b>(1,948,290)</b>	(992,144)	(708,412)	(1,700,556)
<b>Gross profit</b>		<b>1,301,125</b>	<b>(732,981)</b>	<b>568,144</b>	1,145,215	(708,412)	436,803
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	5(a)	—	<b>937,396</b>	<b>937,396</b>	—	1,089,187	1,089,187
Gain/(Loss) arising from changes in fair value less costs to sell of biological assets		—	<b>66,516</b>	<b>66,516</b>	—	(11,626)	(11,626)
Net gain on disposal of subsidiaries		—	—	—	59,214	—	59,214
Other income	4	<b>45,190</b>	—	<b>45,190</b>	82,682	—	82,682
Distribution costs		<b>(358,837)</b>	—	<b>(358,837)</b>	(329,888)	—	(329,888)
Administrative expenses		<b>(213,305)</b>	—	<b>(213,305)</b>	(200,172)	—	(200,172)
<b>Profit from operations</b>		<b>774,173</b>	<b>270,931</b>	<b>1,045,104</b>	757,051	369,149	1,126,200
Finance income		<b>48,988</b>	—	<b>48,988</b>	29,150	—	29,150
Finance costs		<b>(451,315)</b>	—	<b>(451,315)</b>	(380,108)	—	(380,108)
Net finance costs	5(b)	<b>(402,327)</b>	—	<b>(402,327)</b>	(350,958)	—	(350,958)
Share of losses of associates		<b>(38,312)</b>	—	<b>(38,312)</b>	(15,356)	—	(15,356)
<b>Profit before taxation</b>		<b>333,534</b>	<b>270,931</b>	<b>604,465</b>	390,737	369,149	759,886
Income tax	6	<b>(1,708)</b>	—	<b>(1,708)</b>	(16,097)	—	(16,097)
<b>Profit for the period</b>		<b>331,826</b>	<b>270,931</b>	<b>602,757</b>	374,640	369,149	743,789
<b>Attributable to:</b>							
Equity shareholders of the Company				<b>618,321</b>			745,145
Non-controlling interests				<b>(15,564)</b>			(1,356)
<b>Profit for the period</b>				<b>602,757</b>			743,789
<b>Earnings per share</b>							
— Basic and diluted (RMB)	8			<b>0.05</b>			0.05

Details of dividends payable to equity shareholders of the Company are set out in Note 27(a).

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



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2016—unaudited  
(Expressed in Renminbi)

	<i>Note</i>	<b>Six months ended September 30, 2016</b>	2015
		<b>RMB'000</b>	RMB'000 (Restated)
<b>Profit for the period</b>		<b>602,757</b>	743,789
<b>Other comprehensive income for the period (after tax)</b>			
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation to presentation currency	7	<b>(25,050)</b>	47,074
— Exchange reserve reclassified to profit or loss on disposal of subsidiaries	7	<b>—</b>	(11,334)
<b>Total comprehensive income for the period</b>		<b>577,707</b>	779,529
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>593,269</b>	780,883
Non-controlling interests		<b>(15,562)</b>	(1,354)
<b>Total comprehensive income for the period</b>		<b>577,707</b>	779,529

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



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2016—unaudited  
(Expressed in Renminbi)

	Note	At September 30, 2016 RMB'000	At March 31, 2016 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>8,105,390</b>	7,813,238
Prepayments for acquisition of property, plant and equipment		<b>762,231</b>	806,127
Lease prepayments	10	<b>3,779,317</b>	4,017,062
Biological assets	11	<b>6,679,389</b>	6,007,333
Interest in associates	12	<b>615,352</b>	654,104
Deferred tax assets		<b>62,008</b>	39,364
Other non-current assets	13	<b>96,685</b>	81,015
		<b>20,100,372</b>	19,418,243
<b>Current assets</b>			
Inventories	14	<b>1,936,943</b>	1,992,670
Trade receivables	15	<b>334,273</b>	248,946
Amounts due from the controlling shareholder	16	<b>4,046</b>	4,046
Deposits, prepayments and other receivables	17	<b>1,930,681</b>	3,799,233
Derivative financial assets	18	<b>2,072</b>	—
Term deposits	19	<b>1,627,224</b>	1,873,378
Cash and cash equivalents	20	<b>8,156,780</b>	2,185,253
		<b>13,992,019</b>	10,103,526
<b>Current liabilities</b>			
Trade and bills payables	21	<b>3,268,326</b>	2,488,208
Receipts in advance	22	<b>574,095</b>	493,837
Accrued expenses and other payables	23	<b>931,154</b>	879,882
Bank loans	24	<b>10,804,988</b>	6,947,481
Other borrowings	25	<b>282,491</b>	183,784
Income tax payable		<b>1,725</b>	23,675
		<b>15,862,779</b>	11,016,867
<b>Net current liabilities</b>		<b>(1,870,760)</b>	(913,341)
<b>Total assets less current liabilities</b>		<b>18,229,612</b>	18,504,902

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



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At September 30, 2016—unaudited  
(Expressed in Renminbi)

	Note	At September 30, 2016 RMB'000	At March 31, 2016 RMB'000
<b>Non-current liabilities</b>			
Bank loans	24	<b>4,548,704</b>	5,372,021
Other borrowings	25	<b>404,913</b>	357,198
Deferred income		<b>344,984</b>	340,443
		<b>5,298,601</b>	6,069,662
<b>NET ASSETS</b>		<b>12,931,011</b>	12,435,240
<b>CAPITAL AND RESERVES</b>			
Share capital	27	<b>1,062,594</b>	1,062,466
Reserves	27	<b>11,822,200</b>	11,376,200
<b>Total equity attributable to equity shareholders of the Company</b>		<b>12,884,794</b>	12,438,666
<b>Non-controlling interests</b>		<b>46,217</b>	(3,426)
<b>TOTAL EQUITY</b>		<b>12,931,011</b>	12,435,240

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2016—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
<b>Balance at March 31, 2015 (as previously reported)</b>	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
Effect of the change in accounting policy (Note 2)	—	—	—	—	—	—	—	(847)	(847)	—	(847)
Effect of the business combination under common control (Note 28)	—	—	—	—	100,000	—	—	(13,532)	86,468	—	86,468
<b>Restated balance at April 1, 2015</b>	1,135,678	8,490,470	—	6,941	364,434	242,757	9,918	3,521,589	13,771,787	(1,125)	13,770,662
<b>Changes in equity for the six months ended September 30, 2015:</b>											
Profit for the period (restated)	—	—	—	—	—	—	—	745,145	745,145	(1,356)	743,789
Other comprehensive income (Note 7)	—	—	—	—	—	—	35,738	—	35,738	2	35,740
Total comprehensive income (restated)	—	—	—	—	—	—	35,738	745,145	780,883	(1,354)	779,529
Issuance of shares under a share option scheme	180	5,446	—	—	(821)	—	—	—	4,805	—	4,805
Purchase of own shares											
— 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 scheme (Note 26 (a))	—	—	—	—	28,751	—	—	—	28,751	—	28,751
Forfeiture of share options	—	—	—	—	(474)	—	—	474	—	—	—
Dividends approved and paid in respect of the previous year (Note 27(a))	—	(207,946)	—	—	—	—	—	—	(207,946)	—	(207,946)
Transactions with equity holders of the Group	(58,334)	(1,556,671)	(207,825)	58,514	27,456	—	—	474	(1,736,386)	—	(1,736,386)
<b>Restated balance at September 30, 2015</b>	1,077,344	6,933,799	(207,825)	65,455	391,890	242,757	45,656	4,267,208	12,816,284	(2,479)	12,813,805

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended September 30, 2016—unaudited  
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Treasury shares	Capital	Other reserves	PRC	Exchange reserve	Retained profits	Total	Non-	Total equity
				redemption reserve		statutory reserves				controlling interests	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Restated balance at</b>											
<b>October 1, 2015</b>	1,077,344	6,933,799	(207,825)	65,455	391,890	242,757	45,656	4,267,208	12,816,284	(2,479)	12,813,805
<b>Changes in equity for the six months ended March 31, 2016:</b>											
Loss for the period	—	—	—	—	—	—	—	(83,270)	(83,270)	(930)	(84,200)
Other comprehensive income	—	—	—	—	—	—	(777)	—	(777)	(17)	(794)
Total comprehensive income	—	—	—	—	—	—	(777)	(83,270)	(84,047)	(947)	(84,994)
Appropriation to reserves	—	—	—	—	—	74,179	—	(74,179)	—	—	—
Issuance of shares under a share option scheme	19	585	—	—	(87)	—	—	—	517	—	517
Purchase of own shares											
— par value paid	(9,779)	—	7,501	—	—	—	—	—	(2,278)	—	(2,278)
— premium paid	—	(265,372)	200,324	—	—	—	—	—	(65,048)	—	(65,048)
— transfer between reserves	—	(9,779)	—	9,779	—	—	—	—	—	—	—
Equity-settled share-based transactions											
— share option scheme (Note 26 (a))	—	—	—	—	4,089	—	—	—	4,089	—	4,089
— share award scheme (Note 26 (b))	(5,118)	—	—	5,118	—	—	—	(147,651)	(147,651)	—	(147,651)
Forfeiture of share options	—	—	—	—	(91)	—	—	91	—	—	—
Business combination under common control (Note 28)	—	—	—	—	(105,393)	—	—	22,193	(83,200)	—	(83,200)
Transactions with equity holders of the Group	(14,878)	(274,566)	207,825	14,897	(101,482)	74,179	—	(199,546)	(293,571)	—	(293,571)
<b>Balance at March 31, 2016</b>	1,062,466	6,659,233	—	80,352	290,408	316,936	44,879	3,984,392	12,438,666	(3,426)	12,435,240

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





## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended September 30, 2016—unaudited  
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital		PRC			Retained profits	Total	Non-controlling interests	Total equity
			redemption reserve	Other reserves	statutory reserves	Exchange reserve	RMB'000				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at April 1, 2016</b>	1,062,466	6,659,233	80,352	290,408	316,936	44,879	3,984,392	12,438,666	(3,426)	12,435,240	
<b>Changes in equity for the six months ended September 30, 2016:</b>											
Profit for the period	—	—	—	—	—	—	618,321	618,321	(15,564)	602,757	
Other comprehensive income (Note 7)	—	—	—	—	—	(25,052)	—	(25,052)	2	(25,050)	
Total comprehensive income	—	—	—	—	—	(25,052)	618,321	593,269	(15,562)	577,707	
Issuance of shares under a share option scheme (Note 27(b)(i))	128	3,864	—	(575)	—	—	—	3,417	—	3,417	
Equity-settled share-based transactions											
— share option scheme (Note 26(a))	—	—	—	17,898	—	—	—	17,898	—	17,898	
Capital injection by a non-controlling shareholder	—	—	—	—	—	—	—	—	65,205	65,205	
Dividends approved and paid in respect of the previous year (Note 27(a))	—	(168,456)	—	—	—	—	—	(168,456)	—	(168,456)	
Transactions with equity holders of the Group	128	(164,592)	—	17,323	—	—	—	(147,141)	65,205	(81,936)	
<b>Balance at September 30, 2016</b>	1,062,594	6,494,641	80,352	307,731	316,936	19,827	4,602,713	12,884,794	46,217	12,931,011	

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



# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2016 – unaudited  
(Expressed in Renminbi)

	Note	Six months ended September 30, 2016 RMB'000	2015 RMB'000 (Restated)
<b>Operating activities</b>			
Cash generated from operations		<b>3,113,856</b>	1,181,415
Income tax paid		<b>(52,506)</b>	(18,388)
<b>Net cash generated from operating activities</b>		<b>3,061,350</b>	1,163,027
<b>Investing activities</b>			
Payments for purchase of property, plant and equipment		<b>(369,663)</b>	(879,116)
Lease prepayments		<b>(29,246)</b>	(499,610)
Payments for purchase of biological assets		—	(14,371)
Payments for breeding calves and heifers (breeding costs of calves and heifers capitalised other than depreciation and amortisation)		<b>(643,453)</b>	(519,285)
Proceeds from disposal of subsidiaries		—	692,270
Amounts received from banks for wealth management products purchased		<b>854,150</b>	—
Other cash flows arising from investing activities		<b>524,081</b>	(38,722)
<b>Net cash generated from/(used in) investing activities</b>		<b>335,869</b>	(1,258,834)
<b>Financing activities</b>			
Proceeds from new bank loans and other borrowings		<b>7,830,693</b>	4,068,204
Repayments of bank loans and other borrowings		<b>(4,709,659)</b>	(1,773,732)
Dividends paid to equity shareholders of the Company	27(a)	<b>(168,456)</b>	(207,946)
Payments for purchase of own shares		—	(1,484,634)
Interest paid		<b>(367,344)</b>	(248,829)
Other cash flows arising from financing activities		<b>(15,788)</b>	(279,670)
<b>Net cash generated from financing activities</b>		<b>2,569,446</b>	73,393
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,966,665</b>	(22,414)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>2,185,253</b>	2,613,628
<b>Effect of foreign exchange rate changes</b>		<b>4,862</b>	(2,049)
<b>Cash and cash equivalents at the end of the period</b>	20	<b>8,156,780</b>	2,589,165

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



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

## 1 Basis of Preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB"). It was authorised for issue on November 29, 2016.

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, 2016, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ended March 31, 2017. 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, 2016. 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 41.

The financial information relating to the financial year ended March 31, 2016 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, 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated June 29, 2016.

As at September 30, 2016, the Group's current liabilities exceeded its current assets by RMB1,870,760,000. As at September 30, 2016, the Group had cash and cash equivalents of RMB8,156,780,000 and short term bank loans, including current portion of long-term bank loans and short term other borrowings of RMB11,087,479,000. 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, 2016 because the directors of the Company are of the opinion that based on the unconditional banking facilities of RMB4,984,858,000 not yet utilised by the Group as of 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:

- *Annual Improvements to IFRSs 2012–2014 Cycle*
- Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*
- Amendments to IAS 1, *Disclosure initiative*

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.

During the year ended March 31, 2016, the Group early applied the Amendments to IAS 16 and IAS 41, *Agriculture: Bearer plants* (the "Amendments"), which was issued in June 2014 and is effective for annual periods beginning on or after January 1, 2016.

The Amendments allow an entity applies these amendments for an earlier period and require an entity apply these amendments retrospectively. By following the Amendments, the Group simplified the accounting for its bearer plants, alfalfa roots, from the measurement at fair value less costs to sell under IAS 41, *Agriculture*, to the measurement at cost less accumulated depreciation and impairment losses and reclassified the carrying amounts of such bearer plants from the account of biological assets to the account of property, plant and equipment in the accounting year ended March 31, 2016. This change in accounting policy increased the carrying amount of the Group's property, plant and equipment at March 31, 2015 by RMB4,429,000 while decreased the carrying amount of the Group's biological assets at March 31, 2015 by RMB5,276,000, and decreased the Group's retained profits at March 31, 2015 by RMB847,000 and the profit for the period ended September 30, 2015 by RMB1,016,117.

Given the above retrospective restatements and reclassifications do not have any material effect on the Group's financial performances (including the earnings per share calculated) and positions for any prior periods, the Group did not present a third statement of financial position as at March 31, 2015 in this interim financial report.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 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 Powders 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 Powders Production — producing and selling infant milk formula products, adult milk powder products and dairy ingredient products.

#### (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 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.

## 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)

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), 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 Powders 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, 2016 and 2015 is set out below.

	Six months ended September 30, 2016			
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powders Production RMB'000	Total RMB'000
Revenue from external customers	390,987	1,739,671	385,542	2,516,200
Inter-segment revenue	1,090,040	—	—	1,090,040
<b>Reportable segment revenue</b>	<b>1,481,027</b>	<b>1,739,671</b>	<b>385,542</b>	<b>3,606,240</b>
Cost of sales related to revenue from external customers	206,819	1,248,889	419,090	1,874,798
Inter-segment cost of sales	507,382	—	—	507,382
<b>Reportable segment cost of sales (cost of sales before biological fair value adjustments)</b>	<b>714,201</b>	<b>1,248,889</b>	<b>419,090</b>	<b>2,382,180</b>
<b>Reportable segment gross profit/(loss) (gross profit before biological fair value adjustments)</b>	<b>766,826</b>	<b>490,782</b>	<b>(33,548)</b>	<b>1,224,060</b>
<b>Reportable segment profit/(loss) (adjusted EBITDA)</b>	<b>773,436</b>	<b>188,064</b>	<b>(150,974)</b>	<b>810,526</b>
Interest income	34,204	9,398	3,075	46,677
Interest expenses	145,333	102,361	20,854	268,548
Depreciation and amortisation	74,391	41,598	11,070	127,059
Share of losses of associates	—	—	38,312	38,312



## 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, 2015			
	Dairy Farming RMB'000 (Restated)	Liquid Milk Products Production RMB'000	Milk Powders Production RMB'000	Total RMB'000 (Restated)
Revenue from external customers	505,866	1,347,499	283,994	2,137,359
Inter-segment revenue	1,025,614	—	—	1,025,614
<b>Reportable segment revenue</b>	<b>1,531,480</b>	<b>1,347,499</b>	<b>283,994</b>	<b>3,162,973</b>
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
<b>Reportable segment cost of sales (cost of sales before biological fair value adjustments)</b>	<b>730,271</b>	<b>1,046,231</b>	<b>150,831</b>	<b>1,927,333</b>
<b>Reportable segment gross profit (gross profit before biological fair value adjustments)</b>	<b>801,209</b>	<b>301,268</b>	<b>133,163</b>	<b>1,235,640</b>
<b>Reportable segment profit (adjusted EBITDA)</b>	<b>790,610</b>	<b>81,022</b>	<b>29,644</b>	<b>901,276</b>
Interest income	2,221	13,722	1,197	17,140
Interest expenses	143,726	45,550	17,575	206,851
Depreciation and amortisation	49,410	13,841	14,032	77,283
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)

	At September 30, 2016			
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powders Production RMB'000	Total RMB'000
<b>Reportable segment assets (including interest in associates)</b>	<b>28,797,298</b>	<b>14,439,554</b>	<b>3,988,454</b>	<b>47,225,306</b>
Increase in carrying amounts of non-current segment assets during the period	<b>518,552</b>	<b>99,328</b>	<b>74,035</b>	<b>691,915</b>
Capital expenditure	<b>229,723</b>	<b>160,492</b>	<b>60,244</b>	<b>450,459</b>
<b>Reportable segment liabilities</b>	<b>19,596,592</b>	<b>8,537,725</b>	<b>3,012,638</b>	<b>31,146,955</b>

	At March 31, 2016			
	Dairy Farming RMB'000	Liquid Milk Products Production RMB'000	Milk Powders Production RMB'000	Total RMB'000
<b>Reportable segment assets (including interest in associates)</b>	24,976,448	14,869,333	2,482,865	42,328,646
Increase in carrying amounts of non-current segment assets during the year	1,145,104	477,347	134,815	1,757,266
Capital expenditure	945,631	289,162	82,258	1,317,051
<b>Reportable segment liabilities</b>	16,507,333	7,656,652	2,031,837	26,195,822

## 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

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
<b>Revenue</b>		
Reportable segment revenue	<b>3,606,240</b>	3,162,973
Revenue from sales of clean energy	<b>234</b>	—
Elimination of inter-segment revenue	<b>(1,090,040)</b>	(1,025,614)
Consolidated revenue	<b>2,516,434</b>	2,137,359

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000 (Restated)
<b>Cost of sales</b>		
Reportable segment cost of sales	<b>2,382,180</b>	1,927,333
Cost of sales from sales of clean energy	<b>176</b>	—
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	<b>732,981</b>	708,412
Elimination of inter-segment cost of sales	<b>(1,167,047)</b>	(935,189)
Consolidated cost of sales	<b>1,948,290</b>	1,700,556



## 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)

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000 (Restated)
<b>Gross profit</b>		
Reportable segment gross profit	<b>1,224,060</b>	1,235,640
Gross profit from sales of clean energy	<b>58</b>	—
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	<b>(732,981)</b>	(708,412)
Elimination of inter-segment gross profit	<b>77,007</b>	(90,425)
Consolidated gross profit	<b>568,144</b>	436,803

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000 (Restated)
<b>Profit</b>		
Reportable segment profit	<b>810,526</b>	901,276
Interest income	<b>48,988</b>	29,150
Interest expenses	<b>(340,555)</b>	(234,409)
Depreciation and amortisation	<b>(137,318)</b>	(80,683)
Net gain on disposal of subsidiaries	<b>—</b>	59,214
Share of losses of associates	<b>(38,312)</b>	(15,356)
Unallocated headoffice and corporate expenses	<b>(86,802)</b>	(178,030)
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	<b>204,415</b>	380,775
Gain/(loss) arising from the changes in fair value less costs to sell of biological assets	<b>66,516</b>	(11,626)
Elimination of inter-segment gross profit	<b>77,007</b>	(90,425)
Consolidated profit before taxation	<b>604,465</b>	759,886



## 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, 2016 RMB'000	At March 31, 2016 RMB'000
<b>Assets</b>		
Reportable segment assets (including interest in associates)	<b>47,225,306</b>	42,328,646
Deferred tax assets	<b>62,008</b>	39,364
Unallocated headoffice and corporate assets	<b>12,972,493</b>	8,841,698
Elimination between segments	<b>(26,167,416)</b>	(21,687,939)
Consolidated total assets	<b>34,092,391</b>	29,521,769
<b>Liabilities</b>		
Reportable segment liabilities	<b>31,146,955</b>	26,195,822
Unallocated headoffice and corporate liabilities	<b>16,181,841</b>	12,578,646
Elimination between segments	<b>(26,167,416)</b>	(21,687,939)
Consolidated total liabilities	<b>21,161,380</b>	17,086,529

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)**

(Expressed in Renminbi unless otherwise indicated)

**4 Other Income**

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000 (Restated)
Government grants	<b>53,671</b>	79,620
Net (loss)/profit from sales of raw materials	<b>(13,257)</b>	834
Investment income on wealth management products purchased from banks	<b>2,949</b>	1,227
Net loss on disposal of non-current assets	<b>(574)</b>	(197)
Changes in fair value of derivative financial assets	<b>2,072</b>	—
Donation	<b>—</b>	(500)
Others	<b>329</b>	1,698
	<b>45,190</b>	82,682

**5 Profit Before Taxation**

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

- (a) Reconciliation of gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest:

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest (the "Gain"), recognised during the period	<b>937,396</b>	1,089,187
The Gain included in the inventories used for growing the biological assets that have not reached the age of produce agricultural produce	<b>(84,070)</b>	(49,378)
The Gain included in the inventories held at the beginning of the period	<b>629,209</b>	419,616
The Gain included in the inventories held at the end of the period	<b>(667,360)</b>	(751,013)
	<b>815,175</b>	708,412
The Gain included in the inventories sold during the period	<b>815,175</b>	708,412
The Gain recognised upon the sales of inventories previously been written-down*	<b>(82,194)</b>	—
	<b>732,981</b>	708,412
The Gain charged to cost of sales as biological fair value adjustments during the period	<b>732,981</b>	708,412

\* In accordance with the accounting policy, when the write-down occurs on the inventories produced by using the agricultural produce, the amount of the write-down is first reduced from any fair value gain recognised on such agricultural produce as biological fair value adjustments in cost of sales, and then charged to cost of sales under results before biological fair value in the statement of profit or loss.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 5 Profit Before Taxation (Continued)

#### (b) Net finance costs:

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000 (Restated)
Finance income — interest income	<b>(48,988)</b>	(29,150)
Interest expenses on bank loans	<b>320,840</b>	250,881
Interest expenses on other borrowings	<b>26,447</b>	—
Less: interest expenses capitalised*	<b>(6,732)</b>	(16,472)
Bank charges and other finance costs	<b>53,816</b>	21,104
Net foreign exchange loss	<b>56,944</b>	124,595
Finance costs	<b>451,315</b>	380,108
Net finance costs	<b>402,327</b>	350,958

\* The borrowing costs have been capitalised at a rate of 4.90% to 7.68% (six months ended September 30, 2015: 4.90% to 7.68%) per annum.

#### (c) Staff costs:

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000 (Restated)
Salaries, bonuses and allowances	<b>156,902</b>	144,536
Pension insurance	<b>26,231</b>	22,367
Other social insurances	<b>22,786</b>	20,889
Fees charged for hiring workers from labour dispatching companies	<b>76,909</b>	68,458
Equity-settled share option expenses (Note 26(a))	<b>17,898</b>	28,751
Staff welfare	<b>16,728</b>	19,161
	<b>317,454</b>	304,162



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 5 Profit Before Taxation (Continued)

(d) Other items:

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000 (Restated)
Depreciation and amortisation	<b>137,318</b>	80,683

### 6 Income Tax

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Current taxation:		
PRC income tax	<b>24,352</b>	18,728
Deferred taxation:		
Origination and reversal of temporary differences	<b>(22,644)</b>	(2,631)
	<b>1,708</b>	16,097

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, 2016 and 2015.

All the PRC subsidiaries of the Company are subject to PRC Enterprise Income Tax rate of 25% during the six months ended September 30, 2016 and 2015.

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 Other Comprehensive Income

	Six months ended September 30, 2016			Six months ended September 30, 2015		
	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-tax RMB'000	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-tax RMB'000
Exchange differences on translation to presentation currency	<b>(25,050)</b>	—	<b>(25,050)</b>	47,074	—	47,074
Exchange reserve reclassified to profit or loss on disposal of subsidiaries	—	—	—	(11,334)	—	(11,334)
Other comprehensive income	<b>(25,050)</b>	—	<b>(25,050)</b>	35,740	—	35,740

### 8 Basic and Diluted Earnings Per Share

#### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended September 30, 2016 is based on the profit attributable to equity shareholders of the Company of RMB618.32 million (six months ended September 30, 2015: profit of RMB745.15 million, restated for the effect of the change in accounting policy as disclosed in Note 2 and the effect of the business combination under common control as disclosed in Note 28) and the weighted average of 13,413,942,984 ordinary shares of the Company in issue during the six months ended September 30, 2016 (six months ended September 30, 2015: 14,084,119,906 ordinary shares) as calculated in Note 8(b).

#### (b) Weighted average number of ordinary shares

	Six months ended September 30, 2016	2015
Issued ordinary shares at April 1	<b>13,412,622,000</b>	14,320,064,000
Effect of shares issued under a share option scheme (Note 27(b)(i))	<b>1,320,984</b>	226,873
Effect of own shares purchased and cancelled during the period	—	(235,671,612)
Effect of treasury shares	—	(499,355)
Weighted average number of ordinary shares for the six months ended September 30	<b>13,413,942,984</b>	14,084,119,906



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 8 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, 2016 and 2015. For the six months ended September 30, 2016 and 2015, the share options as disclosed in Note 26(a) 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 26(a).

### 9 Property, Plant and Equipment

	<b>At September 30, 2016 RMB'000</b>	At March 31, 2016 RMB'000
Balance as at March 31 (as previously reported)	<b>7,813,238</b>	6,355,669
Effect of the change in accounting policy (Note 2)	—	4,429
Effect of the business combination under common control (Note 28)	—	92,008
Restated balance as at April 1	<b>7,813,238</b>	6,452,106
Additions	<b>466,262</b>	1,643,081
Depreciation	<b>(172,510)</b>	(280,791)
Disposals	<b>(1,600)</b>	(1,158)
Impairment loss	—	—
Balance as at September 30/March 31	<b>8,105,390</b>	7,813,238

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 10 Lease Prepayments

	<b>At September 30, 2016 RMB'000</b>	At March 31, 2016 RMB'000
Balance as at March 31 (as previously reported)	<b>4,017,062</b>	3,823,583
Effect of the business combination under common control (Note 28)	—	16,926
Restated balance as at April 1	<b>4,017,062</b>	3,840,509
Additions	<b>29,476</b>	485,928
Amortisation	<b>(267,221)</b>	(309,375)
Impairment loss	—	—
Balance as at September 30/March 31	<b>3,779,317</b>	4,017,062

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.

### 11 Biological Assets

#### (a) Nature of the Group's agricultural activities

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

The quantities of the dairy cows owned by the Group as at September 30, 2016 and March 31, 2016 are listed 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.

	<b>At September 30, 2016 Head</b>	At March 31, 2016 Head
Milkable cows	<b>95,093</b>	96,339
Heifers	<b>73,503</b>	70,624
Calves	<b>28,400</b>	33,929
	<b>196,996</b>	200,892



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 11 Biological Assets (Continued)

#### (a) Nature of the Group's agricultural activities (Continued)

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, 2016, the Group owned about 390,000 mu fields for planting alfalfa grass and other feed crops (March 31, 2016: about 480,000 mu).

#### (b) Value of the Group's biological assets

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

	<b>At September 30, 2016 RMB'000</b>	At March 31, 2016 RMB'000
Milkable cows	<b>3,954,304</b>	3,778,673
Heifers	<b>1,977,751</b>	1,839,963
Calves	<b>371,425</b>	388,697
Alfalfa grass	<b>21,076</b>	—
Other feed crops	<b>354,833</b>	—
	<b>6,679,389</b>	6,007,333

The fair values of the Group's dairy cows and alfalfa grass and other feed crops as at September 30, 2016 were estimated by using the same valuation techniques as adopted in the annual financial statements for the year ended March 31, 2016.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 12 Interest in Associates

	<b>At September 30, 2016 RMB'000</b>	<b>At March 31, 2016 RMB'000</b>
Share of net assets	<b>615,352</b>	654,104

### 13 Other Non-Current Assets

	<b>At September 30, 2016 RMB'000</b>	<b>At March 31, 2016 RMB'000</b>
Deductible value added tax expected to be deducted after one year	<b>49,940</b>	35,787
Deposits with banks to secure long-term bank loans	<b>46,745</b>	45,228
	<b>96,685</b>	81,015

### 14 Inventories

	<b>At September 30, 2016 RMB'000</b>	<b>At March 31, 2016 RMB'000</b>
Feeds and other materials for breeding dairy cows	<b>1,121,135</b>	1,012,081
Materials for producing dairy products	<b>100,701</b>	111,326
Materials for producing energy products	<b>859</b>	—
Semi-finished and finished goods	<b>723,458</b>	987,238
	<b>1,946,153</b>	2,110,645
Less: write-down of inventories	<b>(9,210)</b>	(117,975)
	<b>1,936,943</b>	1,992,670



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 15 Trade Receivables

	At September 30, 2016 RMB'000	At March 31, 2016 RMB'000
Trade receivable due from third parties	<b>331,974</b>	240,199
Trade receivable due from the associates	<b>2,299</b>	8,747
	<b>334,273</b>	248,946
Less: allowance for impairment of doubtful debts	—	—
	<b>334,273</b>	248,946

#### (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, 2016 RMB'000	At March 31, 2016 RMB'000
Less than 3 months	<b>288,407</b>	206,902
More than 3 months but less than 6 months	<b>25,751</b>	26,291
More than 6 months but less than 1 year	<b>14,828</b>	10,788
More than 1 year but less than 2 years	<b>3,461</b>	3,367
More than 2 years	<b>1,826</b>	1,598
	<b>334,273</b>	248,946

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, 2016 RMB'000	At March 31, 2016 RMB'000
Neither past due nor impaired	<b>237,151</b>	210,890
Less than 1 month past due	<b>51,616</b>	9,451
More than 1 month but less than 3 months past due	<b>29,978</b>	12,852
More than 3 months but less than 6 months past due	<b>4,257</b>	8,321
More than 6 months but less than 1 year past due	<b>9,434</b>	7,432
More than 1 year past due	<b>1,837</b>	—
	<b>97,122</b>	38,056
	<b>334,273</b>	248,946

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 no default record with the Group. These receivables mainly relate to sales of liquid milk products and milk powders 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

All the amounts as at September 30, 2016 and March 31, 2016 are unsecured, non-interest bearing and have no fixed term 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, 2016 RMB'000	At March 31, 2016 RMB'000
Deposits with banks to secure bills payables	<b>962,651</b>	946,490
Deposits for purchase of foreign exchange option	<b>5,000</b>	—
Deposits with banks to secure letters of credit	<b>—</b>	3,700
Prepayments for purchase of raw materials	<b>493,373</b>	1,559,649
Prepayments for purchase of milk powder products — Associates of the Group	<b>10,672</b>	—
Amounts due from the associates of the Group <i>(Note (i))</i>	<b>125,000</b>	125,000
Downpayments for acquisition of lands held under operating leases at annual rent	<b>5,137</b>	9,987
Prepaid operating leases — Third parties	<b>1,133</b>	2,571
— Affiliates of the controlling shareholder	<b>10,265</b>	28,902
Amounts receivable from banks for wealth management products purchased (over 3 months) <i>(Note (ii))</i>	<b>—</b>	854,150
Amounts receivable from disposal of dairy cows — Third parties	<b>6,408</b>	6,114
— Affiliates of the controlling shareholder	<b>6,834</b>	28,121
Advances to staff	<b>28,177</b>	20,656
Deductible value added tax	<b>78,150</b>	43,352
Prepaid income tax	<b>15,508</b>	9,304
Prepaid freight charges	<b>6,358</b>	43,105
Prepaid advertising and promotion expenses	<b>3,546</b>	5,114
Interest receivable on bank deposits	<b>41,012</b>	10,522
Prepayments to be returned for cancelled purchases of property, plant and equipment	<b>47,795</b>	47,795
Others	<b>83,662</b>	54,701
	<b>1,930,681</b>	3,799,233
Less: allowance for impairment of doubtful debts	<b>—</b>	—
	<b>1,930,681</b>	3,799,233

Notes:

(i) The amounts due from associates as at September 30, 2016 and March 31, 2016 are unsecured, non-interest bearing and have no fixed term of repayment.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 17 Deposits, Prepayments and Other Receivables (Continued)

Notes: (Continued)

(iii) Amounts receivable from banks for wealth management products purchased (over 3 months) as at March 31, 2016 represent the RMB wealth management products purchased by the Group from China Guangfa Bank Co., Ltd., China Minsheng Banking Corp., Ltd. and Industrial and Commercial Bank of China Limited during the year ended March 31, 2016 and having not been due or early redeemed yet as of the year end. The total principals was RMB845.00 million and the annualised rates of return ranged from 3.20% to 3.80%. Given that the amounts of return of these wealth management products are determinable, the Group recorded these amounts at amortised cost using the effective interest method as other receivables in this account.

As at March 31, 2016, all the above amounts receivable from banks for wealth management products purchased (over 3 months) of the Group were secured for the Group's bills payables.

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, 2016 and March 31, 2016, no deposits, prepayments and other receivables are individually determined to be impaired.

### 18 Derivative Financial Assets

	<b>At September 30, 2016 RMB'000</b>
Foreign currency forward	<b>1,003</b>
Foreign exchange option	<b>1,069</b>
	<b>2,072</b>

### 19 Term Deposits

The effective interest rate of the Group's term deposits placed with banks with initial terms of over three months but within 3 years for the six months ended September 30, 2016 is 1.75% to 3.80% (the year ended March 31, 2016: 1.30% to 3.57%).

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)**

(Expressed in Renminbi unless otherwise indicated)

**20 Cash and Cash Equivalents**

	<b>At September 30, 2016 RMB'000</b>	<b>At March 31, 2016 RMB'000</b>
Cash at bank and in hand	<b>8,156,780</b>	2,185,253

**21 Trade and Bills Payables**

	<b>At September 30, 2016 RMB'000</b>	<b>At March 31, 2016 RMB'000</b>
Trade payable for purchase of raw materials		
— Third parties	<b>1,162,708</b>	1,025,473
— Associates of the Group	<b>10,572</b>	22,584
Trade payable for purchase of products		
— Associates of the Group	<b>—</b>	19,438
Bills payable	<b>2,095,046</b>	1,420,713
	<b>3,268,326</b>	2,488,208

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:

	<b>At September 30, 2016 RMB'000</b>	<b>At March 31, 2016 RMB'000</b>
Within 1 month	<b>338,715</b>	367,524
Over 1 month but within 3 months	<b>1,395,474</b>	597,728
Over 3 months but within 6 months	<b>1,206,187</b>	1,105,331
Over 6 months but within 1 year	<b>298,536</b>	405,706
Over 1 year but within 2 years	<b>27,391</b>	5,854
Over 2 years	<b>2,023</b>	6,065
	<b>3,268,326</b>	2,488,208

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 22 Receipts in Advance

	At September 30, 2016 RMB'000	At March 31, 2016 RMB'000
Receipts in advance for sales of products	<b>449,807</b>	417,652
Receipts in advance for sales of raw materials		
— Third parties	<b>4,907</b>	4,907
— Associates of the Group	<b>28,393</b>	—
Receipts in advance for disposals of dairy cows		
— Third parties	<b>18,035</b>	8,015
— Affiliates of the controlling shareholder	<b>72,628</b>	62,938
Receipts in advance for disposals of property, plant and equipment	<b>325</b>	325
	<b>574,095</b>	493,837

All of the receipts in advance are expected to be recognised as revenue or other income within one year.

### 23 Accrued Expenses and Other Payables

	At September 30, 2016 RMB'000	At March 31, 2016 RMB'000
Payables for acquisition of property, plant and equipment	<b>529,886</b>	466,809
Payables for operating leases		
— Third parties	<b>14,679</b>	12,337
— Affiliates of the controlling shareholder	<b>283</b>	233
Payables for professional services	<b>9,730</b>	7,520
Employee benefits payables	<b>61,395</b>	55,909
Accrued advertising and promotion expenses	<b>45,936</b>	39,614
Payables for interest expenses	<b>30,910</b>	25,396
Payables for value added tax and other taxes	<b>7,409</b>	6,488
Conditional government grants received but not yet recognised ( <i>Note (i)</i> )	<b>92,400</b>	103,200
Amounts due to third parties ( <i>Note (ii)</i> )	—	64,841
Payables for freight charges	<b>69,550</b>	43,110
Others	<b>68,976</b>	54,425
	<b>931,154</b>	879,882



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 23 Accrued Expenses and Other Payables (Continued)

Notes:

- (i) In accordance with the relevant guidance of government, these government grants can only be recognised upon the Group satisfying certain conditions preset by government in terms of the scale of capital expenditure on and completion of the Group's production facilities.
- (ii) All the amounts due to third parties as at March 31, 2016 are unsecured, non-interest bearing and have no fixed term of repayment.

The amount of the Group's payables for acquisition of property, plant and equipment expected to be settled after more than one year was RMB1.37 million as at September 30, 2016 (March 31, 2016: RMB23.20 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.

### 24 Bank Loans

At September 30, 2016 and March 31, 2016, the Group's bank loans were repayable as follows:

	<b>At September 30, 2016 RMB'000</b>	At March 31, 2016 RMB'000
Within 1 year	<b>10,804,988</b>	6,947,481
After 1 year but within 2 years	<b>1,830,917</b>	2,053,441
After 2 years but within 5 years	<b>2,119,087</b>	2,653,740
After 5 years	<b>598,700</b>	664,840
	<b>4,548,704</b>	5,372,021
	<b>15,353,692</b>	12,319,502

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 24 Bank Loans (Continued)

At September 30, 2016 and March 31, 2016, the Group's bank loans were secured as follows:

	At September 30, 2016 RMB'000	At March 31, 2016 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	<b>287,733</b>	321,642
Secured by property, plant and equipment of the Group and guaranteed by a third party	<b>75,000</b>	100,000
Secured by lease prepayments of the Group and guaranteed by the controlling shareholder and his close member of family	<b>60,000</b>	60,000
Secured by lease prepayments and property, plant and equipment of the Group	<b>1,064,950</b>	1,082,250
Secured by term deposits with banks and guaranteed by intra-group entities	—	80,000
Secured by deposits with banks and guaranteed by a third party and intra-group entities	<b>146,912</b>	142,146
Guaranteed by intra-group entities, the controlling shareholder and his close member of family	<b>200,000</b>	200,000
Secured by the Group's own equity interests and guaranteed by intra-group entities	<b>587,740</b>	109,675
Guaranteed by intra-group entities	<b>11,017,343</b>	8,623,195
Unguaranteed and unsecured	<b>1,914,014</b>	1,600,594
	<b>15,353,692</b>	12,319,502

At September 30, 2016, the secured bank loans were secured over property, plant and equipment, lease prepayments with an aggregate carrying value of RMB2,225.99 million (March 31, 2016: RMB2,299.85 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, 2016, none of the covenants relating to the bank loans had been breached.





## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 25 Other Borrowings

Other borrowings as at September 30, 2016 represent the borrowings under five financing arrangements entered into by the Group with three third-party leasing companies, in the form of a sale and leaseback transaction which results in a finance lease and bears a repurchase option. The subjects sold and leased back under the financing arrangements are dairy cows, plant and buildings, and machinery and equipment of the Group. As the repurchase prices are set at a range from RMB100 to RMB10,000 which are minimal compared to the expected fair values of the underlying assets at the end of the lease periods of three years and the Group is certain that it will exercise the repurchase option, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralised borrowings at amortised cost using effective interest method in accordance with the Group's accounting policy.

At September 30, 2016 and March 31, 2016, the Group's other borrowings were repayable as follows:

	<b>At September 30, 2016 RMB'000</b>	At March 31, 2016 RMB'000
Within 1 year	<b>282,491</b>	183,784
After 1 year but within 2 years	<b>306,943</b>	199,063
After 2 years but within 3 years	<b>97,970</b>	158,135
	<b>404,913</b>	357,198
	<b>687,404</b>	540,982

At September 30, 2016, the above other borrowings have been secured over property, plant and equipment and biological assets with an aggregate carrying value of RMB1,235.24 million (March 31, 2016: RMB692.25 million).

### 26 Share-based Payment

#### (a) Share option scheme

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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 26 Share-based Payment (Continued)

#### (a) Share option scheme (Continued)

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.

#### (i) 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:

	<b>The share options granted on September 27, 2013</b>	<b>The share options granted on October 8, 2014</b>
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%

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)**

(Expressed in Renminbi unless otherwise indicated)

**26 Share-based Payment (Continued)****(a) Share option scheme (Continued)****(i) The fair values of the share options (Continued)**

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, 2016, the Group has charged RMB17.90 million (six months ended September 30, 2015: RMB28.75 million) share option expenses in "Administrative expenses" with the same amount credited to "Other reserves".

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

	<b>Six months ended September 30, 2016</b>		<b>Year ended March 31, 2016</b>	
	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>
Outstanding at the beginning of the period/year	<b>HK\$2.67</b>	<b>673,841,000</b>	HK\$2.63	712,147,500
Forfeited during the period/year	—	—	HK\$1.78	(35,887,500)
Exercised during the period/year	<b>HK\$2.67</b>	<b>(1,530,000)</b>	HK\$2.67	(2,419,000)
Outstanding at the end of the period/year	<b>HK\$2.67</b>	<b>672,311,000</b>	HK\$2.67	673,841,000
Exercisable at the end of the period/year	<b>HK\$2.67</b>	<b>537,059,000</b>	HK\$2.67	437,150,000

The weighted average share price at the dates of exercise for share options exercised during the six months ended September 30, 2016 was HK\$2.91 (year ended March 31, 2016: HK\$2.91).

The share options outstanding at September 30, 2016 had a weighted average exercise price of HK\$2.67 (March 31, 2016: HK\$2.67) and a weighted average remaining contractual life of 3 years (March 31, 2016: 3.5 years).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 26 Share-based Payment (Continued)

#### (b) Share award scheme

On August 28, 2015, the Group adopted a Share Award Scheme (the "Scheme") to recognise and motivate the contribution of the eligible participants (including the employees of the Group and the Group's customers and suppliers and the etc.) and to provide incentives or awards for their commitments and contributions to the Group and to provide them with a direct economic interest in attaining the long-term business objectives of the Group. Unless terminated earlier by the board of directors, the Scheme shall be valid and effective for a term of ten years.

During the six months ended September 30, 2016, there is no ordinary shares of the Company have been purchased in conjunction with the Scheme (during the year ended March 31, 2016: 62,335,000 ordinary shares purchased) and no shares have been granted to any participant (during the year ended March 31, 2016: Nil).

### 27 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, 2016 (six months ended September 30, 2015: RMBNil).

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

	<b>Six months ended September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB0.0125 per ordinary share (six months ended September 30, 2015: RMB0.0153 per ordinary share)	<b>168,456</b>	207,946

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)**

(Expressed in Renminbi unless otherwise indicated)

**27 Capital, Reserves and Dividends (Continued)****(b) Share capital**

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

	<b>Six months ended September 30, 2016</b>		<b>Year ended March 31, 2016</b>	
	<b>No. of shares</b>	<b>Amount RMB'000</b>	<b>No. of shares</b>	<b>Amount RMB'000</b>
At April 1	<b>13,412,622,000</b>	<b>1,062,466</b>	14,320,064,000	1,135,678
Issuance of shares under a share option scheme (HK\$0.1 each) (Note (i))	<b>1,530,000</b>	<b>128</b>	2,419,000	199
Purchase of own shares and cancelled (HK\$0.1 each)	—	—	(847,526,000)	(68,293)
Share purchased under a share award (HK\$0.1 each)	—	—	(62,335,000)	(5,118)
<b>At September 30/March 31</b>	<b>13,414,152,000</b>	<b>1,062,594</b>	13,412,622,000	1,062,466

Note:

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

During the six months ended September 30, 2016, the share options granted under a share option scheme of the Company were exercised to subscribe for 1,530,000 ordinary shares in the Company at a total consideration of HK\$4,085,100 (equivalent to RMB3,417,064) (Note 26(a)), of which HK\$153,000 (equivalent to RMB127,980) has been credited to the Company's share capital, and the remaining proceeds of HK\$3,932,100 (equivalent to RMB3,289,084) and an amount of HK\$725,067 (equivalent to RMB575,014) previously recorded in the other reserves account have been recorded and transferred to the share premium account.

**(c) Nature and purpose of reserves****(1) Share premium**

At September 30, 2016 and March 31, 2016, share premium, where applicable comprises:

- (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.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 27 Capital, Reserves and Dividends (Continued)

#### (c) Nature and purpose of reserves (Continued)

##### (1) Share premium (Continued)

- (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.
- (iv) The remaining proceeds and the amount previously recorded in the other reserves account recorded and transferred to this account as a result of the issuance of shares under a share option scheme.
- (v) The premium paid on the purchase of the shares under a share award scheme.

##### (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 26(a)).

### 28 Business Combinations under Common Control

On October 21, 2015, the subsidiary of the Company, Liaoning Huishan Dairy Group Co., Ltd., acquired 100% equity interests in Shenyang Zhaoji Investment and Management Co., Ltd. and its subsidiaries (together "Zhaoji Group") from the controlling shareholder of the Group and his close family member at a cash consideration of RMB83,200,000.

As the Company and Zhaoji Group are all controlled by the controlling shareholder of the Group before and after the transaction, the above acquisition has been accounted for as a business combination under common control in accordance with the accounting policy. The assets and liabilities of Zhaoji Group have been recognised at their carrying amounts with difference between the carrying amount of the net assets acquired and the consideration paid for the combination recognised directly in "Other reserves" in the Group's consolidated financial statements. The consolidated financial statements of the Group have been restated as if the combination had occurred at the beginning of the earliest reporting period presented in the consolidated financial statements.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 29 Fair Value Measurement of Financial Instruments

#### (a) Finance assets and liabilities carried at fair value

##### (i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

	At September 30, 2016		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Derivative financial assets			
— foreign currency forward	—	1,003	—
— foreign exchange option	—	1,069	—
	—	2,072	—

During the six months ended September 30, 2016, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

### 29 Fair Value Measurement of Financial Instruments (Continued)

#### (a) Finance assets and liabilities carried at fair value (Continued)

##### (ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of foreign currency forward contract included in Level 2 is determined by discounting the difference between the contractual exercise price and the market forward price. The discount rate used is derived from the relevant government yield curve as at due date.

The fair value of foreign exchange option contract included in Level 2 is determined using Black-Scholes model and observable inputs including market forward price, expected volatility of foreign exchange rate and discount rate which is derived from the relevant government yield curve as at due date.

#### (b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values as at September 30, 2016 and March 31, 2016.

### 30 Capital Commitments

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

	<b>At September 30, 2016 RMB'000</b>	At March 31, 2016 RMB'000
Contracted for:		
— Property, plant and equipment	<b>795,766</b>	890,871
Authorised but not contracted for:	<b>—</b>	—
	<b>795,766</b>	890,871

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)**

(Expressed in Renminbi unless otherwise indicated)

**31 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**

	<b>Six months ended</b>	
	<b>September 30,</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Sales of raw milk and dairy ingredient products to associates	<b>10,048</b>	71,057
Purchase of goods from associates	<b>33,988</b>	157,209
Receipt of consignment production services from associates	<b>8,594</b>	—
Operating leases of dairy farms, properties and office buildings from the affiliates of the controlling shareholder	<b>20,370</b>	20,420
Sales of dairy cows to the affiliates of the controlling shareholder	<b>80,160</b>	10,769
Net increase in advances granted to associates	<b>—</b>	50,295
Net increase in advances granted to the controlling shareholder	<b>—</b>	4,046
Guarantees provided by the controlling shareholder and his affiliates for the Group's bank loans	<b>—</b>	295,926

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

	<b>At</b>	
	<b>September 30,</b>	
	<b>2016</b>	At
	<b>RMB'000</b>	March 31,
		2016
		RMB'000
Trade receivables	<b>2,299</b>	8,747
Amounts due from the controlling shareholder	<b>4,046</b>	4,046
Deposits, prepayments and other receivables	<b>152,771</b>	182,023
Trade and bills payables	<b>(10,572)</b>	(42,022)
Receipts in advance	<b>(101,021)</b>	(62,938)
Accrued expenses and other payables	<b>(283)</b>	(233)

**32 Comparative Figures**

As a result of the change in accounting policy as disclosed in Note 2 and the business combination under common control as disclosed in Note 28, certain comparative figures for the six month period ended September 30, 2015 have been restated in accordance with the accounting policies.