The following is the text of a report, prepared for the purpose of incorporation in this [REDACTED], received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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June [REDACTED], 2014

The Directors
China Shengmu Organic Milk Limited
BOCI Asia Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We set out below our report on the financial information of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2011, 2012 and 2013 (the "Relevant Periods"), and the combined statements of financial position of the Group as at December 31, 2011, 2012 and 2013, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the [REDACTED] of the Company dated June [REDACTED], 2014 (the "[REDACTED]") in connection with the [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on December 11, 2013. Pursuant to a group reorganization (the "Reorganization") as set out in note 2.1 of Section II below, which was completed on March 26, 2014, the Company became the holding company of the other subsidiaries comprising the Group. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as the Company has not been involved in any significant business transaction other than the Reorganization described above and is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted December 31, as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the combined financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended December 31, 2011, 2012 and 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at December 31, 2011, 2012 and 2013 and of the combined results and cash flows of the Group for each of the years ended December 31, 2011, 2012 and 2013.

I. FINANCIAL INFORMATION

1. COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2011	2012	2013
		RMB'000	RMB'000	RMB'000
REVENUE	5	389,417	700,763	1,143,709
Cost of sales		(274,816)	(466,704)	(653,284)
Gross profit		114,601	234,059	490,425
Gain arising from changes in fair value less costs to sell of biological assets	18	117,139	4,406	9,484
Other income and gains	5	10,854	7,939	6,868
Selling and distribution expenses		(6,395)	(22,869)	(71,821)
Administrative expenses		(7,845)	(12,563)	(25,436)
Loss on deemed disposal of a subsidiary	29	(444)	—	—
Finance costs	7	(4,669)	(12,389)	(32,821)
Share of profits and (losses) of associates		—	320	(1,349)
PROFIT BEFORE TAX	6	223,241	198,903	375,350
Income tax expense	10	—	—	(852)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		223,241	198,903	374,498
Profit and total comprehensive income for the year attributable to:				
Owners of the parent	11	223,268	195,782	327,309
Non-controlling interests		(27)	3,121	47,189
		223,241	198,903	374,498

2. COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at December 31, 2011	2012	2013
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment..	13	194,875	450,249	922,764
Prepaid land lease payments	14	—	3,452	3,381
Other intangible assets............	15	15,021	14,466	14,192
Investments in associates	17	14,756	17,576	17,727
Biological assets.....................	18	713,826	1,029,541	1,510,160
Prepayments for property, plant and equipment and biological assets	19	14,101	26	9,043
Deferred tax assets..................	20	—	—	187
Total non-current assets		952,579	1,515,310	2,477,454
CURRENT ASSETS				
Inventories..............................	21	103,881	204,243	335,218
Trade and bills receivables.......	22	10,043	24,510	63,470
Prepayments, deposits and other receivables..................	19	15,893	30,030	94,377
Pledged deposits	23	29,224	12,797	15,030
Cash and cash equivalents........	23	69,550	29,838	127,059
Total current assets		228,591	301,418	635,154
CURRENT LIABILITIES				
Trade and bills payables	24	83,963	132,151	191,037
Receipts in advance		15,473	17,527	82,481
Other payables and accruals.....	25	82,468	124,581	198,565
Interest-bearing bank and other borrowings	26	75,000	324,000	932,000
Tax payable		—	—	633
Total current liabilities............		256,904	598,259	1,404,716
NET CURRENT LIABILITIES		(28,313)	(296,841)	(769,562)
TOTAL ASSETS LESS CURRENT LIABILITIES		924,266	1,218,469	1,707,892

	Notes	As at December 31, 2011	2012	2013
		RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	26	49,000	—	—
Total non-current liabilities		49,000	—	—
Net assets		875,266	1,218,469	1,707,892
EQUITY				
Equity attributable to owners of the parent				
Issued capital	27	—	—	—
Reserves	28	855,569	1,166,851	1,494,160
		855,569	1,166,851	1,494,160
Non-controlling interests		19,697	51,618	213,732
Total equity		875,266	1,218,469	1,707,892

3. COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent							
	Issued capital	Share premium account	Contributed surplus	Reserve funds	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2011	—	—	287,620	10,652	96,011	394,283	7,876	402,159
Profit for the year	—	—	—	—	223,268	223,268	(27)	223,241
Total comprehensive income for the year	—	—	—	—	223,268	223,268	(27)	223,241
Capital injection	—	—	238,018	—	—	238,018	20,025	258,043
Deemed disposal of a subsidiary	—	—	—	—	—	—	(8,177)	(8,177)
Transfer from retained profits	—	—	—	22,400	(22,400)	—	—	—
At December 31, 2011 and January 1, 2012	—	—	525,638	33,052	296,879	855,569	19,697	875,266
Profit for the year	—	—	—	—	195,782	195,782	3,121	198,903
Total comprehensive income for the year	—	—	—	—	195,782	195,782	3,121	198,903
Capital injection	—	—	115,500	—	—	115,500	28,800	144,300
Transfer from retained profits	—	—	—	21,601	(21,601)	—	—	—
At December 31, 2012 and January 1, 2013	—	—	641,138	54,653	471,060	1,166,851	51,618	1,218,469
Profit for the year	—	—	—	—	327,309	327,309	47,189	374,498
Total comprehensive income for the year	—	—	—	—	327,309	327,309	47,189	374,498
Capital injection	—	—	—	—	—	—	114,925	114,925
Transfer from retained profits	—	—	—	37,560	(37,560)	—	—	—
At December 31, 2013	—	—	641,138	92,213	760,809	1,494,160	213,732	1,707,892

4. COMBINED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	223,241	198,903	375,350
Adjustments for:			
Gain arising from change in fair value less costs to sell of biological assets	(117,139)	(4,406)	(9,484)
Interest income	(3,138)	(1,904)	(490)
Finance costs	4,669	12,389	32,821
Share of (profits) and losses of associates	—	(320)	1,349
Loss on deemed disposal of a subsidiary	444	—	—
Depreciation	2,486	10,736	28,003
Amortisation of prepaid land lease payments	—	35	71
Amortisation of other intangible assets	412	801	829
Foreign exchange differences, net	808	(134)	—
	111,783	216,100	428,449
Increase in inventories	(33,427)	(100,362)	(130,975)
Decrease/(increase) in trade and bills receivables	9,357	(14,467)	(38,960)
Decrease/(increase) in prepayments, deposits and other receivables	(4,922)	1,862	(55,428)
Decrease/(increase) in pledged deposits	(17,451)	5,268	(8,233)
Increase in trade and bills payables	48,800	44,320	58,886
Increase in other payables and accruals	23,926	23,317	109,994
Cash generated from operations	138,066	176,038	363,733
Interest received	3,138	1,904	490
Income taxes paid	—	—	(593)
Net cash flows from operating activities	141,204	177,942	363,630

		Year ended December 31,		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
Net cash flows from operating activities		141,204	177,942	363,630
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(131,998)	(243,550)	(442,479)
Additions to prepaid land lease payments		—	(3,558)	—
Additions to other intangible assets		(183)	(246)	(555)
Purchases of biological assets		(175,923)	(124,288)	(316,532)
Payments for breeding calves and heifers		(122,705)	(200,080)	(332,842)
Proceeds from disposal of biological assets		22,899	39,007	159,609
Deemed disposal of a subsidiary		(266)	—	—
Purchase of a shareholding in an associate		(200)	(2,500)	(1,500)
Net cash flows used in investing activities		(408,376)	(535,215)	(934,299)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital injection by investors		223,018	115,500	—
Capital injection by non-controlling interests		20,025	28,800	114,925
New bank loans		84,000	320,000	944,000
New other loans		522	31,513	15,830
Repayment of bank loans		(50,000)	(120,000)	(336,000)
Repayment of other loans		—	(44,000)	(38,205)
Interest paid		(8,015)	(14,386)	(32,660)
Net cash flows from financing activities		269,550	317,427	667,890
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,378	(39,846)	97,221
Cash and cash equivalents at beginning of year		67,980	69,550	29,838
Effect of foreign exchange rate changes, net		(808)	134	—
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	69,550	29,838	127,059

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk and dairy products in the People's Republic of China ("PRC").

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the section headed "History, Reorganization and Group Structure" to the [REDACTED].

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shining Investment Industry Limited (note (i))	Hong Kong January 20, 2014	HK$1	100	—	Investment holding
China Mengniu Investment Company Limited (note (i))	Hong Kong April 16, 2011	HK$125,322,366	—	100	Investment holding
Saint Investment HK Limited (note (i))	Hong Kong December 17, 2013	HK$66,387,929	—	100	Investment holding
Flourish Treasure Holdings Limited (note (i))	Hong Kong December 3, 2013	HK$10,000	—	100	Investment holding
Horizon King Investments Limited (note (i))	Hong Kong November 26, 2013	HK$1	—	100	Investment holding
Fortune Globe Limited (note (i))	British Virgin Islands January 8, 2014	US$16,066,970	100	—	Investment holding
Saint Investment (Cayman) Limited (note (i))	Cayman December 16, 2013	US$8,512,272	100	—	Investment holding
Credence Global Investments Limited (note (i))	British Virgin Islands November 15, 2013	US$10,000	100	—	Investment holding
Elite Noble Investments Limited (note (i))	British Virgin Islands January 2, 2014	US$92.6	100	—	Investment holding
內蒙古聖牧高科牧業有限公司 Inner Mongolia Shengmu High-tech farming Co., Ltd. (note (ii)(iii))	PRC October 18, 2009	RMB738,700,000	—	100	Production and distribution of raw milk

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
巴彥淖爾市聖牧高科牧業有限公司 Bayannur Shengmu High-tech Farming Co., Ltd.# (note (iii))	PRC January 21, 2010	RMB30,000,000	—	100	Production and distribution of raw milk
內蒙古聖牧高科奶業有限公司 Inner Mongolia Shengmu High-tech Dairy Co., Ltd.# (note (iii))	PRC July 29, 2011	RMB20,000,000	—	100	Production and distribution of dairy products
內蒙古內大聖牧高科牧業有限公司 Inner Mongolia IMU-Shengmu High-tech farming Co., Ltd. ("IMU-Shengmu Dairy")# (note (iii))	PRC July 5, 2011	RMB44,500,000	—	70	Production and distribution of raw milk
內蒙古聖牧農牧業科技有限公司 Inner Mongolia Shengmu Agriculture Technology Co., Ltd.# (note (iii))	PRC March 20, 2012	RMB7,800,000	—	100	Research and consulting
巴彥淖爾市聖牧盤古牧業有限責任公司 Bayannur Shengmu Pangu Farming Co., Ltd. ("Shengmu Pangu")# (note (iii))	PRC June 15, 2012	RMB80,000,000	—	55	Production and distribution of raw milk
鄂托克旗聖牧欣泰牧業有限公司 Otog Shengmu Xintai Farming Co., Ltd.# (note (iii))	PRC August 24, 2012	RMB32,000,000	—	55	Production and distribution of raw milk
巴彥淖爾市聖牧套海牧業有限公司 Bayannur Shengmu Taohai Farming Co., Ltd.# (note (iii))	PRC January 29, 2013	RMB42,000,000	—	55	Production and distribution of raw milk
巴彥淖爾市聖牧哈騰牧業有限公司 Bayannur Shengmu Hateng Farming Co., Ltd.# (note (iii))	PRC April 16, 2013	RMB70,000,000	—	65	Production and distribution of raw milk
巴彥淖爾市聖牧新禾牧業有限公司 Bayannur Shengmu Xinhe Farming Co., Ltd.# (note (iii))	PRC June 7, 2013	RMB36,000,000	—	65	Production and distribution of raw milk

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
巴彥淖爾市聖牧六和牧業有限公司 Bayannur Shengmu Liuhe Farming Co., Ltd.# (note (iii))	PRC June 26, 2013	RMB84,500,000	—	65	Production and distribution of raw milk
阿拉善盟聖牧五星牧業有限公司 Alxa Shengmu Wuxing Farming Co., Ltd.# (note (iii))	PRC June 20, 2013	RMB70,000,000	—	65	Production and distribution of raw milk
巴彥淖爾市聖牧希望牧業有限公司 Bayannur Shengmu Xiwang Farming Co., Ltd.# (note (iii))	PRC August 23, 2013	RMB17,600,000	—	65	Production and distribution of raw milk
巴彥淖爾市聖牧正和牧業有限公司 Bayannur Shengmu Zhenghe Farming Co., Ltd.# (note (iii))	PRC August 23, 2013	RMB42,000,000	—	65	Production and distribution of raw milk
巴彥淖爾市聖牧北斗牧業有限公司 Bayannur Shengmu Beidou Farming Co., Ltd.# (note (iii))	PRC September 9, 2013	RMB50,000,000	—	65	Production and distribution of raw milk
巴彥淖爾市聖牧七星牧業有限公司 Bayannur Shengmu Qixing Farming Co., Ltd.# (note (iii))	PRC November 28, 2013	RMB36,000,000	—	65	Production and distribution of raw milk
巴彥淖爾市聖牧三利牧業有限公司 Bayannur Shengmu Sanli Farming Co., Ltd.#	PRC April 2, 2014	RMB42,000,000	—	65	Production and distribution of raw milk
巴彥淖爾市聖牧偉業牧業有限公司 Bayannur Shengmu Weiye Farming Co., Ltd.#	PRC March 31, 2014	RMB42,000,000	—	65	Production and distribution of raw milk
阿拉善盟聖牧兆豐牧業有限公司 Alxa Shengmu Zhaofeng Farming Co., Ltd.#	PRC May 5, 2014	RMB42,000,000	—	65	Production and distribution of raw milk
巴彥淖爾市聖牧沙金牧業有限公司 Bayannur Shengmu Shajin Farming Co. Ltd.#	PRC May 26, 2014	RMB62,000,000	—	65	Production and distribution of raw milk

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

Notes:

(i) No audited financial statements have been prepared for these entities for each of the three years ended December 31, 2013, as the entity either was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation or has not been established by December 31, 2013.

(ii) The entity was registered as a foreign investment enterprise under PRC laws.

(iii) The statutory financial statements of these entities for the years ended December 31, 2011, 2012 and 2013 (or since date of incorporation, where later than the beginning of the Relevant Periods) prepared under PRC accounting standard were audited by 呼和浩特市勝途會計師事務所, 內蒙古君曄會計師事務所 and 內蒙古君曄會計師事務所, certified public accountants registered in the PRC, respectively.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization completed on March 26, 2014, the Company became the direct/indirect holding company of the companies now comprising the Group. As the Reorganization only involved inserting new holding entities at the top of an existing company and has not resulted in any change of economic substance, the Financial Information for the Relevant Periods has been presented as a continuation of the existing company using the pooling of interest method.

Accordingly, the combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows are prepared as if the current group structure had been in existence throughout the Relevant Periods. The combined statements of financial position as at December 31, 2011, 2012 and 2013, present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates.

All significant intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing after January 1, 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention except for biological assets and agricultural produce, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

The Group had net current liabilities of RMB28,313,000, RMB296,841,000 and RMB769,562,000 as of December 31, 2011, 2012 and 2013, respectively. In view of the net current liabilities position, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the additional capital injection of RMB683,300,000 in February 2014, cash inflow from operations, and the bank facilities of RMB1,070,000,000 granted by banks with expiry dates not earlier than June 30, 2015, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Financial Information has been prepared on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Financial Information does not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 9	Financial Instruments[3]
IFRS 9, IFRS 7 and IAS 39 Amendments	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39[3]
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) — Investment Entities[1]
IAS 19 Amendments	Amendments to IAS 19 Employee Benefits — Defined Benefit Plans: Employee Contributions[2]
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[1]
IAS 36 Amendments	Amendments to IAS 36 Impairment of Assets — Recoverable Amount Disclosures for Non-financial Assets[1]
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting[1]
IFRIC 21	Levies[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs[2]
IFRS 14	Regulatory Deferral Accounts[4]
IFRS 15	Revenue from Contracts with Customers[5]

[1] Effective for annual periods beginning on or after January 1, 2014
[2] Effective for annual periods beginning on or after July 1, 2014
[3] No mandatory effective date yet determined but is available for adoption
[4] Effective for annual periods beginning on or after January 1, 2016
[5] Effective for annual periods beginning on or after January 1, 2017

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the combined statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the combined statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the combined statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Fair value measurement

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale." The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

	Useful lifes	Residual values
Buildings	20 years	5%
Machinery and equipment	5-10 years	5%
Office and other equipment	5 years	5%
Motor vehicles	5 years	5%

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

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

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

Biological assets

Biological assets comprise dairy cows, including milkable cows, heifers and calves and alfalfa grass, which are raised or grown by the Group for the purposes of producing raw milk and feeding dairy cows.

Biological assets are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in the profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of biological assets is determined based on its present location and condition and is determined independently by professional valuers.

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

The sowing and plantation costs and other related costs such as staff costs, the depreciation charge, utilities costs and consumables incurred for growing alfalfa grass are capitalised and upon harvest. The costs incurred to bring the grass to harvest are transferred to inventories.

Agricultural produce

Agricultural produce represents milk and alfalfa grass. Upon harvest, agricultural produce is recognised at its fair value less costs to sell, which is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of the agricultural produce, mainly transportation costs, excluding finance costs and income tax.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Technical know-how

Technical know-how are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 20 years.

Research and development costs

All research costs are charged to the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the profit or loss. The loss arising from impairment is recognised in the profit or loss as other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the profit or loss as other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the profit or loss as other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is removed from other comprehensive income and recognised in the profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss — is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

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

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognized in the profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, the Group recognises the government grant in the profit or loss when, and only when, the conditions attaching to the government grant are met.

Other grants

When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme

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

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognized in the profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the combined statements of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiaries. As at December 31, 2013, the deferred tax liabilities arising thereon amounted to nil (2012: nil, 2011: nil).

Estimation uncertainty

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

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at each year end during the Relevant Periods adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 18 to the Financial Information.

Impairment of receivables

Management assesses doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. Management bases the estimates on the assessment of recoverability of individual receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Depreciation

Property, plant and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. Management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) Dairy farming — breeding dairy cows to produce and distribute raw milk;

(b) Liquid milk products — producing and distributing ultra-heat treated liquid milk.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) for the year. The adjusted profit/(loss) for the year is measured consistently with the Group's profit after tax except that gain arising from fair value less costs to sell of biological assets is excluded from this measurement as management believes that such adjusted information is most relevant in evaluating the results of dairy farming segment relative to other entities that operate within dairy farming industry.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended December 31, 2011	Dairy farming	Liquid milk products	Total
	RMB'000	RMB'000	RMB'000
Segment revenue:			
Sales to external customers	389,417	—	389,417
Intersegment sales	—	—	—
	389,417	—	389,417
Reconciliation:			
Elimination of intersegment sales			—
			389,417
Segment profit/(loss)	106,627	(525)	106,102
Reconciliation:			
Gain arising from changes in fair value less costs to sell of biological assets			117,139
Profit for the year			223,241
Segment assets	1,188,964	36,086	1,225,050
Reconciliation:			
Elimination of intersegment receivables			(43,880)
Total assets			1,181,170
Segment liabilities	313,173	16,611	329,784
Reconciliation:			
Elimination of intersegment payables			(23,880)
Total liabilities			305,904
Other segment information:			
Share of losses of associates	(444)	—	(444)
Bank interest income	3,109	29	3,138
Finance costs	4,669	—	4,669
Income tax expenses	—	—	—
Depreciation and amortisation	2,895	3	2,898
Investment in associates	14,756	—	14,756
Capital expenditure*	420,467	31,500	451,967

Year ended December 31, 2012	Dairy farming	Liquid milk products	Total
	RMB'000	RMB'000	RMB'000
Segment revenue:			
Sales to external customers	666,834	33,929	700,763
Intersegment sales	15,345	—	15,345
	682,179	33,929	716,108
Reconciliation:			
Elimination of intersegment sales			(15,345)
			700,763
Segment profit/(loss)	202,411	(7,914)	194,497
Reconciliation:			
Gain arising from changes in fair value less costs to sell of biological assets			4,406
Profit for the year			198,903
Segment assets	1,800,976	106,789	1,907,765
Reconciliation:			
Elimination of intersegment receivables			(91,037)
Total assets			1,816,728
Segment liabilities	574,068	95,228	669,296
Reconciliation:			
Elimination of intersegment payables			(71,037)
Total liabilities			598,259
Other segment information:			
Share of gains/(losses) of associates	337	(17)	320
Bank interest income	1,887	17	1,904
Finance costs	12,389	—	12,389
Income tax expenses	—	—	—
Depreciation and amortisation	9,108	2,464	11,572
Investment in associates	15,093	2,483	17,576
Capital expenditure*	565,745	59,716	625,461

Year ended December 31, 2013	Dairy farming	Liquid milks products	Total
	RMB'000	RMB'000	RMB'000
Segment revenue:			
Sales to external customers	840,747	302,962	1,143,709
Intersegment sales	131,561	—	131,561
	972,308	302,962	1,275,270
Reconciliation:			
Elimination of intersegment sales			(131,561)
			1,143,709
Segment profit	330,511	34,503	365,014
Reconciliation:			
Gain arising from changes in fair value less costs to sell of biological assets			9,484
Profit for the year			374,498
Segment assets	2,932,182	242,784	3,174,966
Reconciliation:			
Elimination of intersegment receivables			(62,358)
Total assets			3,112,608
Segment liabilities	1,250,354	196,720	1,447,074
Reconciliation:			
Elimination of intersegment payables			(42,358)
Total liabilities			1,404,716
Other segment information:			
Share of losses of associates	(47)	(1,302)	(1,349)
Bank interest income	454	36	490
Finance costs	30,976	1,845	32,821
Income tax expenses	—	852	852
Depreciation and amortisation	21,502	7,401	28,903
Investment in associates	15,046	2,681	17,727
Capital expenditure*	1,022,657	112,475	1,135,132

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, other intangible assets, investments in associates and biological assets.

Geographical information

All external sales of the Group during the Relevant Periods are contributable to customers located in the PRC.

All non-current assets of the Group were located in the PRC.

Information about major customers

During the Relevant Periods, the below customers of the Group's dairy farming segment individually contributed more than 10% of the Group's total revenue:

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Entity A	340,362	662,764	666,599
Entity B	—	—	163,083

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

		Year ended December 31,		
	Note	2011	2012	2013
		RMB'000	RMB'000	RMB'000
Revenue				
- Sales of raw milk		389,417	666,834	840,748
- Sales of liquid milk products		—	33,929	302,961
		389,417	700,763	1,143,709
Other income and gains				
- Government grants	(i)	6,315	3,740	5,454
- Bank interest income		3,138	1,904	490
- Foreign exchange differences, net		(808)	134	—
- Others		2,209	2,161	924
		10,854	7,939	6,868
		400,271	708,702	1,150,577

Note:

(i) These government grants are unconditional government grants received by the Group from relevant government bodies for the purpose of supporting the Group to purchase dairy cows.

6. PROFIT BEFORE TAX

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

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Cost of inventories sold:			
- Planation and breeding costs to produce raw milk	274,816	456,856	583,846
- Production costs for liquid milk products	—	9,848	69,438
	274,816	466,704	653,284
Changes in fair value less costs to sell of biological assets	117,139	4,406	9,484
Depreciation of items of property, plant and equipment	2,486	10,736	28,003
Amortisation of prepaid land lease payments	—	35	71
Amortisation of other intangible assets	412	801	829
Research and development costs	753	1,094	1,185
Minimum lease payments under operating leases:			
- Plant and machinery	2,057	3,101	3,310
- Land and buildings	9,494	9,218	6,331
	11,551	12,319	9,641
Foreign exchange differences, net	808	(134)	—
Auditors' remuneration	9	17	66
Employee benefits expense (including directors' and chief executive's remuneration):			
Wages, salaries, bonuses and allowances	34,258	55,536	98,109
Other social insurances and benefits	1,671	3,045	4,315
Pension scheme contribution	1,939	2,819	4,284
	37,868	61,400	106,708

7. FINANCE COSTS

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	8,092	14,256	32,821
Less: Interest capitalised	(3,423)	(1,867)	—
	4,669	12,389	32,821

The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation for the years ended December 31, 2011 and 2012 were 5.31-5.60% and 5.60%, respectively.

8. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

As the Company was incorporated on December 11, 2013 and has not commenced any business or operation apart from the Reorganization, it did not appoint any director, chief executive officer or independent non-executive director during the Relevant Periods.

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The remuneration of the five highest paid employees during the years ended December 31, 2011, 2012 and 2013, who are neither directors nor a chief executive officer of the Company, are as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	661	1,550	1,500
Pension scheme contributions	49	17	27
	710	1,567	1,527

The number of non-director and non-chief executive officer highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended December 31,		
Number of employees	2011	2012	2013
Nil to HK$1,000,000	5	5	5
HK$1,000,001 to HK$1,500,000	—	—	—
HK$1,500,001 to HK$2,000,000	—	—	—

10. INCOME TAX EXPENSE

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current	—	—	1,039
Deferred (note 20)	—	—	(187)
	—	—	852

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Profit before tax	223,241	198,903	375,350
Tax at the statutory tax rate (note (i))	55,810	49,726	93,838
Income not subject to tax (note (ii))	(56,116)	(50,903)	(92,501)
Lower tax rate for specific provinces (note (iii))	—	—	(693)
Expenses not deductible for tax, net (note (iv))	306	1,177	208
Tax charge at the Group's effective rate of nil, nil and 0.2%	—	—	852

Notes:

(i) The Company and its subsidiaries incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations. Entities in the PRC are generally subject to PRC Enterprise Income Tax rate of 25% for each of the years ended December 31, 2011, 2012 and 2013.

(ii) According to the Enterprise Income Tax Law of the PRC (the "EIT Law"), the Group's income arising from agricultural activities, such as dairy farming and processing of primary agricultural products, is exempt from income tax.

(iii) In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》), the Group's taxable income arising from processing of non-primary agricultural products is subject to a preferential tax rate of 15% from 2013 to 2020.

(iv) Non-deductible expenses are mainly the staff welfare and entertainment expenses charged over the tax limit.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

No profit was attributable to owners of the parent as the Company was incorporated on 11 December 2013 and has not carried on any business since the date of its incorporation save for the Reorganization.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Office and other equipment	Motor vehicles	Construction In progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2011						
At December 31, 2010 and at January 1, 2011						
Cost	30,939	7,689	984	893	37,241	77,746
Accumulated depreciation	(977)	(103)	(71)	(91)	—	(1,242)
Net carrying amount	29,962	7,586	913	802	37,241	76,504
At January 1, 2011, net of accumulated depreciation	29,962	7,586	913	802	37,241	76,504
Additions	9,062	16,245	672	1,301	97,358	124,638
Transfers	36,291	—	—	—	(36,291)	—
Disposal	(7)	(3,371)	(24)	(211)	(168)	(3,781)
Depreciation provided for the year	(936)	(1,052)	(221)	(277)	—	(2,486)
At December 31, 2011, net of accumulated depreciation	74,372	19,408	1,340	1,615	98,140	194,875
At December 31, 2011						
Cost	76,285	20,526	1,625	1,952	98,140	198,528
Accumulated depreciation	(1,913)	(1,118)	(285)	(337)	—	(3,653)
Net carrying amount	74,372	19,408	1,340	1,615	98,140	194,875

	Buildings	Machinery and equipment	Office and other equipment	Motor vehicles	Construction In progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2012						
At December 31, 2011 and at January 1, 2012						
Cost	76,285	20,526	1,625	1,952	98,140	198,528
Accumulated depreciation	(1,913)	(1,118)	(285)	(337)	—	(3,653)
Net carrying amount	74,372	19,408	1,340	1,615	98,140	194,875
At January 1, 2012, net of accumulated depreciation	74,372	19,408	1,340	1,615	98,140	194,875
Additions	12,396	57,274	2,722	1,881	191,837	266,110
Transfers	54,133	36,880	1,617	—	(92,630)	—
Depreciation provided for the year	(5,168)	(4,477)	(569)	(522)	—	(10,736)
At December 31, 2012, net of accumulated depreciation	135,733	109,085	5,110	2,974	197,347	450,249
At December 31, 2012						
Cost	142,814	114,680	5,964	3,833	197,347	464,638
Accumulated depreciation	(7,081)	(5,595)	(854)	(859)	—	(14,389)
Net carrying amount	135,733	109,085	5,110	2,974	197,347	450,249

	Buildings	Machinery and equipment	Office and other equipment	Motor vehicles	Construction In progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2013						
At December 31, 2012 and at January 1, 2013						
Cost	142,814	114,680	5,964	3,833	197,347	464,638
Accumulated depreciation	(7,081)	(5,595)	(854)	(859)	—	(14,389)
Net carrying amount	135,733	109,085	5,110	2,974	197,347	450,249
At January 1, 2013, net of accumulated depreciation	135,733	109,085	5,110	2,974	197,347	450,249
Additions	26,234	71,877	4,222	1,492	396,764	500,589
Transfers	239,369	7,112	710	—	(247,191)	—
Disposals	(35)	(15)	(21)	—	—	(71)
Depreciation provided for the year	(12,168)	(13,797)	(1,262)	(776)	—	(28,003)
At December 31, 2013, net of accumulated depreciation	389,133	174,262	8,759	3,690	346,920	922,764
At December 31, 2013						
Cost	408,380	193,650	10,856	5,325	346,920	965,131
Accumulated depreciation	(19,247)	(19,388)	(2,097)	(1,635)	—	(42,367)
Net carrying amount	389,133	174,262	8,759	3,690	346,920	922,764

All of the Group's buildings are located in the PRC.

14. PREPAID LAND LEASE PAYMENTS

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of the year	—	—	3,523
Additions	—	3,558	—
Recognised during the year	—	(35)	(71)
Carrying amount at end of the year	—	3,523	3,452
Current portion included in prepayments, deposits and other receivables	—	(71)	(71)
Non-current portion	—	3,452	3,381

The leasehold land is situated in Mainland China and is held under a long-term lease.

15. OTHER INTANGIBLE ASSETS

	Technical know-how	Computer software	Total
	RMB'000	RMB'000	RMB'000
December 31, 2011			
Cost at January 1, 2011, net of accumulated amortisation	—	279	279
Additions	15,000	183	15,183
Deemed disposal of a subsidiary	—	(29)	(29)
Amortisation provided during the year	(375)	(37)	(412)
At December 31, 2011	14,625	396	15,021
At December 31, 2011			
Cost	15,000	458	15,458
Accumulated amortisation	(375)	(62)	(437)
Net carrying amount	14,625	396	15,021
At December 31, 2010			
Cost	—	309	309
Accumulated amortisation	—	(30)	(30)
Net carrying amount	—	279	279

	Technical know-how	Computer software	Total
	RMB'000	RMB'000	RMB'000
December 31, 2012			
Cost at January 1, 2012, net of accumulated amortisation	14,625	396	15,021
Additions	—	246	246
Amortisation provided during the year	(750)	(51)	(801)
At December 31, 2012	13,875	591	14,466
At December 31, 2012			
Cost	15,000	704	15,704
Accumulated amortisation	(1,125)	(113)	(1,238)
Net carrying amount	13,875	591	14,466
At December 31, 2011			
Cost	15,000	458	15,458
Accumulated amortisation	(375)	(62)	(437)
Net carrying amount	14,625	396	15,021

	Technical know-how	Computer software	Total
	RMB'000	RMB'000	RMB'000
December 31, 2013			
Cost at January 1, 2013, net of accumulated amortisation	13,875	591	14,466
Additions	4	551	555
Amortisation provided during the year	(750)	(79)	(829)
At December 31, 2013	13,129	1,063	14,192
At December 31, 2013			
Cost	15,004	1,255	16,259
Accumulated amortisation	(1,875)	(192)	(2,067)
Net carrying amount	13,129	1,063	14,192
At December 31, 2012			
Cost	15,000	704	15,704
Accumulated amortisation	(1,125)	(113)	(1,238)
Net carrying amount	13,875	591	14,466

16. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

(A) Proportion of equity interest held by non-controlling interests:

	As at December 31,		
Name	**2011**	**2012**	**2013**
IMU-Shengmu Dairy	61.62%	45%	45%
Shengmu Pangu	—	45%	45%

(B) Accumulated balances of material non-controlling interests:

	As at December 31,		
Name	**2011**	**2012**	**2013**
	RMB'000	RMB'000	RMB'000
IMU-Shengmu Dairy	19,697	15,652	12,332
Shengmu Pangu	—	18,411	60,094

(C) Profit/(loss) allocated to material non-controlling interests:

	As at December 31,		
Name	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**
IMU-Shengmu Dairy	(328)	(4,134)	(3,320)
Shengmu Pangu	—	4,010	27,284

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

(D) Summarised statements of comprehensive income:

Year ended December 31, 2011

	IMU-Shengmu Dairy	**Shengmu Pangu**
	RMB'000	**RMB'000**
Revenue	—	—
Loss for the year	(532)	—
Total comprehensive loss	(532)	—
Attributable to non-controlling interests	(328)	—
Dividends paid to non-controlling interests	—	—

Year ended December 31, 2012

	IMU-Shengmu Dairy	**Shengmu Pangu**
	RMB'000	**RMB'000**
Revenue	—	131
Profit/(loss) for the year	(9,186)	8,912
Total comprehensive income/(loss)	(9,186)	8,912
Attributable to non-controlling interests	(4,134)	4,010
Dividends paid to non-controlling interests	—	—

Year ended December 31, 2013

	IMU-Shengmu Dairy	Shengmu Pangu
	RMB'000	RMB'000
Revenue	—	68,094
Profit/(loss) for the year	(7,377)	60,632
Total comprehensive income/(loss)	(7,377)	60,632
Attributable to non-controlling interests	(3,320)	27,284
Dividends paid to non-controlling interests	—	—

(E) Summarised statements of financial position:

Year ended December 31, 2011

	IMU-Shengmu Dairy	Shengmu Pangu
	RMB'000	RMB'000
Current assets	4,398	—
Biological assets	1,708	—
Other non-current assets	26,373	—
Current liabilities	(511)	—
Total equity	31,968	—
Attributable to:		
Owners of parent	12,271	—
Non-controlling interests	19,697	—

Year ended December 31, 2012

	IMU-Shengmu Dairy	Shengmu Pangu
	RMB'000	RMB'000
Current assets	14,975	15,210
Biological assets	108,709	17,309
Other non-current assets	44,571	19,145
Current liabilities	(133,473)	(10,752)
Total equity	34,782	40,912
Attributable to:		
Owners of parent	19,130	22,501
Non-controlling interests	15,652	18,411

Year ended December 31, 2013

	IMU-Shengmu Dairy	Shengmu Pangu
	RMB'000	RMB'000
Current assets	72,058	61,981
Biological assets	30,601	122,557
Other non-current assets	62,219	63,279
Current liabilities	(137,473)	(114,274)
Total equity	27,405	133,543
Attributable to:		
Owners of parent	15,073	73,449
Non-controlling interests	12,332	60,094

(F) Summarised statements of cash flows:

Year ended December 31, 2011

	IMU-Shengmu Dairy	Shengmu Pangu
	RMB'000	RMB'000
Operating	(141)	—
Investing	(16,997)	—
Financing	17,500	—
Net increase in cash and cash equivalents	362	—

Year ended December 31, 2012

	IMU-Shengmu Dairy	Shengmu Pangu
	RMB'000	RMB'000
Operating	(3,534)	(6,117)
Investing	(34,646)	(18,479)
Financing	39,179	24,800
Net increase in cash and cash equivalents	999	204

Year ended December 31, 2013

	IMU-Shengmu Dairy	Shengmu Pangu
	RMB'000	RMB'000
Operating	311	39,074
Investing	(24,261)	(89,673)
Financing	26,605	54,678
Net increase in cash and cash equivalents	2,655	4,079

17. INVESTMENTS IN ASSOCIATES

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Share of net assets	14,756	17,576	17,727

Particulars of the Group's associates as of December 31, 2013 are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interests attributable to the Group	Principal Activities
賽罕(上海) 實業有限公司 Saihan (Shanghai) Co., Ltd.*	Share capital	PRC	41.67%	Distribution of dairy products
聖牧高科 (北京) 貿易有限公司 Shengmu Hi-Tech (Beijing) Trade Co., Ltd.*	Share capital	PRC	30.00%	Distribution of dairy products
巴彥淖爾市聖牧高科生態草業有限公司 Bayannur Shengmu High-tech Ecological Forage Co., Ltd.* (note (a))	Share capital	PRC	8.60%	Grass planting

* Not audited by Ernst & Young, Hong Kong or another member of the Ernst & Young global network.

Note

(a) Although the Group only holds an 8.6% equity interest in Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") as at December 31, 2013, Shengmu Forage has been accounted for as an associate of the Group as the Group has had more than 20% effective voting power in Shengmu Forage since the disposal of the Group's majority interest in Shengmu Forage in December 2011.

The Group's shareholdings in the associates all comprise equity shares held by the subsidiaries of the Company.

The following table illustrates the summarised financial information of Shengmu Forage adjusted for any differences in accounting policies, and reconciled to the carrying amount in the combined financial statements:

	As at December 31,		
	2011	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**
Current assets	51,163	67,305	103,391
Non-current assets	12,902	47,502	209,632
Current liabilities	(1,988)	(26,420)	(138,014)
Net assets	62,077	88,387	175,009
Reconciliation to the Group's interest in the associates:			
Proportion of the Group's ownership	23.77%	17.04%	8.60%
Group's share of net assets of the associate, excluding goodwill	14,756	15,093	15,046
Revenue		27,316	111,791
Profit for the year		2,210	3,062
Total comprehensive income for the year		2,210	3,062
Dividend received		—	—

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	As at December 31,	
	2012	**2013**
	RMB'000	**RMB'000**
Share of the associates' losses for the year	(17)	(1,302)
Share of the associates' total comprehensive income	(17)	(1,302)
Aggregate carrying amount of the Group's investments in the associates	2,483	2,681

18. BIOLOGICAL ASSETS

(A) **Nature of activities**

The biological assets of the Group are dairy cows held to produce raw milk and alfalfa grass grown for feeding dairy cows.

The quantity of dairy cows owned by the Group at December 31, 2011, 2012 and 2013 is shown below. The Group's dairy cows include heifers and calves and milkable cows. Heifers and calves held at December 31, 2011, 2012 and 2013 are dairy cows that have not had their first calves.

	As at December 31,		
	2011	2012	2013
	Head	Head	Head
Dairy cows			
Milkable cows	23,288	27,636	35,850
Heifers and calves	11,828	21,747	24,607
Total dairy cows	35,116	49,383	60,457

In general, heifers are inseminated with semen when they reach the age of approximately 14 months. After approximately nine months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 305 days before an approximately 60 days' resting period. The male calves newly born will be sold while the female calves will be bred for six months and then transferred to the group of heifers. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

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 new stems in about 60 to 70 days. Generally alfalfa has a sustainable growth for eight years with each growth period lasting about 60 to 70 days.

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in note 33, the Group is exposed to the following operation risks:

(i) ***Regulatory and environmental risks***

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

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

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

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

(B) **Value of biological assets**

The value of Group's biological assets at each year end during the Relevant Periods was:

	Heifers and calves	Milkable cows	Alfalfa grass	Total
	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2011				
At January 1, 2011	125,569	171,466	4,849	301,884
Increases due to purchase	159,968	44,473	—	204,441
Increase due to raising and planting (Feeding costs and others)	118,627	—	4,078	122,705
Transfer	(178,498)	178,498	—	—
Decrease due to sales	(22,538)	(914)	—	(23,452)
Deemed disposal of a subsidiary	—	—	(8,891)	(8,891)
Gain/(loss) arising from changes in fair value less costs to sell	(18,003)	135,178	(36)	117,139
At December 31, 2011	185,125	528,701	—	713,826

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
December 31, 2012			
At January 1, 2012	185,125	528,701	713,826
Increases due to purchase	135,592	17,375	152,967
Increase due to raising (Feeding costs and others)	200,080	—	200,080
Transfer	(131,372)	131,372	—
Decrease due to sales	(24,605)	(17,133)	(41,738)
Gain/(loss) arising from changes in fair value less costs to sell	(11,377)	15,783	4,406
At December 31, 2012	353,443	676,098	1,029,541

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
December 31, 2013			
At January 1, 2013	353,443	676,098	1,029,541
Increases due to purchase	164,862	134,785	299,647
Increase due to raising (Feeding costs and others)	332,841	—	332,841
Transfer	(303,538)	303,538	—
Decrease due to sales	(41,583)	(119,770)	(161,353)
Gain/(loss) arising from changes in fair value less costs to sell	(81,326)	90,810	9,484
At December 31, 2013	424,699	1,085,461	1,510,160

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent qualified professional valuers not connected with the Group, which has appropriate qualifications and recent experience in valuation of biological assets.

(C) **Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2011	—	—	713,826	713,826
As at December 31, 2012	—	—	1,029,541	1,029,541
As at December 31, 2013	—	—	1,510,160	1,510,160

(D) **Description of valuation techniques used and key inputs to valuation on biological assets**

The following table shows the valuation techniques used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers..............	The fair value of the heifers purchased within six month prior to each reporting date is determined with reference to the actual purchase price, with adjustment by adding the feed costs from the purchase date to the reporting date. For the calves and the rest heifers, the fair value of 14 months old heifers is determined by referring to the market price of the actively traded market. The fair values of the heifers older than 14 months old are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers younger than 14 months old and the fair values of the calves are determined by subtracting the breeding costs required to raise the calves or heifers from the respective specific ages to 14 months old and the margins that would be required by a raiser.	Average market price of the heifers of 14 months old: RMB16,195 to RMB18,315 in the three years ended December 31, 2013.	The estimated fair value increases when the market price increases.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Milkable cows....................	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the year ends during the Relevant Periods will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or finish of all lactation periods. Estimated overall culling rate is ranged from over 18% up to 100% along with the increase of the number of the lactation periods.	The estimated fair value decreases when the estimated culling rates increase.
		A milkable cow could have as many as six to seven lactation periods. Estimated average raw milk production volume per head for lactation period is ranged from 6.5 tonnes to 9.1 tonnes depending on the number of the lactation periods and the individual physical condition.	The estimated fair value increases when the estimated raw milk production volume increases.
		Estimated future raw milk local market prices per tonne for the three years ended December 31, 2013: RMB3,700 to RMB5,220 per tonne.	The estimated fair value increases when the estimated future raw milk local market price increases.
		Discount rate is 15.34%, 14.00% and 14.50% for the year ended December 31, 2011, 2012 and 2013, respectively, calculated by using the Capital Asset Pricing Model.	The estimated fair value decreases when the discount rate increases.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Alfalfa roots	The fair value of alfalfa roots are determined on their escalated average costs of each year of planting adjusted for the remaining expected life.	Costs incurred for purchasing and sowing alfalfa seeds: RMB5.09 million for the year ended December 31, 2011. Expected useful lives are currently eight years.	The estimated fair value increase when the costs incurred for purchasing and sowing seeds increase. The estimated fair value increase when expected useful lives decrease.

(E) **Quantity of the agriculture produce produced by the Group's biological assets**

	Year ended December 31,		
	2011	2012	2013
	Tonne	Tonne	Tonne
Raw milk	104,212	159,589	207,405

(F) **Gain arising on initial recognition of agricultural produce at fair value less cost to sell at the point of harvest**

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Raw milk	383,317	673,242	961,151

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Prepayments	19,092	9,174	83,822
Deposits and other receivables	7,991	11,583	15,413
Prepaid expenses	2,911	9,299	4,185
	29,994	30,056	103,420
Non-current prepayments	(14,101)	(26)	(9,043)
Current portion	15,893	30,030	94,377

20. DEFERRED TAX

The movements in the deferred tax assets during the year are as follows:

	2011	2012	2013
	RMB'000	RMB'000	RMB'000
At January 1	—	—	—
Credited to profit or loss during the year	—	—	187
At December 31	—	—	187

The principal components of the Group's deferred tax are as follows:

	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Accrued expenses	—	—	187

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

At December 31, 2011, 2012 and 2013, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totaled approximately RMB296,879,000, RMB471,060,000 and RMB760,809,000 at December 31, 2011, 2012 and 2013, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

21. INVENTORIES

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Raw materials	98,383	194,462	319,525
Finished goods	—	—	832
Consumables	5,498	9,781	14,861
	103,881	204,243	335,218

22. TRADE AND BILLS RECEIVABLES

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade receivables	10,043	24,510	63,470
Impairment	—	—	—
	10,043	24,510	63,470

The Group normally allows a credit limit or offer credit terms to its customers which is adjustable in certain circumstances. The Group closely monitors overdue balances. The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade receivables are non-interest-bearing.

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

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within three months	10,043	24,510	63,470

No impairment of trade receivables for each of the Relevant Periods is provided.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	10,043	24,510	63,470

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

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	69,550	29,838	127,059
Pledged deposits	29,224	12,797	15,030
Cash and bank balances	98,774	42,635	142,089

At December 31, 2011, 2012 and 2013, cash and bank balances of the Group denominated in RMB amounted to approximately RMB87,615,000, RMB42,634,000, RMB142,088,000 respectively. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. TRADE AND BILLS PAYABLES

An aged analysis of the trade payables of the Group, based on the invoice date, is as follows:

	As at December 31,		
	2011	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**
1 to 3 months	81,221	130,043	187,939
4 to 6 months	264	559	510
7 to 12 months	94	1,248	2,112
1 to 2 years	2,384	292	359
2 to 3 years	—	9	117
	83,963	132,151	191,037

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

25. OTHER PAYABLES AND ACCRUALS

	As at December 31,		
	2011	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**
Advances from related parties	47,272	38,263	7,609
Payables for acquisition of property, plant and equipment	12,569	28,053	87,416
Payables for purchase of dairy cows	5,139	17,877	18,959
Payables for third parties' deposits	2,248	10,597	20,194
Payables for purchase of transportation services	901	1,931	8,217
Salary and welfare payables	5,453	10,162	20,060
Others	8,886	17,698	36,110
	82,468	124,581	198,565

Other payables are non-interest-bearing and have an average term of three months.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Year ended December 31,								
	2011			2012			2013		
	Effective contract rate (%)	Maturity	RMB'000	Effective contract rate (%)	Maturity	RMB'000	Effective contract rate (%)	Maturity	RMB'000
Current									
Bank and other borrowings-unsecured.	—	—	—	6.31	2013	145,000	6.00	2014	782,000
Bank and other borrowings-secured...	5.47-5.81	2012	75,000	6.00-6.56	2013	130,000	6.00	2014	150,000
Current portion of long term bank and other borrowings-secured...	—	—	—	5.60	2013	49,000	—	—	—
			75,000			324,000			932,000
Non-current									
Bank and other borrowings-secured...	5.60	2013	49,000	—	—	—	—	—	—
			124,000			324,000			932,000

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank and other borrowings repayable:			
Within one year or on demand	75,000	324,000	932,000
In the second year...	49,000	—	—
	124,000	324,000	932,000

Notes:

(i) The Group's bank and other borrowings are all denominated in RMB and bear fixed interest rates.

(ii) As at December 31, 2011, 2012 and 2013, the Group's interest-bearing bank and other borrowings were secured as follows:

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Guaranteed by certain shareholders*	25,000	70,000	150,000
Guaranteed by one of the Group's customers	99,000	79,000	—
Guaranteed by a third party	—	30,000	—
Unguaranteed and unsecured	—	145,000	782,000
	124,000	324,000	932,000

* These bank and other borrowings were guaranteed by the Company's certain shareholders. Included in the above guarantees, a guarantee contract with an amount of RMB50,000,000 expired by February 28, 2014, and other guarantee contracts with an aggregate amount of RMB100,000,000 were released by February 28, 2014.

27. ISSUED CAPITAL

On December 11, 2013, the Company was incorporated in the Cayman Islands with authorized share capital of HK$300,000 divided into 300,000 shares of a par value of HK$1.00 each. On the date of incorporation, one share representing 100% of the then issued share capital of the Company were allotted and issued at HK$1.00 to Mapcal Limited. On the same day, the initial subscriber share was transferred to World Shining Investment Limited. Other than the share allotment and transfer aforementioned, no other share transaction or operation was undertaken by the Company from its incorporation to December 31, 2013. There was no authorized and issued capital as at December 31, 2011 and 2012 since the Company has not yet been incorporated.

28. RESERVES

Notes:

(i) Movements in components of equity

The amounts of the Group's reserves and the movements therein for the Reporting Periods are presented in the combined statement of changes in equity on pages I-6 of the accountants' report.

(ii) Contributed surplus

The Group's contributed surplus represents the issued capital and share premium of the subsidiaries of the Company before the completion of the Reorganization.

(iii) Reserve Fund

In accordance with the relevant PRC laws and the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The PRC statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iv) **Distributable reserves**

The Company was incorporated on December 11, 2013 and has not carried on any business since the date of its incorporation save for the Reorganization. As such, there was no reserve available for distribution to the equity shareholders of the Company as at December 31, 2011, 2012 and 2013.

29. DEEMED DISPOSAL OF A SUBSIDIARY

During the year ended December 31, 2011, the Group lost control of a subsidiary as other shareholders injected additional capital in the subsidiary, which diluted the Group's equity interest from 65.02% to 23.77%.

	As at December 31, 2011
	RMB'000
Current assets	12,462
Non-current assets	12,902
Current liabilities	(1,988)
Non-controlling interests	(8,176)
	15,200
Loss on deemed disposal of a subsidiary	(444)
Fair value of remaining equity interests recognized as investments in an associate	14,756

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary is as follows:

	As at December 31, 2011
	RMB'000
Cash consideration	—
Cash and bank balances disposed of	(266)
Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary	(266)

30. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases from third parties certain office properties and dairy farms, including buildings and equipment under operating lease arrangements.

At each year end during the Relevant Periods, the Group had total future minimum lease payments under noncancellable operating leases falling due as follows:

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within one year	10,247	9,668	8,949
In the second to fifth years, inclusive	28,523	28,170	24,859
After five years	10,043	5,022	—
	48,813	42,860	33,808

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at each year end during the Relevant Periods:

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Land and buildings	78,510	57,703	48,501
Plant and machinery	14,850	4,065	37,641
	93,360	61,768	86,142

32. RELATED PARTY DISCLOSURES

(A) In addition to the transactions and balances which are disclosed elsewhere in these financial statements, the Group had the following significant transactions with its associates and other related parties.

		Year ended December 31,		
	Notes	2011	2012	2013
		RMB'000	RMB'000	RMB'000
Associates:				
Sales of products	(i)	46,822	195	7,998
Purchase of raw materials	(i)	—	27,316	111,791

Note:

(i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.

(B) Other transactions with related parties:

During the Relevant Periods, Shengmu Forage provided biowaste (i.e., cow dung) cleaning services to the dairy farms of the Group for free. Such services include collecting and cleaning unprocessed biowaste from the farms. In return, Shengmu Forage collected free unprocessed biowaste from the farms.

During the year ended December 31, 2011, the Group sold raw milk with an aggregate amount of RMB46,822,000 (2012: nil; 2013: nil) to its largest customer, which is principally engaged in the milk processing industry in the PRC and is listed on the Main Board of the Hong Kong Stock Exchange, through two directors of Inner Mongolia Shengmu High-tech Farming Co., Ltd.

(C) Compensation of key management personnel of the Group

	Year ended December 31,		
	2011	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**
Salaries, allowances and benefits in kind	377	457	570
Pension scheme contribution	14	16	25
	391	473	595

(D) Outstanding balances with related parties

	As at December 31,		
	2011	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**
Amounts owed by/(owed to) associates included in:			
− Trade receivables	—	—	1,386
− Receipts in advance	—	(200)	—
− Trade payables	—	(12,039)	(2,963)
− Prepayments, deposits and other receivables	—	—	57,501
− Other payables and accruals	(3,272)	(38,263)	—
Amounts owed by/(owed to) certain shareholders included in:			
− Other payables and accruals	(44,000)	—	(6,880)

Other than those balances included in trade receivables and trade payables, the above balances with related parties are unsecured, interest-free and have no fixed terms of repayment. Trade receivables and trade payables with related parties have similar credit terms to those offered by/to third parties.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Financial assets

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Loans and receivables:			
Trade receivables	10,043	24,510	63,470
Financial assets included in prepayments, deposits and other receivables	7,992	11,583	15,413
Pledged deposits	29,224	12,797	15,030
Cash and cash equivalents	69,550	29,838	127,059
	116,809	78,728	220,972

Financial liabilities

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Financial liabilities at amortized cost:			
Trade and bills payables	83,963	132,151	191,037
Financial liabilities included in other payables and accruals	76,972	114,260	214,179
Interest-bearing bank and other borrowings	124,000	324,000	932,000
	284,935	570,411	1,337,216

34. FAIR VALUE AND FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts			Fair values		
	As at December 31,			As at December 31,		
	2011	2012	2013	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities						
Interest-bearing bank and other borrowings	124,000	324,000	932,000	123,226	323,822	932,000

Management has assessed that the fair values of cash and cash equivalents, short term pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group did not have any financial assets or liabilities measured at fair value for the years ended December 31, 2011, 2012 and 2013.

The following table illustrated the fair value measurement hierarchy of the Group's financial instruments of which fair value are disclosed:

	Fair value measurement using significant unobservable inputs (Level 3)		
	As at December 31,		
	2011	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**
Financial liabilities			
Interest-bearing bank and other borrowings	123,226	323,822	932,000

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, pledged deposits, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

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

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on cash and cash equivalents, and pledged bank deposits. Management considers that these bank balances are not sensitive to fluctuations in interest rates.

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The Group's interest rate profile as monitored by management is set out in note 26.

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment. During the Relevant Periods, substantially all of the Group's assets and liabilities were denominated in RMB except that as at December 31, 2011, cash and bank balances of approximately RMB11,159,000 were denominated in United States dollars ("USD"). The fluctuation of the exchange rates of RMB against foreign currencies could slightly affect the Group's results of operations.

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/(decrease) in USD rate	Increase/(decrease) in profit before tax
	%	RMB'000
2011		
If RMB strengthens against the USD	5%	(808)
If RMB weakens against the USD	(5%)	808
2012		
If RMB strengthens against the USD	5%	(134)
If RMB weakens against the USD	(5%)	134
2013		
If RMB strengthens against the USD	5%	—
If RMB weakens against the USD	(5%)	—

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

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

The Group has a concentration of credit risk as 99%, 89% and 51% of total trade receivables as at December 31, 2011, 2012 and 2013, respectively, was due from the Group's top two customers which are principally engaged in the milk processing industry in the PRC and are listed on the Main Board of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the Financial Information.

Liquidity risk

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

The table below summarizes the maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on contractual undiscounted payments.

	On demand	Less than 1 year	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2011				
Interest-bearing and other borrowings	—	79,474	51,609	131,083
Trade and bills payables	83,963	—	—	83,963
Financial liabilities included in other payables and accruals	76,972	—	—	76,972
	160,935	79,474	51,609	292,018
2012				
Interest-bearing and other borrowings	—	335,160	—	335,160
Trade and bills payables	132,151	—	—	132,151
Financial liabilities included in other payables and accruals	114,260	—	—	114,260
	246,411	335,160	—	581,571
2013				
Interest-bearing and other borrowings	—	962,850	—	962,850
Trade and bills payables	191,037	—	—	191,037
Financial liabilities included in other payables and accruals	174,821	—	—	174,821
	365,858	962,850	—	1,328,708

Capital management

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

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

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes interest-bearing borrowings. Total capital is calculated as equity as shown in the combined statements of financial position. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios as at each year end of each of the Relevant Periods were as follows:

	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	124,000	324,000	932,000
Total capital	875,266	1,218,469	1,707,892
Gearing ratio	14.2%	26.6%	54.6%

III. EVENTS AFTER THE REPORTING PERIODS

In February 2014, the Group received an additional RMB683,300,000 in shareholders' equity in the form of cash and cash equivalents.

The companies now comprising the Group underwent and completed the Reorganization on March 26, 2014 in preparation for the [REDACTED] of the shares of the Company on the Stock Exchange. Further details of the Reorganization are set out in the section headed "History, Reorganization and Group Structure" to the [REDACTED]. As a result of the Reorganization, the Company became the holding company of the subsidiaries now comprising the Group.

The Company has conditionally approved and adopted the Pre-[REDACTED] Share Option Scheme (the "Pre-[REDACTED] Share Option Scheme") pursuant to the resolutions of the shareholders passed on April 30, 2014. The purpose of the Pre-[REDACTED] Share Option Scheme is to attract, retain and motivate directors and senior management of the Company, directors of the subsidiaries of the Company and other employees of the Group and Shengmu Forage, to provide a means of compensating them through the grant of options under the Pre-[REDACTED] Share Option Scheme for their contribution to the growth and profits of the Group, and to allow them to participate in the growth and profitability of the Group. On April 30, 2014, an aggregate of 504,480,000 options was conditionally granted by the Company under the Pre-[REDACTED] Share Option Scheme.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to December 31, 2013.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong