



CHINA DAIRY GROUP LTD
Registration No. 199703080Z

RESULTS FOR THE 3RD QUARTER ENDED 30 SEPTEMBER 2014

**PART1- INFORMATION REQUIRED FOR ANNOUNCEMENT OF QUARTERLY (Q1, Q2 & Q3),
 HALF AND FULL YEAR RESULTS**

1(a) An income statement and statement of comprehensive income or a statement of comprehensive income for the group together with a comparative statement for the corresponding period of the immediate preceding financial year

1(a)(i) GROUP INCOME STATEMENT

	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	Change	9 months to 30/09/2014	9 months to 30/09/2013	Change
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Revenue	467,235	519,287	-10.0%	1,397,179	1,479,658	-5.6%
Cost of Sales	(316,254)	(382,697)	-17.4%	(961,428)	(1,056,013)	-9.0%
Gross Profit	150,981	136,590	10.5%	435,751	423,645	2.9%
Other Items of Income						
Interest Income	58	277	-79.1%	553	726	-23.8%
Other Credit	2,040	5,056	-59.7%	4,086	7,545	-45.8%
Other Items of Expenses						
Marketing and Distribution Costs	(111,992)	(117,128)	-4.4%	(331,523)	(336,898)	-1.6%
Administrative Expenses	(21,655)	(20,554)	5.4%	(63,634)	(63,696)	-0.1%
Finance Costs	(2,970)	(2,406)	23.4%	(7,431)	(8,294)	-10.4%
Other Charges	(830)	(478)	73.6%	(6,144)	(2,520)	143.8%
Share of Profit/(Loss) from Associate	66	(217)	NM	831	(740)	NM
Profit Before Tax	15,698	1,140	1277.0%	32,489	19,768	64.4%
Income Tax Expenses	(4,747)	570	NM	(7,154)	(313)	2185.6%
PROFIT FOR THE PERIOD	10,951	1,710	540.4%	25,335	19,455	30.2%
Profit / (Loss) Attributable to:						
Owners of the Parent	11,042	1,800	513.4%	25,595	20,945	22.2%
Non-Controlling Interests	(91)	(90)	1.1%	(260)	(1,490)	-82.6%
	10,951	1,710	540.4%	25,335	19,455	30.2%
Earnings Per Share (in currency units):						
Basic and Diluted (cents)	2.51	0.41	513.4%	5.82	4.76	22.2%

NM-Not meaningful

**1(a)(ii) BREAKDOWN AND EXPLANATORY NOTES TO GROUP INCOME STATEMENT****(A) Revenue**

	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	Change	9 months to 30/09/2014	9 months to 30/09/2013	Change
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Sale of Finished Goods	462,869	508,075	-8.9%	1,370,391	1,449,851	-5.5%
Sale of Materials	4,366	11,212	-61.1%	26,788	29,807	-10.1%
	<u>467,235</u>	<u>519,287</u>	-10.0%	<u>1,397,179</u>	<u>1,479,658</u>	-5.6%

(B) Other Credits

	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	Change	9 months to 30/09/2014	9 months to 30/09/2013	Change
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Government grant	567	-	NM	1,859	-	NM
Gain on disposal of investment in subsidiary	-	4,971	NM	1,358	4,971	-72.7%
Other income	96	85	12.9%	565	720	-21.5%
Rental income	292	-	NM	292	390	-25.1%
Allowance for impairment on other receivables-reversal	-	-	-	12	-	NM
Foreign exchange adjustments gain/(loss)	1,085	-	NM	-	1,464	NM
	<u>2,040</u>	<u>5,056</u>	-59.7%	<u>4,086</u>	<u>7,545</u>	-45.8%

(C) Other Charges

	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	Change	9 months to 30/09/2014	9 months to 30/09/2013	Change
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Inventories written off	404	-	NM	4,118	1,218	238.1%
Depreciation and direct operating expenses of investment property	331	263	25.9%	909	806	12.8%
Loss on disposal of PPE and land use right	92	23	300.0%	472	16	2850.0%
Foreign exchange adjustments loss	-	120	NM	379	-	NM
Other expenses	3	72	-95.8%	266	480	-44.6%
	<u>830</u>	<u>478</u>	73.6%	<u>6,144</u>	<u>2,520</u>	143.8%

NM-Not meaningful

PPE-property, plant and equipment

(D) Finance Costs

	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	Change	9 months to 30/09/2014	9 months to 30/09/2013	Change
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Interest Expense	2,970	2,406	23.4%	7,431	8,294	-10.4%

(E) Depreciation and Amortisation

	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	Change	9 months to 30/09/2014	9 months to 30/09/2013	Change
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Depreciation of Investment Property and PPE	10,546	10,102	4.4%	30,960	31,585	-2.0%
Amortisation of Other Assets, Non current	351	350	0.3%	1,051	1,074	-2.1%
	10,897	10,452	4.3%	32,011	32,659	-2.0%

(F) Income Tax

	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	Change	9 months to 30/09/2014	9 months to 30/09/2013	Change
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Deferred Tax Expenses	-	(570)	NM	-	64	NM
Current Tax Expense	4,747	-	NM	7,154	249	2773.1%
	4,747	(570)	NM	7,154	313	2185.6%

NM-Not meaningful

PPE-property, plant and equipment



1(b)(i) A statement of financial position (for the issuer and group) together with a comparative statement as at the end of the immediately preceding financial year.

STATEMENTS OF FINANCIAL POSITION

	Group		Company		Group Change %	Company Change %
	As at 30/09/2014 RMB'000	As at 31/12/2013 RMB'000	As at 30/09/2014 RMB'000	As at 31/12/2013 RMB'000		
ASSETS						
Non-Current Assets						
Property, Plant and Equipment	350,449	334,301	2	5	4.8%	-60.0%
Investment Property	3,346	3,614	-	-	-7.4%	-
Investments in Subsidiaries	-	-	393,143	389,899	-	0.8%
Investment in Associate	32,164	23,233	-	-	38.4%	-
Deferred Tax Assets	14,247	14,247	-	-	0.0%	-
Other Assets, Non-Current	44,724	45,775	-	-	-2.3%	-
Total Non-Current Assets	444,930	421,170	393,145	389,904	5.6%	0.8%
Current Assets						
Inventories	208,854	194,408	-	-	7.4%	-
Trade and Other Receivables, Current	132,926	122,789	14,767	15,438	8.3%	-4.3%
Other Financial Assets, Current	3,000	3,000	-	-	0.0%	-
Other Assets, Current	66,028	62,624	101	51	5.4%	98.0%
Cash and Cash Equivalents	119,253	93,343	2,334	4,543	27.8%	-48.6%
Total Current Assets	530,061	476,164	17,202	20,032	11.3%	-14.1%
Total Assets	974,991	897,334	410,347	409,935	8.7%	0.1%
EQUITY AND LIABILITIES						
Equity attributable to owners of the parent						
Share Capital	401,392	401,392	401,392	401,392	0.0%	0.0%
Retained Earnings/(Accumulated Losses)	(95,495)	(121,090)	2,762	5,966	-21.1%	-53.7%
Other Reserves	44,829	43,416	3,396	(45)	3.3%	NM
Equity, Attributable to Equity Holders of the Parent	350,726	323,718	407,550	407,313	8.3%	0.1%
Non-Controlling Interests	(693)	(433)	-	-	60.0%	-
Total Equity	350,033	323,285	407,550	407,313	8.3%	0.1%
Non-Current Liabilities						
Finance Lease, Non-Current	6,372	8,234	-	-	-22.6%	-
Total Non-Current Liabilities	6,372	8,234	-	-	-22.6%	-
Current Liabilities						
Trade and Other Payables, Current	449,659	421,759	2,797	2,621	6.6%	6.7%
Finance Lease, Current	1,897	1,800	-	-	5.4%	-
Other Financial Liabilities, Current	150,000	130,400	-	-	15.0%	-
Income Tax Payable, Current	5,755	-	-	-	NM	-
Other Liabilities, Current	11,275	11,856	-	-	-4.9%	-
Total Current Liabilities	618,586	565,815	2,797	2,621	9.3%	6.7%
Total Liabilities	624,958	574,049	2,797	2,621	8.9%	6.7%
Total Equity and Liabilities	974,991	897,334	410,347	409,935	8.7%	0.1%
Detail of Other Components of Equity (for reference only)						
Statutory Reserve	26,833	26,833				
Capital Reserve	19,689	19,689				
Translation Reserve	(1,693)	(3,106)				
	44,829	43,416				

NM-Not meaningful

1(b)(ii) Aggregate amount of borrowings and debts securities for the Group.

Amount repayable in one year or less, or on demand

	As at 30/09/2014		As at 31/12/2013	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	150,000	-	130,400	-
Financial Lease, Current	1,897	-	1,800	-

Amount repayable after one year,

	As at 30/09/2014		As at 31/12/2013	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Financial Lease, Non-Current	6,372	-	8,234	-

Details of any collateral

As at 30 September 2014, the above bank borrowings of RMB 150 million, financial lease current of 1.897 million and financial lease non-current of 6.372 million were secured by pledges on the group's PPE and land use rights, cash in bank, trade receivables and corporate guarantees by non-controlling shareholder of a subsidiary.

1(b)(iii) STATEMENT OF COMPREHENSIVE INCOME

	3rd Quarter to	3rd Quarter to	Change	9 months to	9 months to	Change
	30/09/2014	30/09/2013		30/09/2014	30/09/2013	
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Profit for the Period	10,951	1,710	540.4%	25,335	19,455	30.2%
Other Comprehensive Income:						
Items That May Be Reclassified Subsequently to Profit or Loss						
Exchange Differences on Translating Foreign Operations	(1,173)	13	NM	1,413	(1,840)	NM
Other Comprehensive Income for the Period, Net of Tax	(1,173)	13	NM	1,413	(1,840)	NM
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	9,778	1,723	467.5%	26,748	17,615	51.8%
Total Comprehensive Income Attributable to:						
Owners of the Parent	9,869	1,813	444.3%	27,008	19,105	41.4%
Non-Controlling Interests	(91)	(90)	1.1%	(260)	(1,490)	-82.6%
	9,778	1,723	467.5%	26,748	17,615	51.8%

NM-Not meaningful



1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

GROUP STATEMENT OF CASH FLOWS

	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	9 months to 30/09/2014	9 months to 30/09/2013
	RMB'000	RMB'000	RMB'000	RMB'000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Profit Before Tax	15,698	1,140	32,489	19,768
Adjustment for:				
Interest Income	(128)	(277)	(553)	(726)
Interest Expense	2,970	2,406	7,431	8,294
Share of (Gain)/Loss from Associate	(66)	217	(831)	740
Depreciation of Investment Property, Leasehold property, Plant and Equipment	10,546	10,102	30,960	31,585
Amortisation of Other Assets, Non Current	351	350	1,051	1,074
Loss on Disposal of Plant and Equipment and Land Use Rights	92	23	472	16
Foreign Exchange Adjustment (Gain)/Loss	(1,085)	120	379	(1,464)
Gain on Disposal of investment in subsidiary	-	(4,971)	(1,358)	(4,971)
Net Effect of Exchange Rate Changes in Consolidating Foreign Subsidiaries	72	(117)	(30)	29
Operating Cash Flows Before Changes in Working Capital	28,450	8,993	70,010	54,345
Inventories	5,961	(4,684)	(14,446)	14,318
Trade and Other Receivables, Current	13,645	18,702	(12,879)	(27,661)
Other Assets, Current	14,539	(37,741)	(3,404)	(33,411)
Trade and Other Payables, Current	(39,754)	19,596	30,687	28,776
Other Liabilities, Current	(1,221)	224	(581)	(6,767)
Net Cash Flows From Operations Before Tax	21,620	5,090	69,387	29,600
Income Tax Paid	-	-	(563)	(249)
Net Cash Flows From Operating Activities	21,620	5,090	68,824	29,351
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Disposal of Plant and Equipment and Land Use Right	(31)	-	27	71
Purchase of Property, Plant and Equipment and Land Use Right	(17,315)	(7,212)	(47,339)	(18,771)
Disposal of Subsidiaries (Net of Cash Disposed)	1,500	1,476	1,500	1,476
Increase in Investment in Associate	(8,100)	-	(8,100)	-
Interest Received	128	277	553	726
Net Cash Flows Used In Investing Activities	(23,818)	(5,459)	(53,359)	(16,498)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Increase/(Decrease) in Short-Term Borrowing	-	10,200	19,600	(17,700)
Decrease in Finance Lease, Non-current	(260)	-	(1,765)	(3,320)
Cash Restricted in Use Over 3 Months	1,850	2,310	(7,140)	17,350
Interest Paid	(2,970)	(2,406)	(7,431)	(8,294)
Net Cash Flows From/(Used in) Financing Activities	(1,380)	10,104	3,264	(11,964)
Net Increase/(Decrease) in Cash and Cash Equivalents	(3,578)	9,735	18,729	889
Cash and Cash Equivalents, Statement of Cash Flows, Beginning Balance	111,379	111,863	88,873	121,125
Effects of Foreign Exchange Rate Adjustments	(158)	20	41	(396)
Cash and Cash Equivalents, Statement of Cash Flows, Ending Balance	107,643	121,618	107,643	121,618
Restricted	11,610	-	11,610	-
Non-restricted	107,643	121,618	107,643	121,618

- 1(d)(i) A statement (for the issuer and group) showing either**
- (i) all changes in equity or**
 - (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

STATEMENT OF CHANGES IN EQUITY

	Group					
	Total Equity	Attributable to Parent Sub-total	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves	Non Controlling Interest
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
3rd Quarter ended 30 September 2014						
Opening Balance at 1 July 2014	340,255	340,857	401,392	(106,537)	46,002	(602)
Movement in Equity:						
Total Comprehensive Income for the Period	9,778	9,869	-	11,042	(1,173)	(91)
Closing Balance at 30 September 2014	350,033	350,726	401,392	(95,495)	44,829	(693)

	Group					
	Total Equity	Attributable to Parent Sub-total	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves	Non Controlling Interest
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
3rd Quarter ended 30 September 2013						
Opening Balance at 1 July 2013	330,585	329,633	401,392	(118,880)	47,121	952
Movement in Equity:						
Total Comprehensive Income for the Period	1,723	1,813	-	1,800	13	(90)
Disposal of Subsidiary with Change in Control	(4,247)	(3,022)	-	-	(3,022)	(1,225)
Closing Balance at 30 September 2013	328,061	328,424	401,392	(117,080)	44,112	(363)

	Company			
	Total Equity	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves
	RMB'000	RMB'000	RMB'000	RMB'000
3rd Quarter ended 30 September 2014				
Opening Balance at 1 July 2014	421,865	401,392	4,064	16,409
Movement in Equity:				
Total Comprehensive Income for the Period	(14,315)	-	(1,302)	(13,013)
Closing Balance at 30 September 2014	407,550	401,392	2,762	3,396

	Company			
	Total Equity	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves
	RMB'000	RMB'000	RMB'000	RMB'000
3rd Quarter ended 30 September 2013				
Opening Balance at 1 July 2013	414,412	401,392	7,155	5,865
Movement in Equity:				
Total Comprehensive Income for the Period	131	-	(841)	972
Closing Balance at 30 September 2013	414,543	401,392	6,314	6,837



	Group					
	Total Equity	Attributable to Parent Sub-total	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves	Non Controlling Interest
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
9 Months ended 30 September 2014						
Opening Balance at 1 January 2014	323,285	323,718	401,392	(121,090)	43,416	(433)
Movement in Equity:						
Total Comprehensive Income for the Period	26,748	27,008	-	25,595	1,413	(260)
Closing Balance at 30 September 2014	350,033	350,726	401,392	(95,495)	44,829	(693)

	Group					
	Total Equity	Attributable to Parent Sub-total	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves	Non Controlling Interest
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
9 Months ended 30 September 2013						
Opening Balance at 1 January 2013	314,693	312,341	401,392	(138,025)	48,974	2,352
Movement in Equity:						
Total Comprehensive Income for the Period	17,615	19,105	-	20,945	(1,840)	(1,490)
Disposal of Subsidiary with Change in Control	(4,247)	(3,022)	-	-	(3,022)	(1,225)
Closing Balance at 30 September 2013	328,061	328,424	401,392	(117,080)	44,112	(363)

	Company			
	Total Equity	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves
	RMB'000	RMB'000	RMB'000	RMB'000
9 Months ended 30 September 2014				
Opening Balance at 1 January 2014	407,313	401,392	5,966	(45)
Movement in Equity:				
Total Comprehensive Income for the Period	237	-	(3,204)	3,441
Closing Balance at 30 September 2014	407,550	401,392	2,762	3,396

	Company			
	Total Equity	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves
	RMB'000	RMB'000	RMB'000	RMB'000
9 Months ended 30 September 2013				
Opening Balance at 1 January 2013	436,772	401,392	8,938	26,442
Movement in Equity:				
Total Comprehensive Income for the Period	(22,229)	-	(2,624)	(19,605)
Closing Balance at 30 September 2013	414,543	401,392	6,314	6,837

1(d)(ii) SHARE CAPITAL

Details of any changes in company's share capital arising from rights issue, bonus issue, share buy backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There were no changes in the Company's share capital for the year ended 30 September 2014.

The Company did not have any outstanding convertibles and treasury shares as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

1(d)(iii) To show the total number of issued shares (excluding treasury shares) as at the end of the current financial period and as at the end of the immediately proceeding year.

	<u>As at 30/09/2014</u>	<u>As at 31/12/2013</u>
Total Number of Issued Shares	439,627,300	439,627,300
Less: Treasury Shares	<u>-</u>	<u>-</u>
Total Number of Issued Shares Excluding Treasury Shares	<u>439,627,300</u>	<u>439,627,300</u>

1(d)(iv) A statement showing all sales, transfers disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited, or reviewed in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard.

The figures have not been audited or reviewed by our auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements.

The above financial information has been prepared using the same accounting policies and methods of computation as presented in the financial statements for the year ended 31 December 2013, except for the new and revised Financial Reporting Standards (FRS) adopted which came into effect for the accounting periods beginning on or after 1 January 2014. The adoption of the new FRS has no material impact on the financial statements of the Group.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons form and the effect of, the change.

Please refer to note 4 above.

6. Earning per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends:

- (a) based on the weighted average number of ordinary share on issue and
(b) on a fully diluted basis (detailing any adjustments made to the earnings)

	Group			
	3rd Quarter to 30/09/2014	3rd Quarter to 30/09/2013	9 months to 30/09/2014	9 months to 30/09/2013
Earning/(Losses) Per Share Based on Group's Net Profit Attributable to Shareholders:				
(i) Based on the Weighted Average Number of Ordinary Shares on Issue (RMBcents)	2.51	0.41	5.82	4.76
(ii) Based on Fully Diluted Basis (RMBcents)	2.51	0.41	5.82	4.76
Number of Existing Issued Ordinary Shares (weighted average)	439,627,300	439,627,300	439,627,300	439,627,300
Number of Existing Issued Ordinary Shares (fully diluted)	439,627,300	439,627,300	439,627,300	439,627,300

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-

- (a) current period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	As at 30/09/2014	As at 31/12/2013	As at 30/09/2014	As at 31/12/2013
Net Asset Value Per Share (RMBcents)	79.78	73.63	92.70	92.65
Number of Existing Issued Ordinary Shares (period end)	439,627,300	439,627,300	439,627,300	439,627,300

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the Group's business. The review must discuss any significant factors that affected the turnover, costs and earning of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period report on.

PERFORMANCE REVIEW

(a) GROUP INCOME STATEMENT

Revenue

The Group's revenues decreased by 10.0% from RMB 519.3 million for the 3rd quarter ended 30 September 2013 ("Q3 2013") to RMB 467.2 million for the 3rd quarter ended 30 September 2014 ("Q3 2014"). Sales of finished goods for Q3 2014 were RMB 462.9 million, posting a decrease of RMB 45.2 million or 8.9% over the corresponding period last year. Sales of materials for Q3 2014 were RMB 4.4 million, having decreased by RMB 6.8 million from Q3 2013.

The sales of liquid milk decreased by 8.3% from RMB 383.2 million for Q3 2013 to RMB 351.5 million for Q3 2014 due to change in products mix and competition. The sales of milk powder decreased by 10.8% from RMB 124.8 million for Q3 2013 to RMB 111.4 million for Q3 2014 due to decrease in average sell price in some provinces and competition.

Gross Profit

Gross profit of the Group increased by 10.5%, or RMB 14.4 million from RMB 136.6 million for Q3 2013 to RMB 151 million for Q3 2014. Gross profit margin in Q3 2014 increased by 6% compared to Q3 2013.

The gross profit margin of liquid milk segment increased by 10.4 percentage point from 20.3% for Q3 2013 to 30.8% for Q3 2014 due to increase in selling price. However, the milk powder segment decreased by 3.3 percentage point from 42.2% for Q3 2013 to 38.9% for Q3 2014 due to decrease in selling price and increase in unit cost.

Other Credits

Other credits decreased by 59.7% mainly because of absence of Gain from disposal of investment in subsidiary.

Marketing and Distribution Costs

Marketing and distribution costs decreased by 4.4% in Q3 2014 compared to the same period last year.

Administrative Expenses

Administrative expenses increased by 5.4% in Q3 2014 compared to the same period last year. The increases were resulted primarily from increase in employee benefit expenses.

Finance Costs

Finance costs increased by 23.4% in Q3 2014 compared to the same period last year. This was mainly due to increase in interest expenses resulted from finance lease taken in later part of 2013.

Other Charges

Other charges increased from Q3 2013 to Q3 2014 mainly due to increase in inventories written off, depreciation and direct operating expenses of investment property and loss on disposal of PPE and land use right, which partially offset by decrease in foreign exchange adjustments loss and other expenses.

Share of Profit/Loss from Associate

The share of profit from an associate was a result of profit incurred by Shaanxi Aomeihui Dairy Technology Co., Ltd (陕西澳美慧乳业科技有限公司(“Aomeihui”)) during the Q3 2014.

Profit/Loss Before Tax

As a result of the above, profit before tax was RMB 15.7 million in Q3 2014, as compared to profit before tax RMB 1.1 million in Q3 2013.

Profit/Loss , Net of Tax

Profit after income tax was RMB 11 million for Q3 2014, as compared to profit after tax RMB 1.7 million for Q3 2013.

(b) STATEMENTS OF FINANCIAL POSITION

The increase in investment in associate by 38.4%, or RMB 8.9 million was attributed to further capital investment made for Aomeihui amounting to RMB 8.1 million and share of profit from the associate amounting to RMB 0.8 million.

The increase in inventories was 7.4%, or RMB 14.4 million, mainly due to increase in materials.

Trade and other receivables increased by 8.3% or RMB 10.1 million, due to changes in customer mix.

Cash and cash equivalents increased by 27.8% or RMB 25.9 million mainly due to profit making in the period.

Finance lease non-current liabilities decreased by 22.6% or RMB 1.9 million mainly due to payment of finance lease liabilities in current period.

Trade and other payable increased by 6.6% or RMB 27.9 million due to increase in credit term enjoyed for purchase.

Other financial liabilities-current increased by 15% or RMB 19.6 million as bank loans were increased.

Negative working capital is mainly due to the presence of other financial liabilities which were short term in nature. However, these are revolving financing facilities which can be rolled-forward as and when due.

(c) GROUP STATEMENT OF CASH FLOWS

Net cash from operating activities was RMB 21.6 million for Q3 2014 mainly because the group generated cash profit in the quarter.

Net cash used in investing activities was RMB 23.8 million for Q3 2014 mainly because of purchasing PPE and additional investment in associate.

Net cash used in financing activities was RMB 1.4 million for Q3 2014 mainly due to interest paid.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The Group's performance for 9 months ended 30 September 2014 is consistent with its prospect statement as announced on 12 August 2014.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group also anticipates that the dairy industry environment will remain challenging and competition will still be intense. However, the prices of key raw materials have shown signs of stabilization from Q2 2014. It will continue retaining its liquid milk leading position in its home market of Shaanxi Province through stringent quality management, increasing sales contribution from higher end products and effective sales and marketing programs.

Aiming at long term competitiveness, the Group will continue to invest in product quality, product innovation, branding and its distribution network.

11. Dividend

(a) Current Financial Period Reported On Any dividend declared for the current financial period reported on?

No dividend has been declared for the current financial period.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

Not Applicable.

(c) Date payable

Not Applicable.

(d) Books closure date

Not Applicable.

12. If no dividend has been declared / recommended, a statement to that effect.

Not Applicable.

13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.,

Not Applicable.

14. NEGATIVE CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5)

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial results for the period ended 30 September 2014 to be false or misleading.

BY ORDER OF THE BOARD

Liu Huaguo
Director
Date: 12/11/2014

Kong Jing
Director
Date: 12/11/2014