

INTERIM REPORT
2017



中地乳业
ZhongDi Dairy

中國中地乳業控股有限公司
China ZhongDi Dairy Holdings Company Limited

(a company incorporated under the laws of the Cayman Islands with limited liability)

Stock code: 1492

Corporate Profile

We are a modern agricultural and animal husbandry enterprise which is mainly engaged in dairy farming in China. Our business models cover participating in multiple stages of the dairy farming industry value chain, including raising dairy cows, breeding dairy cows, premium raw milk production and sale, importing and selling dairy cows of quality breeds and breeding stock, as well as import trading business in alfalfa hay and other animal husbandry-related products. Currently, we are a National Flagship Enterprise for Industrialization of Agriculture (農業產業化國家重點龍頭企業) accredited by the Ministry of Agriculture (the “**MOA**”) of the People’s Republic of China (the “**PRC**”). We intend to continue expanding our operation scale and producing premium and safe raw milk through the scientific operation of modern large-scale farms, maintain and expand our competitive edge in the high-end premium raw milk supply end, and ultimately become one of the largest dairy farming companies in China.



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jianshe (Chairman and Chief Executive Officer)
Mr. Zhang Kaizhan

Non-Executive Directors

Mr. Liu Dai
Mr. Du Yuchen
Mr. Li Jian
Ms. Yu Tianhua

Independent Non-Executive Directors

Prof. Li Shengli
Dr. Zan Linsen
Mr. Joseph Chow

SENIOR MANAGEMENT

Mr. Song Naishe
Ms. Zhang Xin
Ms. He Shan

STOCK CODE

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange") 1492

INVESTOR RELATIONS CONTACT

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PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE

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Grand Cayman, KY1-1104
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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

10th Floor, Block A, Times Fortune Compound
No. A6, Shuguang Xili
Chaoyang District
Beijing
The PRC

Corporate Information *(continued)*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093
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Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
Hong Kong

LEGAL ADVISER

Paul Hastings
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1 Garden Road
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AUTHORIZED REPRESENTATIVES

Mr. Zhang Jianshe
Ms. Ng Sin Yee, Clare

AUDITOR

Ernst & Young
22/F, CITIC Tower, 1 Tim Mei Avenue,
Central
Hong Kong

JOINT COMPANY SECRETARIES

Ms. Zhang Xin
Ms. Ng Sin Yee, Clare

COMPANY'S WEBSITE

www.zhongdidairy.hk

Highlights

The board (the “**Board**”) of directors (the “**Directors**”) of China ZhongDi Dairy Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to present the interim report of the Company consolidated with the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 (the “**Reporting Period**”).

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June			
	2017		2016	
	Results before biological fair value adjustments (unaudited) RMB'000	Results after biological fair value adjustments (unaudited) RMB'000	Results before biological fair value adjustments (unaudited) RMB'000	Results after biological fair value adjustments (unaudited) RMB'000
Revenue	574,988	574,988	504,272	504,272
Gross profit margin	31%	3%	35%	3%
Profit/(loss) for the period attributable to owners of the parent	95,960	(21,077)	131,939	65,943
Basic and diluted earnings/(loss) per share (RMB cents)		(1.0)		3.0

- Revenue increased by 14% as compared to the corresponding period in 2016.
- Profit for the period attributable to owners of the parent before and after biological fair value adjustments decreased by 27% and 132%, respectively as compared to the corresponding period in 2016.

Management Discussion and Analysis

INDUSTRY AND MARKET REVIEW

Milk is a nearly perfect food given to human beings by the grand nature. The World Health Organization (WHO) regards per capita dairy consumption as one of the most important indicators of people's living standards of a country. "A cup of milk strengthens a nation and a well-off society cannot live without milk". On 27 December 2016, the MOA, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Commerce and the Food and Drug Administration jointly issued the National Dairy Industry Development Plan (2016 - 2020) (the "Development Plan"). The Development Plan stated clearly for the first time the strategic positioning of the development of China's dairy industry, and put forward the guiding ideology, development objectives, major tasks and protection measures for the development of the dairy industry during the 13th Five-Year Plan Period.

According to the Development Plan, during the 13th Five-Year Plan Period, modernization of China's dairy industry shall have made significant progress and developed a feeds saving, economical and highly efficient modern dairy farming industry. By 2020, milk production of Chinese dairy industry shall reach 41 million tonnes, self-sufficiency rate of milk resources and farms with breeding scale shall reach the ratio of over 70%, leading to the modernization development of the agricultural industry. The introduction of the Development Plan has provided strong policy guidelines and protection support for the Group to set foot on husbandry-related industries and deeply cultivate farm operation and raw milk production business.

In the first half of 2017, international raw milk producing countries continued to proceed with cutting excessive production capacity with declining amount of dairy herds. According to statistics of the China Customs, the import prices of dairy products in the first half of 2017 was 28% higher than those in the corresponding period of the previous year. The replacement advantage of imported milk powder was significantly reduced, and domestic milk enterprises inclined to use domestic milk sources. Although prices of domestic milk in China still lingered at low level during the same period, the trend of cutting excessive production capacity continued in the entire upstream dairy farming industry. Low purchase prices of raw milk sped up the exit of dairy farmers who were at a loss while sizable farms also began to control overcapacity through elimination of low-capacity dairy cows, which resulted in a decrease in the number of dairy cows.

At the same time, with continued and steady growth in the Chinese economy, people's living standards continue to improve. The domestic dairy consumption has been in a strong growth channel with huge demand potential. It is expected that, in the future, with the development of urbanization, upgrade of consumption, changing of dairy consumption habits and the gradual appearance of two-child policy's bonus, China's dairy consumer demand will have a steady rise. Given the combined effects of the above factors, prices of domestic milk are expected to recover gradually in the near future.

BUSINESS REVIEW

The Group mainly operates two major businesses, dairy farming business and import trading business. Dairy farming business includes production and sales of premium raw milk and the feeding, breeding and sales of dairy cows, etc. Import trading business mainly includes imports and sales of high quality dairy cows and breeding of livestock as well as import trading business in alfalfa hay and other animal husbandry related products. In particular, production and sales of raw milk are the main sources of income of the Group.

Management Discussion and Analysis *(continued)*

During the first half of 2017, the Group further strengthens the quality and efficiency awareness. Through scientific breeding, precision feeding, detailed management, valued marketing, the Group strives to create brands to establish the core competitiveness of enterprises in fierce market competition and establish the Group's leading position in the industry.

On 4 February 2017, Mr. Zhang Kaizhan, the executive Director of the Group, was awarded the First Prize of Science and Technology Award in Shaanxi Province (陝西省科學技術獎一等獎) in recognition of his outstanding contributions to research integration and demonstration application projects of key technologies in gender control of dairy cows. On 12 January 2017, the Group won the "Best Brand Value Award" (最具品牌價值獎) in the "2016 China Financial Market Awards for Listed Companies" (2016中國融資上市公司大獎). The "2016 China Financial Market Awards for Listed Companies" was founded by the renowned financial magazine "China Financial Market" (中國融資), organized by Wonderful Sky Financial Group and strongly supported by the Board of Listing Companies of the Hong Kong Chinese Enterprises Association, Media Connect and Capital Connect, with the aim to select excellent exemplary models among listed enterprises in Hong Kong, and to recognize and acknowledge their performance in the business sector during the past year. The Group will continue to take this as motivation to promote the development of its own business and the husbandry industry.

Dairy Farming Business

Benefiting from the excellent geographical locations and the scientific and efficient management of its farms, the Group produces premium quality raw milk. In the first half of 2017, the average unit selling price of the Group's raw milk was approximately RMB3,653 per tonne which was higher than the national average level. In the first half of 2017, the Group's sales of raw milk was 129,934 tonnes, and the revenue generated from the dairy farming business reached RMB474.6 million, representing 82.5% of the Group's total revenue, and is the core business of the Group. As the Group has reached long-term purchase and sales strategic partnerships with China Mengniu Dairy Company Limited and its subsidiaries (collectively, "**Mengniu**") and Inner Mongolia Yili Industrial Group Co., Ltd. and its subsidiaries (collectively, "**Yili**"), the premium raw milk produced by the Group is mainly sold to Mengniu and Yili for processing into high-end liquid milk, such as Mengniu's Milk Deluxe (特侖蘇) and Yili's Satine (金典). The Group believes that the strong demand for high quality and healthy products from domestic consumers will help the Group maintain its strong competitiveness in the supply of premium raw milk.

1. Scale of dairy farms

Focusing on the development status and market demand of various regions in China, the Group strategically planned the presence of its dairy farms to cover seven provinces or regions in Northern China. As at 30 June 2017, the Group operated the following seven modern dairy farms: Beijing ZhongDi Farm, Shangdu ZhongDi Farm, Helan ZhongDi Farm, Kuandian ZhongDi Farm, Langfang ZhongDi Farm, Tianzhen ZhongDi Farm and Tianjin ZhongDi Farm. Among them, Tianjin ZhongDi Farm commenced commercial production of milk in the second quarter of 2017.

Management Discussion and Analysis *(continued)*

2. Herd size

	30 June 2017	31 December 2016
	Heads	Heads
Milkable dairy cows	27,720	26,316
Heifers and calves	30,035	28,947
	57,755	55,263

As at 30 June 2017, the Group's herd size was 57,755 heads, which has increased by 2,492 heads as compared to that as at 31 December 2016.

3. Milk yield and sales

The Group's dairy cows are of Holstein breed, which is the breed with the highest milk production. The average annual milk yield of each lactation cow of the Group for the first half of 2017 was 11.5 tonnes, representing an increase as compared to that of the corresponding period of the previous year. Benefiting from the expansion in the size of dairy farms, sales of raw milk amounted to 129,934 tonnes in the first half of 2017, representing an increase of 20.7% as compared to the corresponding period of the previous year.

4. Raw milk quality

The Group strives to produce premium quality raw milk. Viewing from a range of key quality indicators, the Group's raw milk is of stable premium quality and all the indicators outperform the standards in the European Union (the "EU"), the United States (the "US") and Japan, which are the reasons why the Group is able to maintain a selling price higher than the market average level. As the Group has reached long-term purchase and sales strategic partnerships with Yili and Mengniu, the premium quality raw milk produced by the Group was mainly sold to Mengniu and Yili for processing into high-end liquid milk.

Standard	Protein content (Unit: %)	Fat content (Unit: %)	Aerobic plate count (Unit:/ml)	Somatic cell count (Unit:/ml)
The Company ¹	3.28	3.83	37,750	173,300
EU Standard ²	N/A	N/A	<100,000	<400,000
US Standard ³	≥3.2	≥3.5	<100,000	<750,000
PRC Standard ⁴	≥2.8	≥3.1	<2,000,000	N/A

Notes:

1. Calculated according to the statistical data of the Group's raw milk quality for the first half of 2017.
2. Please refer to the Council Directive 92/46/EEC adopted by the EU.
3. Please refer to Grade "A" Pasteurized Milk Ordinance promulgated by the US Public Health Service.
4. Please refer to the National Food Safety Standard (GB19301-2010) of the PRC.

Management Discussion and Analysis *(continued)*

5. *Alfalfa and feed plantations*

In order to ensure the quality, efficient cost control and stable supply of feeds for dairy cows, the Group increased efforts on land rotation and insisted on using locally grown crops. As at 30 June 2017, the Group leased or contracted land parcels with a total area of approximately 74,060 mu, representing an increase of 10.5% as compared to 67,050 mu as at 30 June 2016. The Group cooperates with growers to grow crops of corn and alfalfa feeds by constructing six crop plantations surrounding or close to its dairy farms. Crop plantations could ensure the quality, reduce transportation cost, stabilise supply of feeds and enhance economic effectiveness. Furthermore, cow wastes generated by its dairy farms were processed into organic fertilizers and waste water was used to irrigate the feed plantations. These not only enhance the quality and output of feeds, but also realize the positive cycle of integration between plantation and farming and the circuit of organic fertilizers back to planting fields.

Import Trading Business

The Group's import trading business mainly involves imports of dairy cows, alfalfa hay and other animal husbandry related products. The import trading business is divided into import principal trading business and import agency business. During the Reporting Period, revenue generated from the Group's import trading business amounted to RMB100.4 million, accounting for 17.5% of the Group's total revenue and representing an increase of 6.2% as compared to the corresponding period of last year. In particular, revenue from import principal trading business amounted to RMB100.3 million, accounting for 99.9% of the revenue of the import trading business. Revenue from import agency business amounted to RMB0.1 million, accounting for 0.1% of the revenue of the import trading business.

PROSPECTS

As one of the leading large dairy farming enterprises in the PRC and a premium raw milk producer and supplier, the Group has been committed to enhancing the industrial ability of sustainable development by creating an environmentally friendly ecological dairy farms with the operation mode of the combination of farming and animal husbandry and the combination of planting and breeding. In the future, the Group will continue to improve the operation efficiency of the Group's dairy farms and fully leverage on the Group's competitive advantages in breeding technologies and cow herd management to continuously increase the milk yield of dairy cows and guarantee the premium quality of milk and provide premium raw milk to customers. Meanwhile, the Group will actively expand customers, make effort to increase the product prices and make unremitting efforts in achieving the long-term sustainable development of the enterprise and maximize the interests of shareholders.

Further Improve the Operational Efficiency of Dairy Farms

The Group will continue to uphold the core operation philosophy of "brand creation, quality improvement, cost reduction and efficiency enhancement", and implement normalized, standardized, scientific, meticulous and systematic management in aspects of feeding and breeding, inspection and quarantine procedures as well as procurement of feeds for dairy cows. The Group will raise the milk yields of dairy cows through scientific, nutritional, balanced and precise feeding, improve the genetic characteristics of dairy cows and optimize the structure of cow herds to enhance the quality of raw milk, and reduce operating cost and increase economic effectiveness.

Management Discussion and Analysis *(continued)*

Continue to Enhance the Breeding of Dairy Cows

The Group will continue to strengthen breeds and breeding management to improve the breeds and genetic characteristics of dairy cows to realize enhancement of production efficiency on the basis of sustainable development. All dairy cows of the Group are of Holstein breed, and the Group will continue to insist on importing heifers of premium quality Holstein breed from overseas as seeding cows of its dairy farms, formulating breeding plans for cow herds of the Group according to the pedigree, milk yield, performance and past breeding records of each cow and building up a breeding database, establishing core herds for the farms to improve the breeding and raising of individual core herds, and importing bull semen screened by genetic group testing technology from the US, Canada or Germany to carry out scientific breeding of dairy herds with better quality. Through scientific breeding and feeding, the Group is able to improve the genetic mix of dairy herds effectively, enhance the overall quality of the cow herds within the shortest period of time and reduce the additional costs of purchasing cows and the risks of bringing in foreign diseases, and realize self-sufficiency in the supply of its own seeding cows.

Continue to Promote Management of Feed Plantation

The Group will continue to insist on “using local materials” and continue to enhance land rotation of the surrounding areas of dairy farms, and strive to lease more crop plantations with large site areas in the surrounding areas of dairy farms and cooperate with growers in growing feeds. Meanwhile, the Group will further optimize the efficiency of crop plantations to enhance crop output and efficiency in the crop plantations, continue to implement the mode of operation by integrating plantation with grazing, return organic fertilizers back to planting fields, develop recycling in agriculture, and realize sustainable and healthy development.

Continue to Enhance the Environment Optimization of Dairy Farms

The Group has been actively committed to promoting the operation mode of the combination of farming and animal husbandry and the combination of planting and breeding, to enhance the industrial ability of sustainable development by creating environmentally friendly ecological dairy farms which can make waste profitable and maximize resources, and building safe, comfortable and green dairy farms.

Continue to Promote the Import Trading Business

The Group will continue to promote import trading business and import premium quality dairy cows, alfalfa hay and other livestock related products according to the requirements of customers. Meanwhile, as the Group expands its farms, it will also continue to import more dairy cows.

Actively Develop Beef Cattle Farming and the Business of Feed Processing and Sales

On the basis of dairy farming business, the Group will gradually develop farming business of bull calves. Meanwhile, the Group will proactively promote the implementation of feed processing and sales business to enhance the value of industrial chain and increase its corporate comprehensive efficiency.

Management Discussion and Analysis *(continued)*

FINANCIAL OVERVIEW

Revenue

The table below sets forth the revenue of each business segment of the Group for the six months ended 30 June 2017 and 2016, respectively:

	Six months ended 30 June					
	2017			2016		
	External Sales RMB'000	Internal Sales RMB'000	Total RMB'000	External Sales RMB'000	Internal Sales RMB'000	Total RMB'000
Dairy farming business	474,622	—	474,622	409,768	—	409,768
Import trading business	100,366	34,934	135,300	94,504	98,945	193,449
Total	574,988	34,934	609,922	504,272	98,945	603,217

The Group's revenue for the six months ended 30 June 2017 amounted to RMB575.0 million as compared to RMB504.3 million for the six months ended 30 June 2016, representing a year-on-year increase of 14.0%. The increase was mainly attributed to an increase in the sales volume of raw milk.

Dairy Farming Business

The revenue of the Group's dairy farming business for the six months ended 30 June 2017 amounted to RMB474.6 million as compared to RMB409.8 million for the six months ended 30 June 2016, representing a year-on-year increase of 15.8%.

The revenue for the periods indicated are set out in the table below:

	Six months ended 30 June					
	2017			2016		
	Revenue RMB'000	Sales Volume	Unit Selling Price RMB	Revenue RMB'000	Sales Volume	Unit Selling Price RMB
Dairy farming business						
Raw milk (tonne)	474,622	129,934	3,653	409,768	107,615	3,808

During the Reporting Period, the Company strengthened its normalized, standardized, scientific, meticulous, and systematic management in dairy farming business operation. As a result, the output from each lactating cow of the Group increased while the sales volume of raw milk grew by 20.7% as compared to that of the six months ended 30 June 2016. Meanwhile, as affected by the market, the price of raw milk decreased slightly.

Management Discussion and Analysis *(continued)*

Import Trading Business

Revenue from the Group's import principal trading business and import agency business for the periods indicated are set out in the table below:

	Six months ended 30 June			
	2017		2016	
	Revenue RMB'000	Percentage	Revenue RMB'000	Percentage
Import principal trading business	100,272	99.9%	90,119	95.4%
Import agency business	94	0.1%	4,385	4.6%
Total	100,366	100.0%	94,504	100.0%

The revenue of the Group's import trading business for the six months ended 30 June 2017 amounted to RMB100.4 million as compared to RMB94.5 million for the six months ended 30 June 2016, representing a year-on-year increase of 6.2%, which was mainly attributed to an increase in the sales of imported cows.

Gross Profit and Gross Profit Margin

The breakdowns of gross profit and gross profit margin before annual fair value adjustments of the Group's two business segments are set out below:

	Six months ended 30 June			
	2017		2016	
	Gross Profit RMB'000	Gross Profit Margin	Gross Profit RMB'000	Gross Profit Margin
Dairy farming business	172,848	36.4%	164,081	40.0%
Import trading business	3,875	3.9%	14,555	15.4%
Total	176,723	30.7%	178,636	35.4%

The main business of the Group's dairy farming business is the sale of raw milk. For the six months ended 30 June 2017, the gross profit of dairy farming business of the Group was RMB172.8 million, representing an increase of 5.3% as compared to the corresponding period of last year, which was mainly attributed to an increase in the sales volume of raw milk. The gross profit margin of the Group's dairy farming business was 36.4%, which has slightly decreased as compared to the corresponding period of last year, which was mainly attributed to the decline in the selling price of raw milk.

Import trading business mainly includes import of dairy cows and related animal husbandry products. Affected by the decline in market demand, the gross profit and gross profit margin of import trading business decreased as compared to the corresponding period of last year.

Management Discussion and Analysis *(continued)*

Cost of Sales

Cost of sales of the Group's dairy farming business is set out below:

	Six months ended 30 June			
	2017		2016	
	RMB'000	Percentage	RMB'000	Percentage
Feed	230,797	76.5%	194,771	79.3%
Labour costs	17,307	5.7%	16,933	6.9%
Others	53,670	17.8%	33,982	13.8%
Total	301,774	100.0%	245,686	100.0%

Gains/Losses Arising from Changes in the Fair Value Less Costs to Sell of Biological Assets

Net losses from changes in the fair value of biological assets less costs to sell for the six months ended 30 June 2017 was RMB113.3 million, representing an increase of RMB55.9 million as compared to net losses of RMB57.4 million for the corresponding period of last year, which was mainly attributed to the regular and systematic culling of lactating cows whose milk yield were low in economic efficiency as compared to their feeding costs and a decline in the average selling price of raw milk with industry fluctuations.

Gains Arising from Initial Recognition of Agricultural Produce at Fair Value Less Costs to Sell upon Harvest

For the six months ended 30 June 2017, the Group's gains arising from initial recognition of agricultural produce at fair value less costs to sell upon harvest were RMB156.1 million, which is basically at the same level as RMB155.5 million for the six months ended 30 June 2016.

Other Income

Other income includes government grants, bank interest income and others. Income from government grants recognized for the six months ended 30 June 2017 was RMB19.4 million, as compared to RMB19.4 million for the six months ended 30 June 2016, and basically remained at the same level.

Management Discussion and Analysis *(continued)*

Operating Expenses

	Six months ended 30 June		Rate of Change
	2017 RMB'000	2016 RMB'000	
Distribution cost	19,278	11,760	63.9%
Administrative expenses	33,308	37,678	(11.6%)
Other expenses	264	56	371.4%
Total	52,850	49,494	6.8%

The amount of operating expenses increased from RMB49.5 million for the six months ended 30 June 2016 to RMB52.9 million for the six months ended 30 June 2017, representing a year-on-year increase of 6.8%.

Financing Costs

Financing costs increased by 111.8% from RMB21.8 million for the six months ended 30 June 2016 to RMB46.1 million for the six months ended 30 June 2017, which was due to the growth in scale of financing as a result of expansion of the business.

Liquidity and Sources of Funds

The working capital of the Group mainly derived from cash inflow generated from daily operating activities and bank borrowings. As at 30 June 2017, the gearing ratio of the Group was 50.4% (31 December 2016: 51.4%). The gearing ratio was calculated by total liabilities divided by total assets. As at 30 June 2017, the bank balances and cash balance were RMB296.5 million (31 December 2016: RMB428.2 million).

Indebtedness

Borrowings of the Group were mainly denominated in RMB and USD. As at 30 June 2017, the balance of short-term borrowings including long-term borrowings due within one year amounted to RMB1,028.5 million (31 December 2016: RMB930.0 million). As at 30 June 2017, the Group's balance of long-term borrowings after deducting the portion due within one year amounted to RMB545.8 million (31 December 2016: RMB460.3 million), and the bank borrowings with fixed interest rate amounted to approximately RMB792.5 million (31 December 2016: RMB859.0 million).

Contingent Liabilities

As at 30 June 2017, there were no material contingent liabilities (31 December 2016: Nil).

Foreign Exchange Risk

As at 30 June 2017, save for bank and cash balances of RMB200.3 million which were USD denominated assets and RMB5.6 million which were HKD denominated assets, and bank borrowings of RMB36.4 million which were USD denominated borrowings, the other assets and liabilities of the Group were settled in RMB. For the six months ended 30 June 2017, the Board is of the view that the Group was not subject to any material foreign exchange risks.

Management Discussion and Analysis *(continued)*

Significant Investments, Acquisitions and Disposals of Assets

The Group had no significant investments during the Reporting Period. During the Reporting Period, the Group had no significant acquisitions or disposals regarding subsidiaries, associated companies and joint ventures.

Pledge of Assets

Save for the amounts disclosed in note 15 to the interim condensed consolidated financial statements and the amounts recorded in the pledged bank deposits item in the interim condensed consolidated statement of financial position in this interim report, there was no other pledge of assets of the Group.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (corresponding period of 2016: Nil).

Human Resources

The Group had approximately 1,215 formal employees in the PRC and Hong Kong as at 30 June 2017 (30 June 2016: 1,150). For the six months ended 30 June 2017, the total staff costs including independent non-executive Directors' fees amounted to approximately RMB49.3 million (corresponding period of 2016: RMB49.9 million).

The Group re-designed and restructured its corporate organization and enhanced the Group's human resources management in order to cope with the Company's strategic development.

The Group adjusted its existing remuneration policies in order to attract, retain and motivate outstanding talents and ensure that the Company's working team is capable of achieving the Company's business goals and tries its best to create value for the shareholders of the Company (the "**Shareholders**"). The Company will regularly adjust its remuneration policies and employee benefits with reference to industry standards and performance of individual employees.

In the meanwhile, the Group also proactively recruited middle-to-high level personnel and core business personnel through various channels such as online recruitment, campus recruitment and social recruitment in order to improve the Company's management standard and efficiency.

The Group will also provide specific and differentiated training programs to all employees of the Group in order to improve their management standard and occupational skills.

The PRC employees of the Group are members of a government-managed retirement benefit plan established by the PRC government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefit plan to fund the benefits.

On 28 October 2015, the Company adopted a share option scheme (the "**Post-IPO Share Option Scheme**") as a means of motivation and incentive, further details of which are set out in the section headed "Statutory and General Information - Post-IPO Share Option Scheme" in Appendix IV to the prospectus of the Company dated 20 November 2015 and the section headed "Other Information - Post-IPO Share Option Scheme" of this interim report. As at the date of this interim report, the Company has not granted any share options pursuant to the Post-IPO Share Option Scheme.

Other Information

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company (the “**Shares**”), underlying Shares and debentures of the Company or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the “**SFO**”) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) were as follows:

Long Positions (“L”) and Short Positions (“S”) in the Shares

Name of Director	Nature of Interest	Total Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 30 June 2017
Mr. Zhang Jianshe ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%
Mr. Zhang Kaizhan ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%
Mr. Liu Dai ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%

Other Information *(continued)*

Note:

- (1) As at 30 June 2017, Mr. Zhang Jianshe was the sole shareholder of YeGu Investment Company Limited (“**YeGu Investment**”) which directly held 350,778,000 Shares and indirectly held, through its shareholding in Green Farmlands Group, 315,790,000 Shares. Accordingly, under the SFO, Mr. Zhang Jianshe was deemed to be interested in the 666,568,000 Shares held directly and indirectly by YeGu Investment. In addition, as at 30 June 2017, Mr. Zhang Kaizhan and Mr. Liu Dai, through their respective holding companies (namely SiYuan Investment Company Limited (“**SiYuan Investment**”) and Tai Shing Company Limited (“**Tai Shing**”)), indirectly held 61,460,000 Shares and 147,040,000 Shares, respectively.

Pursuant to a concert parties arrangement (the “**Concert Parties Arrangement**”), which was recorded and supplemented by the letter of confirmation and undertakings dated 15 April 2015, Mr. Zhang Jianshe agreed to take the lead in the decision-making, operation and management of the Group, while Mr. Zhang Kaizhan and Mr. Liu Dai agreed to support Mr. Zhang Jianshe by acting in concert in relation to the exercise of their voting rights at the meetings of the shareholders and the board of directors of the then members of our Group. In addition, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai have further undertaken that during the period when they remain interested in, directly or indirectly, the Shares, they will continue to act in accordance with the Concert Parties Arrangement.

As such, as at 30 June 2017, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai, through their respective holding companies, together held 875,068,000 Shares, representing approximately 40.25% of the issued share capital of the Company as of 30 June 2017. Under the SFO, because of the Concert Parties Arrangement, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai were each deemed to be interested in 40.25% of the issued share capital of the Company as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, so far as was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (as defined in Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code.

Other Information *(continued)*

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2017, so far as was known to the Directors or chief executive of the Company and as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under section 336 of the SFO, the interests or short positions of persons other than the Directors and chief executive of the Company in the Shares and underlying Shares were as follows:

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

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 30 June 2017
Li Jingtao ⁽¹⁾	Interest of spouse	875,068,000(L)	40.25%
YeGu Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Zhang Fanghong ⁽²⁾	Interest of spouse	875,068,000(L)	40.25%
SiYuan Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Yang Shulan ⁽³⁾	Interest of spouse	875,068,000(L)	40.25%
Tai Shing	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Green Farmlands Group	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Haitong International Credit Company Limited ⁽⁴⁾	Person having a security interest in shares	350,778,000(L)	16.13%
Haitong International Finance Company Limited ⁽⁴⁾	Interest of controlled corporation	350,778,000(L)	16.13%
Haitong International (BVI) Limited ⁽⁴⁾	Interest of controlled corporation	350,778,000(L)	16.13%
Haitong International Securities Group Limited ⁽⁴⁾	Interest of controlled corporation	350,778,000(L)	16.13%
Haitong International Holdings Limited ⁽⁴⁾	Interest of controlled corporation	350,778,000(L)	16.13%
Haitong Securities Co., Ltd. ⁽⁴⁾	Interest of controlled corporation	350,778,000(L)	16.13%
Zhang Lai Yu ⁽⁵⁾	Beneficial owner/ Interest of controlled corporation	285,148,000(L)	13.12%
Shanghai Jingmu Investment Center ("Shanghai Jingmu") ⁽⁶⁾	Interest of controlled corporation	277,760,000 (L)	12.78%

Other Information *(continued)*

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 30 June 2017
Goldstone Agri-Investment Funds Management Center (Limited Partnership) ⁽⁶⁾	Interest of controlled corporation	277,760,000 (L)	12.78%
Beijing Agriculture Investment Fund (Limited Partnership) (" Agriculture Investment Fund ") ⁽⁶⁾	Interest of controlled corporation	277,760,000 (L)	12.78%
Beijing Jianye Fengde Investment Consulting Co., Ltd. ⁽⁶⁾	Interest of controlled corporation	277,760,000 (L)	12.78%
Agriculture Investment Company Limited (" Agriculture Investment ") ⁽⁶⁾	Beneficial owner	172,500,000 (L)	7.93%
CITIC Capital Holdings Limited ⁽⁷⁾	Interest of controlled corporation	174,100,000 (L)	8.01%

Notes:

- (1) Ms. Li Jingtao is the spouse of Mr. Zhang Jianshe and is therefore deemed to be interested in the Shares in which Mr. Zhang Jianshe is interested under the SFO.
- (2) Ms. Zhang Fanghong is the spouse of Mr. Zhang Kaizhan and is therefore deemed to be interested in the Shares in which Mr. Zhang Kaizhan is interested under the SFO.
- (3) Ms. Yang Shulan is the spouse of Mr. Liu Dai and is therefore deemed to be interested in the Shares in which Mr. Liu Dai is interested under the SFO.
- (4) Haitong International Credit Company Limited is wholly owned by Haitong International Finance Company Limited which is in turn wholly owned by Haitong International (BVI) Limited. Haitong International (BVI) Limited is wholly owned by Haitong International Securities Group Limited which is owned as to 61.01% by Haitong International Holdings Limited which is in turn wholly owned by Haitong Securities Co., Ltd. Accordingly, each of Haitong International Finance Company Limited, Haitong International (BVI) Limited, Haitong International Securities Group Limited, Haitong International Holdings Limited and Haitong Securities Co., Ltd. is deemed to be interested in the same number of Shares in which Haitong International Credit Company Limited is interested under the SFO.

Other Information *(continued)*

- (5) Among the interest in 285,148,000 Shares held by Mr. Zhang Lai Yu, 276,826,005 Shares were held through Hong Kong Qin Niu Investment Limited, which is wholly owned by Mr. Zhang Lai Yu.
- (6) Shanghai Jingmu is the sole shareholder of both Agriculture Investment and Jingmu Investment Company Limited and is therefore deemed to be interested in the same number of Shares held by each of them (being 277,760,000 Shares in total). Agriculture Investment Fund is the limited partner of Shanghai Jingmu holding approximately 75.05% of its registered capital, while Goldstone Agri-Investment Funds Management Center (Limited Partnership) is the general partner of Shanghai Jingmu holding approximately 0.11% of its registered capital. Accordingly, each of Agriculture Investment Fund and Goldstone Agri-Investment Funds Management Center (Limited Partnership) is deemed to be interested in the 277,760,000 Shares held by Agriculture Investment and Jingmu Investment Company Limited in aggregate under the SFO. Furthermore, Beijing Jianye Fengde Investment Consulting Co., Ltd., the general partner of Goldstone Agri-Investment Funds Management Center (Limited Partnership), is also deemed to be interested in the 277,760,000 Shares referenced above under the SFO.
- (7) CITIC Capital Holdings Limited held 174,100,000 Shares through a number of wholly-owned subsidiaries.

Save as disclosed above, as at 30 June 2017, the Directors had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

POST-IPO SHARE OPTION SCHEME

The Company adopted the Post-IPO Share Option Scheme on 28 October 2015 (effective on the listing date of the Shares on the Stock Exchange), a type of equity-linked agreement, with a view to enabling the Company to grant share options to selected participants and providing the Company with a flexible means to retain, motivate, incentivize, reward, remunerate, compensate and/or provide benefits to selected participants.

As at 30 June 2017, no share options has been granted by the Company or remained outstanding under the Post-IPO Share Option Scheme and no relevant expenses were recognized accordingly.

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance to protect the interest of the Shareholders and to enhance the confidence of investors for establishing a sound foundation for corporate development. For the six months ended 30 June 2017, save as disclosed below, the Company has complied with the requirements of the code provisions as set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules. Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zhang Jianshe is the chairman and chief executive officer of the Company. He is also the founder of the Group. The Board believes that vesting the roles of both the chairman and chief executive officer of the Company in Mr. Zhang Jianshe would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plan. Furthermore, in view of Mr. Zhang Jianshe's extensive industrial experience and significant role in the historical development of the Group, the Board believes that it is beneficial to the business prospects of the Group if Mr. Zhang Jianshe continues to act as both the chairman and chief executive officer of the Company, and the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors, non-executive Directors and independent non-executive Directors.

Other Information *(continued)*

BOARD OF DIRECTORS

As at the date of this interim report, the Board comprises Mr. Zhang Jianshe and Mr. Zhang Kaizhan as executive Directors; Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua as non-executive Directors; and Prof. Li Shengli, Dr. Zan Linsen and Mr. Joseph Chow as independent non-executive Directors.

CHANGES IN INFORMATION OF DIRECTORS

Changes in directors' information which are required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rule are set out below:

1. Independent non-executive Director, Mr. Joseph Chow ceased as the independent non-executive director and the chairman of the audit committee of Intime Retail (Group) Company Limited, the listing of the shares of which on the Stock Exchange (stock code : 1833) was withdrawn on 19 May 2017, with effect from 23 June 2017.
2. The annual remuneration paid by the Group to Mr. Zhang Jianshe, as the chief executive officer, has been increased from RMB1,500,000 to RMB1,800,000 per annum with effect from 29 March 2017.
3. The annual remuneration paid by the Group to Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua, as non-executive Directors, has been increased from HK\$150,000 to HK\$200,000 per annum with effect from 29 March 2017.
4. The annual remuneration paid by the Group to Prof. Li Shengli, Dr. Zan Linsen and Mr. Joseph Chow, as independent non-executive Directors, has been increased from HK\$200,000 to HK\$300,000 per annum with effect from 29 March 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised its own code of conduct for securities transactions (the "**Company's Securities Dealings Code**") regarding Directors' and Restricted Persons' (as defined in the Company's Securities Dealings Code) dealings in the Company's securities on terms no less exacting than the Model Code.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company's Securities Dealings Code throughout the Reporting Period.

The Company's Securities Dealings Code also applies to employees of the Group who may obtain or possess inside information (as defined in the SFO). The Company is not aware of any incident of non-compliance with the Company's Securities Dealings Code by the employees of the Group.

Other Information *(continued)*

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2017, none of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2017 and up to the date of this interim report, the Group did not have any material events which would need to be brought to the attention of the Stock Exchange or the Shareholders.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”), comprising Mr. Joseph Chow (Chairman) and Prof. Li Shengli, independent non-executive Directors, and Ms. Yu Tianhua, non-executive Director, has reviewed the accounting principles and practices adopted by the Group, and has reviewed issues relating to internal control and risk management systems and financial reporting with the management of the Company. The Audit Committee has reviewed the unaudited interim financial statements of the Company for the six months ended 30 June 2017 and this interim report and is of the opinion that the unaudited interim financial statements and this interim report comply with all applicable accounting standards, legal requirements and requirements of the Listing Rules and adequate disclosures have been made.

INVESTOR RELATIONS AND COMMUNICATIONS

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

APPRECIATIONS

The Board would like to take this opportunity to express its appreciation to the Shareholders and the public for their support to the Group, and to express its sincere appreciation to all the staff for their efforts and contributions to the Group.

On behalf of the Board
China ZhongDi Dairy Holdings Company Limited
Zhang Jianshe
Chairman

Hong Kong, 30 August 2017

Report on Review of Interim Condensed Consolidated Financial Information



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To the Board of Directors
China ZhongDi Dairy Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements set out on pages 24 to 50, which comprise the interim condensed consolidated statement of financial position of China ZhongDi Dairy Holdings Company Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by International Accounting Standards Board (the “**IASB**”).

The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Report on Review of Interim Condensed Consolidated Financial Information *(continued)*

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
30 August 2017

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	For the six months ended 30 June					
		2017			2016		
		Results before biological fair value adjustments (unaudited) RMB'000	Biological fair value adjustments (unaudited) RMB'000	Total (unaudited) RMB'000	Results before biological fair value adjustments (unaudited) RMB'000	Biological fair value adjustments (unaudited) RMB'000	Total (unaudited) RMB'000
Revenue	4	574,988	—	574,988	504,272	—	504,272
Cost of sales	5	(398,265)	(159,904)	(558,169)	(325,636)	(164,093)	(489,729)
Gross profit		176,723	(159,904)	16,819	178,636	(164,093)	14,543
Losses arising from changes in fair value less costs to sell of biological assets		—	(113,256)	(113,256)	—	(57,448)	(57,448)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		—	156,123	156,123	—	155,545	155,545
Other income	4	24,128	—	24,128	21,282	—	21,282
Other gains and losses	4	(5,904)	—	(5,904)	3,301	—	3,301
Distribution costs		(19,278)	—	(19,278)	(11,760)	—	(11,760)
Administrative expenses		(33,308)	—	(33,308)	(37,678)	—	(37,678)
Other expenses	5	(264)	—	(264)	(56)	—	(56)
Finance costs	6	(46,137)	—	(46,137)	(21,786)	—	(21,786)
(LOSS) /PROFIT BEFORE TAX	5	95,960	(117,037)	(21,077)	131,939	(65,996)	65,943
Income tax expenses	7	—	—	—	—	—	—
(LOSS) /PROFIT AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		95,960	(117,037)	(21,077)	131,939	(65,996)	65,943
(Loss) /Profit and total comprehensive (loss)/income attributable to the owners of the parent		95,960	(117,037)	(21,077)	131,939	(65,996)	65,943
(Loss) /Earnings per share attributable to ordinary equity holders of the parent: – Basic and diluted (RMB cents)	9			(1.0)			3.0

Interim Condensed Consolidated Statement of Financial Position

	Notes	As at	
		30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,752,878	1,760,031
Prepayments for non-current assets		29,386	6,762
Prepaid land lease payments		90,190	91,373
Long-term pledged deposits	15	8,001	—
Biological assets	11	1,473,850	1,413,400
Total non-current assets		3,354,305	3,271,566
CURRENT ASSETS			
Inventories		221,955	286,628
Trade and other receivables	12	126,710	111,480
Prepaid land lease payments		25,611	3,984
Biological assets	11	640	45,480
Pledged bank deposits	13	11,792	20,030
Cash and bank balances	13	296,479	428,198
Total current assets		683,187	895,800
CURRENT LIABILITIES			
Trade and other payables	14	430,014	722,306
Interest-bearing bank and other borrowings	15	1,028,457	930,025
Total current liabilities		1,458,471	1,652,331
NET CURRENT LIABILITIES		(775,284)	(756,531)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,579,021	2,515,035

Interim Condensed Consolidated Statement of Financial Position *(continued)*

	Notes	As at	
		30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	545,835	460,250
Deferred income		28,867	29,389
Total non-current liabilities		574,702	489,639
Net Assets		2,004,319	2,025,396
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	135	135
Share premium and reserves		2,004,184	2,025,261
TOTAL EQUITY		2,004,319	2,025,396

Zhang Jianshe

Director

Zhang Kaizhan

Director

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2017	135	1,019,152	398,541	42,800	564,768	2,025,396
Loss and total comprehensive loss for the period	—	—	—	—	(21,077)	(21,077)
As at 30 June 2017 (unaudited)	135	1,019,152*	398,541*	42,800*	543,691*	2,004,319
As at 1 January 2016	135	1,017,681	398,541	30,312	464,456	1,911,125
Profit and total comprehensive income for the period	—	—	—	—	65,943	65,943
As at 30 June 2016 (unaudited)	135	1,017,681*	398,541*	30,312*	530,399*	1,977,068

* These reserve accounts comprise the consolidated reserves of RMB2,004,184,000 (31 December 2016: RMB2,025,261,000) in the consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended	
		30 June 2017 (unaudited) RMB'000	30 June 2016 (unaudited) RMB'000
OPERATING ACTIVITIES			
(Loss)/Profit before tax		(21,077)	65,943
Adjustments for:			
Losses arising from changes in fair value less costs to sell of biological assets		126,717	60,779
Depreciation of items of property, plant and equipment	5	23,605	16,505
Recognition of prepaid land lease payments	5	2,661	2,102
Government grants related to biological assets and other assets	4	(1,437)	(12,974)
Finance costs	6	46,137	21,786
Interest income	4	(4,129)	(420)
Loss on disposal of items of property, plant and equipment	4	—	62
Foreign exchange differences, net		5,743	(4,302)
Operating cash flows before movements in working capital		178,220	149,481
Decrease in inventories		66,025	55,452
Decrease/(increase) in trade and other receivables		6,502	(51,092)
Decrease in cows held for sale		44,841	44,526
Decrease in pledged bank deposits		8,238	38,268
Decrease in trade and other payables		(192,540)	(54,814)
Cash generated from operations		111,286	181,821
Interest received		2,986	420
Net cash flows from operating activities		114,272	182,241

Interim Condensed Consolidated Statement of Cash Flows *(continued)*

	Notes	For the six months ended	
		30 June 2017 (unaudited) RMB'000	30 June 2016 (unaudited) RMB'000
Net cash flows from operating activities		114,272	182,241
INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(191,176)	(39,235)
Additions to biological assets		(203,048)	(179,367)
Additions to prepaid land lease payments		(28,303)	(57,882)
Proceeds from disposal of items of property, plant and equipment		—	344
Proceeds from disposal of biological assets		32,297	32,983
Prepayment for acquisition of an associate		(10,000)	—
Purchase of time deposits with original maturity of more than three months		—	(153,181)
Receipt of government grants in relation to biological assets and other assets		915	14,030
Net cash flows used in investing activities		(399,315)	(382,308)
FINANCING ACTIVITIES			
New borrowings raised		691,764	465,756
Repayment of borrowings		(486,226)	(326,147)
Interest and guarantee fees paid		(39,064)	(30,131)
Pledged deposits placed for other borrowings		(8,001)	—
Net cash flows from financing activities		158,473	109,478
NET DECREASE IN CASH AND CASH EQUIVALENTS		(126,570)	(90,589)
Cash and cash equivalents at beginning of the period		267,953	296,380
Effect of foreign exchange rate changes, net		(1,393)	4,302
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		139,990	210,093
Represented by cash and bank balances:			
Cash and bank balances as stated in the interim condensed statement of financial position		296,479	363,274
Less: Time deposits with original maturity of more than three months		(156,489)	(153,181)
		139,990	210,093

Notes to Interim Condensed Consolidated Financial Statements

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands and its shares were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 2 December 2015. The registered address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The principal activity of the Company is investment holding. The Group is mainly engaged in operations of dairy farms to produce raw milk and importing and selling cows in the mainland of the People’s Republic of China (the “**PRC**”).

The interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

Going concern

The Group had net current liabilities of RMB775,284,000 as at 30 June 2017. In view of the net current liabilities position, the directors of the Company (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 unutilised banking facilities available as at 30 June 2017 and the cash flow projections for the twelve-month period ending 30 June 2018, 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 Directors have prepared the interim condensed consolidated financial statements on a going concern basis.

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 (the “**Reporting Period**”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and IAS 34 *Interim Financial Reporting* issued by the IASB.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016.

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

(continued)

New standards and amendments adopted by the Group

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2017 as listed below:

- Amendments to IAS 7 Statement of Cash Flows: *Disclosure Initiative*
- Amendments to IAS 12 Income Taxes: *Recognition of Deferred Tax Assets for Unrealised Losses*
- Annual Improvements Cycle - 2014-2016: *Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

The adoption of these new and revised IFRSs has had no significant financial effect on these interim condensed consolidated financial statements and there has been no significant changes to the accounting policies applied in these interim condensed consolidated financial statements.

3. 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:

- Dairy farming business: raising and breeding dairy cows, raw milk production and sale of reproduced heifers; and
- Import trading business: imports and sales of cows and feeds and provision of import agency services.

Mr. Zhang Jianshe, the chairman of the board of directors of the Company and the chief executive officer of the Group, is identified as the chief operating decision maker (the "CODM") of the Group for the purposes of resource allocation and performance assessment. For the Group's dairy farming business, the CODM reviews operating results and financial information on a company by company basis and each company is identified as an operating segment. Since the group companies engaged in the dairy farming business are operating in similar business model with similar target group of customers and under the same regulatory environment, they are aggregated into a single reportable segment. The Group's import trading business is carried out by Beijing ZhongDi Stud Livestock Co., Ltd. ("**ZhongDi Stud Livestock**") and the operating results and financial information of the import trading business are reviewed by the CODM apart from the costs and expenses incurred by ZhongDi Stud Livestock for headquarters' management purposes.

Segment results exclude fair value adjustments of biological assets and agricultural produce held by the Group at the end of each reporting period, finance costs and head office and corporate expenses.

Segment assets exclude fair value adjustments of biological assets and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

3. SEGMENT INFORMATION *(continued)*

The following is an analysis of the Group's revenue and results by reportable segment:

For the six months ended 30 June 2017 (unaudited)	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	474,622	100,366	574,988
Intersegment sales	—	34,934	34,934
	474,622	135,300	609,922
<i>Reconciliation:</i>			
Elimination of intersegment sales			(34,934)
Revenue			574,988
Segment results	87,841	3,028	90,869
<i>Reconciliation:</i>			
Fair value adjustments of biological assets			(44,438)
Elimination of intersegment results			(2,554)
Finance costs			(46,137)
Corporate and other unallocated expenses			(18,817)
Loss before tax			(21,077)
As at 30 June 2017 (unaudited)			
Segment assets	4,389,476	363,173	4,752,649
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(833,120)	(102,600)	(935,720)
	3,556,356	260,573	3,816,929
Fair value adjustments of biological assets			174,813
Corporate and other unallocated assets			45,750
Total assets			4,037,492
Segment liabilities	519,480	871,512	1,390,992
<i>Reconciliation:</i>			
Elimination of intersegment payables	(109,128)	(826,592)	(935,720)
	410,352	44,920	455,272
Borrowings			1,574,292
Corporate and other unallocated liabilities			3,609
Total liabilities			2,033,173

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

3. SEGMENT INFORMATION *(continued)*

	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
For the six months ended 30 June 2016 (unaudited)			
Segment revenue			
Sales to external customers	409,768	94,504	504,272
Intersegment sales	—	98,945	98,945
	409,768	193,449	603,217
<i>Reconciliation:</i>			
Elimination of intersegment sales			(98,945)
Revenue			504,272
Segment results			
	78,371	24,411	102,782
<i>Reconciliation:</i>			
Fair value adjustments of biological assets			13,580
Elimination of intersegment results			(16,838)
Finance costs			(21,786)
Corporate and other unallocated expenses			(11,795)
Profit before tax			65,943
As at 31 December 2016 (audited)			
Segment assets			
	3,996,294	735,138	4,731,432
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(554,126)	(315,066)	(869,192)
	3,442,168	420,072	3,862,240
Fair value adjustments of biological assets			232,284
Corporate and other unallocated assets			72,842
Total assets			4,167,366
Segment liabilities			
	935,651	679,319	1,614,970
<i>Reconciliation:</i>			
Elimination of intersegment payables	(315,066)	(554,126)	(869,192)
	620,585	125,193	745,778
Borrowings			1,390,275
Corporate and other unallocated liabilities			5,917
Total liabilities			2,141,970

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

4. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

Revenue represents the net invoiced value of goods sold and services provided, after allowances for returns and trade discounts.

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

	For the six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Revenue		
Revenue from sales of		
– Raw milk	474,622	409,768
– Cows held for sale	100,272	84,460
– Alfalfa	—	5,659
Revenue from provision of services		
– Import agency services	94	4,385
	574,988	504,272
Other income		
Government grants related to		
– Biological assets	—	12,000
– Other assets	1,437	974
	1,437	12,974
– Income	17,990	6,418
	19,427	19,392
Interest income	4,129	420
Others	572	1,470
	24,128	21,282
Other gains and losses		
– Loss on disposal of items of property, plant and equipment	—	(62)
– Exchange (loss)/gain, net	(5,743)	3,743
– Others	(161)	(380)
	(5,904)	3,301

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Cost of sales		
Feeds and other related costs for raw milk production	301,774	245,686
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	156,123	155,545
Cost of sales of raw milk	457,897	401,231
Purchase, feeds and other related costs for cows held for sale	96,491	75,912
Gains arising from changes in fair value less costs to sell of biological assets	3,781	8,548
Cost of sales of cows held for sale	100,272	84,460
Costs related to trading of alfalfa and others	—	4,038
	558,169	489,729
Other expenses		
Bank transaction fees	257	48
Others	7	8
	264	56
Staff costs (including the Directors' emoluments)		
Salaries, bonuses and allowances	46,803	46,965
Contributions to retirement benefit scheme	2,476	2,982
Total employee benefits	49,279	49,947
Less: Capitalised in biological assets	(16,226)	(16,190)
Employee benefits charged directly in profit or loss	33,053	33,757

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

5. (LOSS)/PROFIT BEFORE TAX *(continued)*

	For the six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Depreciation and recognition of lease expenses		
Depreciation of property, plant and equipment	52,645	31,072
Less: Capitalised in biological assets	(29,040)	(14,567)
Depreciation charged to profit or loss	23,605	16,505
Recognition of prepaid land lease payments	24,215	20,325
Less: Capitalised in inventories	(21,554)	(18,223)
Prepaid land lease payments charged directly to profit or loss	2,661	2,102
Office rental expenses	1,639	1,639

6. FINANCE COSTS

	For the six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Interest on borrowings	46,137	30,761
Less: Interest capitalised	—	(8,975)
	46,137	21,786

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

7. INCOME TAX EXPENSES

The income tax expenses for the Reporting Period can be reconciled to the loss before tax per the interim condensed consolidated statement of profit or loss and other comprehensive income as follows:

	For the six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
(Loss)/Profit before tax	(21,077)	65,943
Tax at applicable income tax rate at 25%	(5,269)	16,486
Effect of items that are not deductible in determining taxable profit	29,387	16,576
Effect of tax exemption granted to agricultural operations	(24,118)	(33,062)
Income tax expenses	—	—

According to the prevailing tax rules and regulations in the PRC, the Company's subsidiaries engaged in agricultural business are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Reporting Period (for the six months ended 30 June 2016: Nil).

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The (loss)/earnings and weighted average number of ordinary shares used in the calculations of basic and diluted (loss)/earnings per share are as follows:

	For the six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
(Loss)/Earnings		
(Loss)/Earnings used in the calculation of basic and diluted (loss)/earnings per share	(21,077)	65,943
	Number of shares For the six months ended 30 June	
	2017 (unaudited) '000	2016 (unaudited) '000
Shares		
Weighted average number of ordinary shares in issue during the Reporting Period used in the basic and diluted (loss)/earnings per share calculation	2,174,078	2,174,053

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

10. PROPERTY, PLANT AND EQUIPMENT

	For the six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
COST		
Balance at beginning of the period	1,919,050	1,229,267
Additions	45,493	43,699
Disposals	(18)	(679)
Balance at end of the period	1,964,525	1,272,287
ACCUMULATED DEPRECIATION		
Balance at beginning of the period	159,019	99,200
Charge for the period	52,645	31,072
Disposals	(17)	(273)
Balance at end of the period	211,647	129,999
CARRYING AMOUNT	1,752,878	1,142,288

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

11. BIOLOGICAL ASSETS

During the Reporting Period, the biological assets of the Group are dairy cows held to produce raw milk (i.e. milkable cows, heifers and calves) and cows held for sale. Dairy cows held to produce raw milk are categorised as bearer biological assets and cows held for sale are categorised as consumable biological assets.

(A) Quantity of biological assets

The Group's dairy cows include cows held for sale, milkable cows, heifers and calves. Heifers and calves are dairy cows that have not had their first calves. The quantity of cows owned by the Group is shown as follows:

	30 June 2017 (unaudited) Heads	31 December 2016 (audited) Heads
Cows held for sale	42	3,445
Milkable cows	27,720	26,316
Heifers and calves	30,035	28,947
	57,797	58,708

Cows held for sale comprise heifers imported and held in quarantine farms and heifers/calves reproduced by the Group for sale to external customers. Cows held for sale are classified as current assets.

Milkable cows, heifers and calves are dairy cows of the Group for the purpose of production of raw milk and are classified as non-current assets.

In general, the heifers are inseminated when they reached approximately 14 months old. After an approximately 285-day pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days to 340 days before a dry period of approximately 60 days. When a heifer begins to produce raw milk, it is transferred to the category of milkable cows based on the estimated fair value less cost to sell on the date of transfer.

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

11. BIOLOGICAL ASSETS *(continued)*

(B) Value of biological assets

The amounts of the Group's biological assets are as follows:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Cows held for sale	640	45,480
Milkable cows	876,130	857,800
Heifers and calves	597,720	555,600
Total value of cows	1,474,490	1,458,880
Current portion	640	45,480
Non-current portion	1,473,850	1,413,400
	1,474,490	1,458,880

The fair value of the Group's dairy cows as at 30 June 2017 was estimated by using the same valuation techniques as adopted in note 16 to the Group's annual financial statements for the year ended 31 December 2016. As the fair value was determined using significant unobservable inputs, it falls in level 3 of fair value hierarchy.

The carrying amount of cows pledged for interest-bearing bank and other borrowings at the end of the Reporting Period are as follows:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Bank loans	73,500	173,500
Other borrowings	509,034	166,983
	582,534	340,483

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

12. TRADE AND OTHER RECEIVABLES

The Group normally allows a credit period of 30 days to its customers for sales of raw milk. The Group normally requires prepayments for sales of cows and alfalfa. The aged analysis of the Group's trade receivables presented based on invoice date which approximates to the date on which revenue is recognised as at the end of the Reporting Period is as follows:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Trade receivables:		
– 0 to 30 days	82,219	75,528
– 31 to 90 days	—	2,401
– 91 to 180 days	48	—
– Over 181 days	45	45
	82,312	77,974
Other receivables:		
– Advances to suppliers	38,973	30,108
– Others	5,425	3,398
	44,398	33,506
	126,710	111,480

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

13. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Cash and cash equivalents	139,990	267,953
Time deposits with original maturity of more than three months	156,489	160,245
Cash and bank balances	296,479	428,198
Pledged bank deposits	11,792	20,030
	308,271	448,228

Pledged bank deposits and cash and bank balances were denominated in RMB, United States Dollars ("USD") and Hong Kong Dollars ("HKD") as at 30 June 2017. 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.

Pledged bank deposits and cash and bank balances of the Group are denominated in the following currencies:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
RMB	102,405	232,258
USD	200,308	209,239
HKD	5,558	6,731
	308,271	448,228

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

14. TRADE AND OTHER PAYABLES

The credit period granted to the Group for the settlement of trade purchases is within 90 days. The following is an aged analysis of trade payables from invoice date at the end of the Reporting Period:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Trade payables:		
– 0 to 90 days	124,877	230,077
– 91 to 180 days	32,342	25,652
– Over 181 days	35,901	10,871
	193,120	266,600
Payable for acquisition of items of property, plant and equipment and office rental		
– related parties suppliers	—	258,900
– independent third party suppliers	139,759	25,454
Advances from customers	11,844	110,237
Advances from agency customers	23,242	8,563
Accrued staff costs	13,569	19,153
Land lease payables	33,367	16,855
Interest payables	3,136	3,027
Deposits	7,823	8,676
Others	4,154	4,841
	236,894	455,706
	430,014	722,306

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Unsecured bank borrowings		1,133,932	1,174,263
Guaranteed and unsecured bank borrowings	(i) (a)	54	304
Secured bank borrowings	(i) (b)	67,000	69,000
Secured other borrowings	(i) (c)	373,306	96,708
Guaranteed and secured bank borrowings	(i) (d)	—	50,000
		1,574,292	1,390,275
Bank and other borrowings repayable:			
Within one year		1,028,457	930,025
Between one and two years		377,344	283,063
Between two and five years		168,491	177,187
		1,574,292	1,390,275
Bank and other borrowings comprise:			
Fixed-rate bank and other borrowings		792,508	859,007
Variable-rate bank borrowings		781,784	531,268
		1,574,292	1,390,275

Notes:

- (i) (a) As at 30 June 2017, a bank loan of RMB54,000 (31 December 2016: RMB304,000) was guaranteed by Beijing Agriculture Guaranty Co. Ltd., an independent third party;
- (b) As at 30 June 2017, bank borrowings of RMB67,000,000 (31 December 2016: RMB69,000,000) were secured by prepaid land lease payments of RMB7,802,000 (31 December 2016: RMB7,983,000) and dairy cows of RMB73,500,000 (31 December 2016: RMB73,500,000);
- (c) As at 30 June 2017, other borrowings of RMB373,306,000 (31 December 2016: RMB96,708,000) were secured by dairy cows of RMB 509,034,000 (31 December 2016: RMB166,983,000) and long-term pledged deposits of RMB9,000,000 with present value of RMB8,001,000 (31 December 2016: Nil);
- (d) As at 31 December 2016, bank borrowings of RMB50,000,000 were jointly guaranteed by ZhongDi Genetics & Seeds Co., Ltd. ("ZhongDi Seeds"), a related party, and Mr. Zhang Jianshe and were secured by dairy cows of the Group of RMB100,000,000. The Group repaid the bank loan of RMB50,000,000 in January 2017.

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

15. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes: *(continued)*

- (ii) As at 30 June 2017, the contracted interest rates of the above bank and other borrowings ranged from 3.59% to 8.50% (31 December 2016: 2.09% - 8.50%).
- (iii) The Group's bank borrowings were denominated in the following currencies:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
USD	36,358	42,853
RMB	1,537,934	1,347,422
	1,574,292	1,390,275

16. SHARE CAPITAL

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Authorised:		
5,000,000,000 ordinary shares of USD0.00001 each	306	306
Issued and fully paid		
2,174,078,000 (31 December 2016: 2,174,078,000) ordinary shares of USD0.00001 each	135	135

17. CAPITAL COMMITMENTS

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Contracted but not provided for:		
Land and buildings	114,527	7,500
Plant and machinery	6,001	14,567
	120,528	22,067

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

18. RELATED PARTY DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in these interim condensed consolidated financial statements, the Group had the following significant transactions with related parties:

	Notes	For the six months ended 30 June	
		2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Lease prepayments made to:			
– ZhongDi Grass (Ulanqab) Co., Ltd. (“ ZhongDi Grass ”)	(i)	772	772
Provision of construction services by:			
– Beijing Urban Construction Engineering Co., Ltd. (“ Urban Construction ”)	(i) (ii)	—	19,457
Rental charges by:			
– ZhongDi Seeds	(i)	1,639	1,639

Notes:

- (i) The transactions were carried out in accordance with the terms and conditions mutually agreed by the contracting parties.
- (ii) Mr. Zhang Dashe, the connected person of the Group, sold his interests in Urban Construction to independent third parties. As such, Urban Construction ceased to be a connected party of the Group. Accordingly, the transaction amounts and balances between the Group and Urban Construction are no longer disclosed as connected transactions or related party transactions.

(b) *Guaranties provided by related parties*

	Note	30 June	31 December
		2017 (unaudited) RMB'000	2016 (audited) RMB'000
Mr. Zhang Jianshe	(i)	—	50,000
ZhongDi Seeds	(i)	—	50,000

Note:

- (i) As at 31 December 2016, RMB50,000,000 was jointly guaranteed by ZhongDi Seeds and Mr. Zhang Jianshe and secured by certain dairy cows of the Group as stated in note 15. The Group repaid the bank loan of RMB50,000,000 in January 2017.

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

18. RELATED PARTY DISCLOSURES *(continued)*

(c) Operating lease commitments

The Group had commitments to make future minimum lease payments to ZhongDi Seeds and ZhongDi Grass in respect of office and land use rights rented under non-cancellable operating leases which fall due as follows:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Within one year	2,025	4,050
In the second to fifth years, inclusive	3,731	3,088
	5,756	7,138

(d) Compensation to key management personnel

	For the six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Salaries, bonuses and other benefits	3,789	2,848
Retirement benefit scheme contributions	37	36
	3,826	2,884

(e) Balances with related parties:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Trade and other payables to:		
– Urban Construction	—	258,844
– ZhongDi Seeds	—	56
	—	258,900

The above trade and other receivables/payables are unsecured, interest-free and repayable on demand.

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

19. FAIR VALUE AND FAIR VALUE HIERARCHY 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:

	30 June 2017		31 December 2016	
	Carrying amounts (unaudited) RMB'000	Fair values (unaudited) RMB'000	Carrying amounts (audited) RMB'000	Fair values (audited) RMB'000
Interest-bearing bank and other borrowings	1,574,292	1,604,947	1,390,275	1,415,148

Management has assessed that the fair values of cash and bank balances, pledged bank deposits, financial assets included in trade and other receivables, financial liabilities included in trade and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amount of long term pledged deposits is calculated by discounting the expected future cash flows using the prevailing market interest rate for instruments with similar terms, credit risk and remaining maturities and therefore approximates fair value.

The fair values of the financial assets and liabilities are determined 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.

Notes to Interim Condensed Consolidated Financial Statements *(continued)*

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

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

Liabilities for which fair values are disclosed:

	Fair value measurement using significant unobservable inputs (Level 3)	
	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Interest-bearing bank and other borrowings	1,604,947	1,415,148

20. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 30 August 2017.