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)

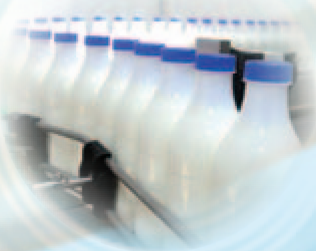
Stock code: 1492

ANNUAL REPORT 2015

中地乳业
ZhongDi Dairy

Corporate Profile

We are one of the leading quality raw milk producing dairy farming companies in China. Our business models cover participating in multiple stages of the dairy farming industry value chain, including raising dairy cows, breeding dairy cows, raw milk production and sale, importing and selling dairy cows of quality breeds, as well as import trading business in cows, 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 ("**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 and ultimately become one of the largest dairy farming companies in China.



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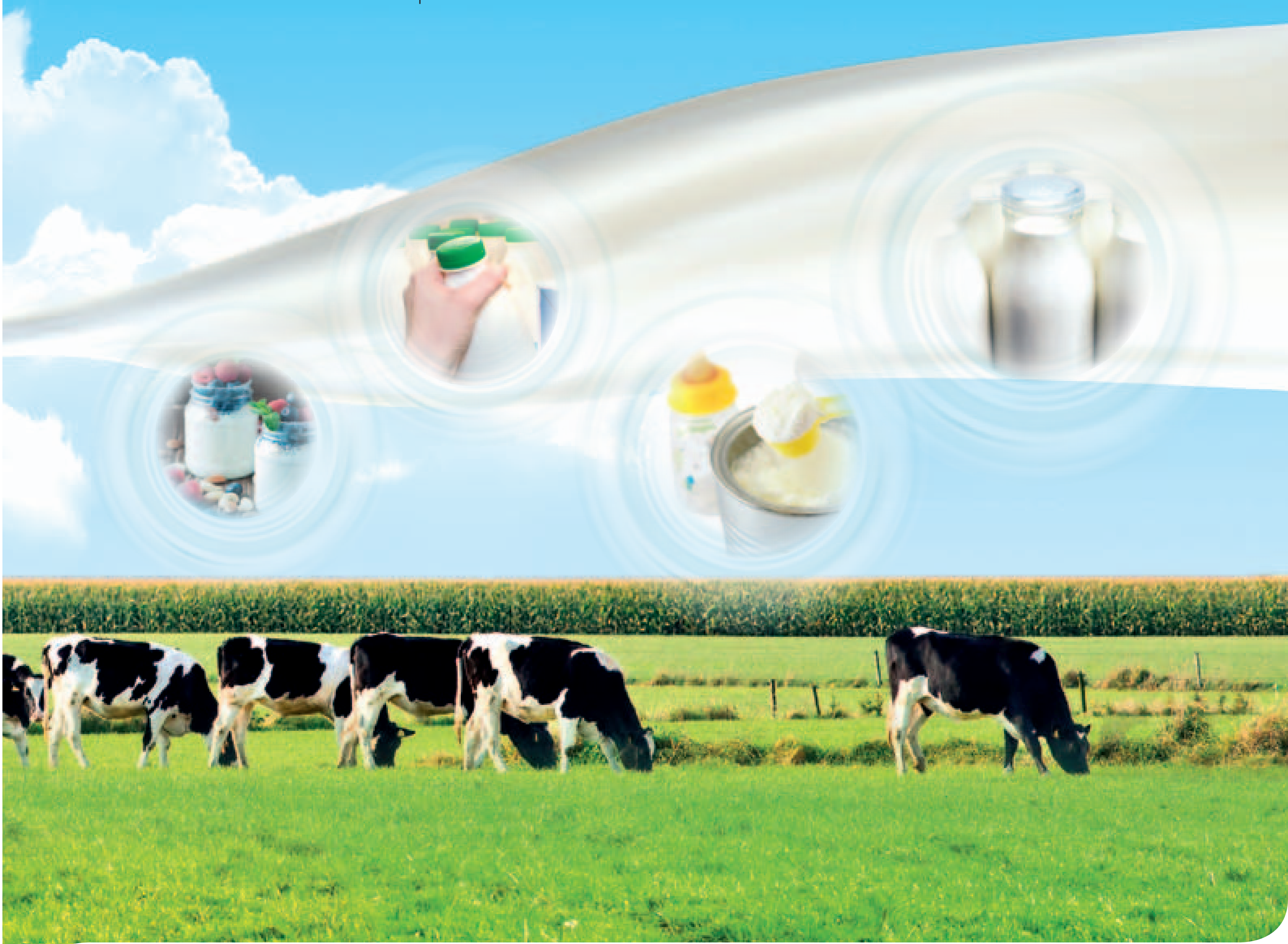

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors (1)

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 (2)

Mr. Song Naishe
Mr. Lian Enchen
Ms. He Shan

STOCK CODE

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

Notes:

(1) Due to change of job, Ms. Wang Ying resigned as a non-executive director of the Company on 13 February 2015. Ms. Wang Ying confirmed that she has no disagreement with the board of directors of the Company.

(2) Due to personal reasons, Mr. Ng Ming Hon resigned as the chief financial officer of the Company on 6 November 2015. Ms. Ng Ming Hon confirmed that he has no disagreement with the board of directors of the Company.

INVESTOR RELATIONS CONTACT

Mr. Lian Enchen
10th Floor, Block A, Time Fortune Compound
No. A6, Shuguang Xili
Chaoyang District
Beijing
the PRC
Email: ir@zhongdidairy.hk
Website: www.zhongdidairy.hk

PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall, Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISER

Paul Hastings
21-22/F, Bank of China Tower
1 Garden Road
Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jianshe
Ms. Ng Sin Yee, Clare

AUDITOR

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor
Two Exchange Square
8 Connaught Place
Central
Hong Kong

JOINT COMPANY SECRETARIES

Mr. Lian Enchen
Ms. Ng Sin Yee, Clare

COMPANY'S WEBSITE

www.zhongdidairy.hk

Annual Results Highlights

Annual Results Highlights

FINANCIAL HIGHLIGHTS

Results

	Years ended 31 December							
	2015		2014		2013		2012	
	Results before biological fair value adjustments RMB'000	**Results after biological fair value adjustments RMB'000**	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000
Revenue	**483,058**	**483,058**	721,555	721,555	309,060	309,060	406,879	406,879
Gross profit margin	**39%**	**3%**	26%	2%	30%	30%	22%	3%
Profit for the year attributable to equity shareholders of the Company	**79,289**	**98,139**	101,470	148,348	73,197	80,794	67,378	70,643
Basic earnings per share (RMB cents)	**–**	**5.4**	–	10.5	–	7.3	–	8.4

Annual Results Highlights

	Years ended 31 December			
	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**3,211,145**	2,258,504	1,380,984	782,939
Total liabilities	**1,300,020**	804,891	736,475	309,224
Total equity	**1,911,125**	1,453,613	644,509	473,715
Of which: total equity attributable to equity shareholders of the Company	**1,911,125**	1,448,713	644,509	473,715


中国中地乳业控股
China ZhongDi Dairy Holdings
股票代码 01492.HK
(Stock Code:01492.HK)


上市誌慶晚宴
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Chairman's Statement

Chairman's Statement

Dear Shareholders,

On behalf of the Board (the "Board") of Directors (the "Directors" and, each a "Director") of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (the "Group" or "ZhongDi"), I am pleased to present the audited consolidated annual results of the Group for the year ended 31 December 2015 (the "Reporting Period").

BUSINESS REVIEW

The business of the Group covers various aspects of the value chain of the dairy farming industry, including raw milk production and sales, dairy cattle feeding and breeding, import and sales of premium dairy cattle and stud livestock and the import trading business of alfalfa hay and other livestock farming-related products. For the year ended 31 December 2015, the Group recorded total income of RMB483.1 million, representing a year-on-year decrease of 33.1%. The dairy farming business remained the pillar business of the Group. As at 31 December 2015, the Group owned seven modern farms in production in Beijing, Hebei, Shanxi, Inner Mongolia, Ningxia and Liaoning, feeding a total of 43,058 Holstein dairy cattle, representing a year-on-year increase of 27.7%. Total sales of raw milk for 2015 were 100,498 tonnes, representing an increase of 59.3% as compared to 63,099 tonnes for 2014. For 2015, income generated from the dairy farming business amounted to RMB428.0 million, representing 88.6% of the total income of the Group. The import and export trading business

remained one of the important businesses of the Group. However, due to the adverse impact as a result of a reduction in the demand for imported dairy cattle in China during the Reporting Period, the performance of the Group's import and export trading business experienced a substantial decline. Income generated from the import and export trading business amounted to RMB55.0 million, representing approximately 11.4% of the Group's total income.

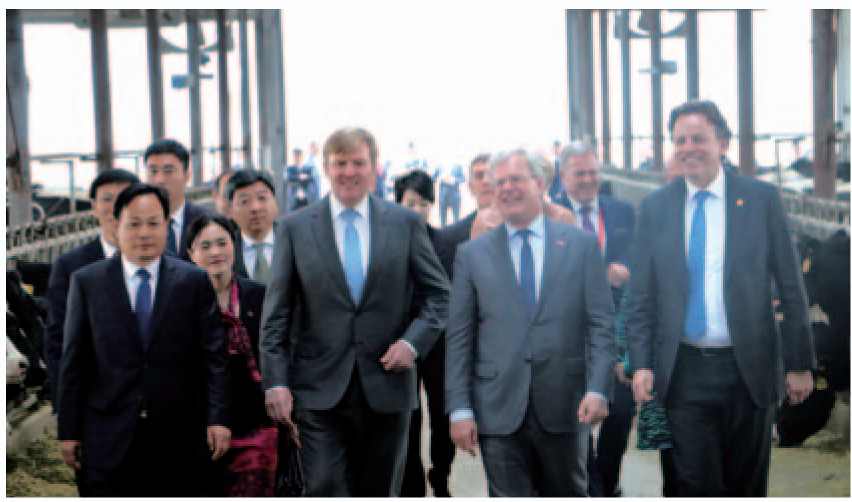
All farms operated by the Group are distributed over the areas suitable for dairy farming specified in the "Development Plan of Major Dairy Cow Farming Regions (2008-2015)" (《全國奶牛優勢區域布局規劃(2008-2015年)》) promulgated by the MOA of the PRC in 2009 and are close to raw milk processing plants of leading dairy companies in China, which helps reduce the risks of the dairy farm operation business and facilitates the stable development of the Group. Based on the ideal geographical locations and climate and environment of the Group's operating farms, the excellent genetic characteristics of dairy herds and excellent breeding technology, balanced and nutritious feed formulation and modern farming method, modern milking system and comprehensive and strict disease control system, raw milk produced by the Group is premium raw milk the quality of which is much better than the United States standard, the PRC standard and the average indicator of selected large dairy farming enterprises in China and is purchased by outstanding dairy companies in China to be used in the production of high-end premium dairy products. The Group entered into a long-term strategic cooperation agreement on the purchase and sale of raw milk produced by the Group for a term of ten years with each of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) and its subsidiaries (collectively, "**Mengniu**") and Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司) and its subsidiaries (collectively, "**Yili**"), respectively, in 2014. For the year ended 31 December 2015, total raw milk purchases by Mengniu and Yili from the Group represented approximately 88.6% of the Group's total raw milk sales.

From 2014 onwards, the dairy farming industry in China has been faced with fierce competition and challenges and has started to enter a relatively difficult stage of development. Due to the influx of imported bulk milk powders and imported liquid milk products into the Chinese market and a steady growth in the supply of raw milk in China which led to a continued decrease in prices of raw milk, the import of milk powder and liquid milk products from overseas declined during the Reporting Period. Prices of raw milk tended to be steady. However, it was still difficult to completely change the situation of the sustained decline. During the Reporting Period, 1) due to a continued decline in domestic raw milk market prices, prices of raw milk sold externally by the Group were affected; 2) due to the dairy farming industry starting to enter a relatively difficult stage of development from 2014 onwards and the decline in demand for the imported dairy cattle in the PRC, the import and export trading business of the Group was affected to a greater extent; and 3) upon completion of the listing of the shares of the Company (the "**Shares**") on the Main Board of the Stock Exchange (the "**Listing**"), high intermediary expenses offset part of the profit and there existed other unfavourable factors, which ultimately led to a decrease in our annual profit (before biological fair value adjustments) from RMB101.5 million for 2014 to RMB79.3 million for 2015. However, being confronted with a market environment of sharply increasing competitive pressure, all our businesses still developed steadily by virtue of our excellent strategic distribution of farms, the provision of premium and stable feed supply by our own crop farms, meticulous and scientific farm management, premium and high-end raw milk and stable cooperation with outstanding dairy companies in China.

Chairman's Statement

PROSPECTS

Looking ahead to the future, with the continual improvement of the per capita consumption level of residents in China and an increase in the per capita milk consumption, the further development of urbanization and the comprehensive implementation of the "Two-child Policy" in China, the dairy product market and the liquid milk market in China will maintain strong growth. The domestic demand for high-end premium raw milk is still very strong and constantly growing. The dairy product industry in China has a broad development space. During the Reporting Period, although prices of raw milk continued to drop, the decline was not significant and was stabilized. In the long run, the demand of the market for high-end premium raw milk is still greater than the supply. It is anticipated that domestic prices of raw milk will still have room for increases in the long term. The dairy farming industry is still highly fragmented in China. Nevertheless, large farms generally can achieve a higher yield per unit. It is expected that the percentage of large farms will gradually increase, becoming a development trend in the dairy farming industry in China. More and more large farm enterprises are expanding their operating scale and rely on importing heifers as basic dairy cattle for newly developed farms. This has further increased the demand of the market for imported dairy cattle. Therefore, it is expected that the dairy cattle import and export trading business will see greater growth.



Chairman's Statement

As one of the leading large dairy farming enterprises and premium raw milk producers and suppliers in China, the Group has been committed to providing premium raw milk to high quality customers. In the future, the Group will expand the existing farms and actively seek development opportunities and new farm construction to expand our operating scale. Meanwhile, the Group will continue to increase the operating efficiency of our dairy farms and endeavor to increase the milk production of dairy cattle and guarantee the excellent quality of milk by fully leveraging our competitive advantages in breeding technology and dairy herd management to satisfy the growing market demand. At the same time, we plan to actively promote the dairy processing and sales operations. With the advantage of our dairy farming business in producing premium raw milk, we currently expect to focus on fresh milk and yogurt in the future downstream dairy product business. We believe entering the downstream dairy product business, we may fully release the value of premium raw milk produced by the upstream dairy farming business, which will facilitate us to further increase our profitability, thereby ultimately maximizing returns to the shareholders of the Company (the "**Shareholders**").

ACKNOWLEDGEMENTS

The Reporting Period is an extremely unusual year in our development. The diligent work, solidarity and selfless contribution of all our colleagues have enabled the Company to advance forward steadily. I would like to take this opportunity to express my deep gratitude to all our colleagues, Shareholders and business partners for their support and trust in ZhongDi and look forward to continuing sincere cooperation with you so as to create and witness new glory in our business development!

Zhang Jianshe
Chairman and Chief Executive Officer

29 March 2016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中地乳业国际奶业高峰论坛
ZhongDi Dairy International Dairy Summit Forum

Management Discussion and Analysis

Management Discussion and Analysis

INDUSTRY REVIEW

In 2015, the dairy industry in China had been facing tremendous pressure and challenges. Raw milk prices in overseas markets remained at a relatively low level all the time, while foreign dairy brands also increased their market penetration in China. Large quantities of imported milk powder and imported liquid milk products continued rushing into the Chinese market, and the domestic raw milk market had been facing downside pressure, which resulted in a long stagnant period for raw milk prices in China. According to Frost & Sullivan, the average raw milk selling price in China decreased substantially from RMB4,228 per tonne in March 2014 to RMB3,440 per tonne in February 2015, and maintained at a stable level of approximately RMB3,400 per tonne from February 2015 to September 2015. On the other hand, a large number of small dairy farms and individual dairy farmers gradually exited the market due to the falling raw milk selling prices and high feeding costs. By leveraging on scientific planning and standardization in farming, the large-scale modern farms have shown much more remarkable advantages and will become the future development trend in the dairy farming industry.

BUSINESS REVIEW

The Group's business covers many segments of the value chain in the dairy farming industry, including production and sales of raw milk, feeding and breeding of dairy cows, imports and sales of high quality dairy cows and breeding livestock, import trading business in alfalfa hay and other animal husbandry related products.

Management Discussion and Analysis

Despite the intensive competition in the domestic dairy industry and the persistent declining average selling price of raw milk, our premium raw milk still achieved a relatively high selling price when compared with raw milk of average quality, which in turn resulted in more attractive profit margin and rate of return for us. During the first half of 2015, the average selling price of our raw milk was 27.9% higher than the national average selling price. As at 31 December 2015, the average selling price of our raw milk was approximately RMB4,259 per tonne, which was over 20% higher than the average national milk price. We positioned at the nationwide market. Capitalizing on the geographical advantages of our dairy farm network and efficient milk production management, we supplied large quantities of premium raw milk to leading dairy product enterprises in China for processing into high-end liquid milk. For example, Mengniu purchased our premium raw milk for processing and manufacturing into Milk Deluxe (特侖蘇), while Yili purchased our premium raw milk for processing and manufacturing into Satine (金典). During the Reporting Period, revenue generated from the dairy farming business amounted to RMB428.0 million, representing approximately 88.6% of the total revenue of the Group. We believe that the strong growth in demand for high-end liquid milk in China will boost a stronger market demand for our premium raw milk.

We also engage in import trading business primarily in cows, alfalfa hay and other animal husbandry related products in China under two different business models of principal trading and agency services respectively. Under the principal trading model, we primarily import cows and alfalfa hay into China in the capacity of a principal, and sell the relevant products to customers. During the Reporting Period, most of our imports were dairy cows and a small portion were beef cows, and we earned the premium above the import price as our return. Under our agency services model, we act as the agent for our customers in China and import mainly live poultry, breeding livestock and other animal husbandry related products (such as frozen semen of livestock). We acted as agents of our customers to identify potential suppliers and carry out transactions and received commission in return. For the year ended 31 December 2015, the revenue generated from our import trading business was RMB55.0 million, representing approximately 11.4% of the total revenue of our Group, of which revenue from principal trading represented approximately 99.3% and revenue of agency services represented approximately 0.7% of our revenue from the import trading business.

Our principal business structure began to change significantly in 2015. The percentage of revenue generated from the dairy farming business of the Group's total revenue increased from 42.7% in 2014 to 88.6% in 2015. The dairy farming business has become the Group's pillar segment.

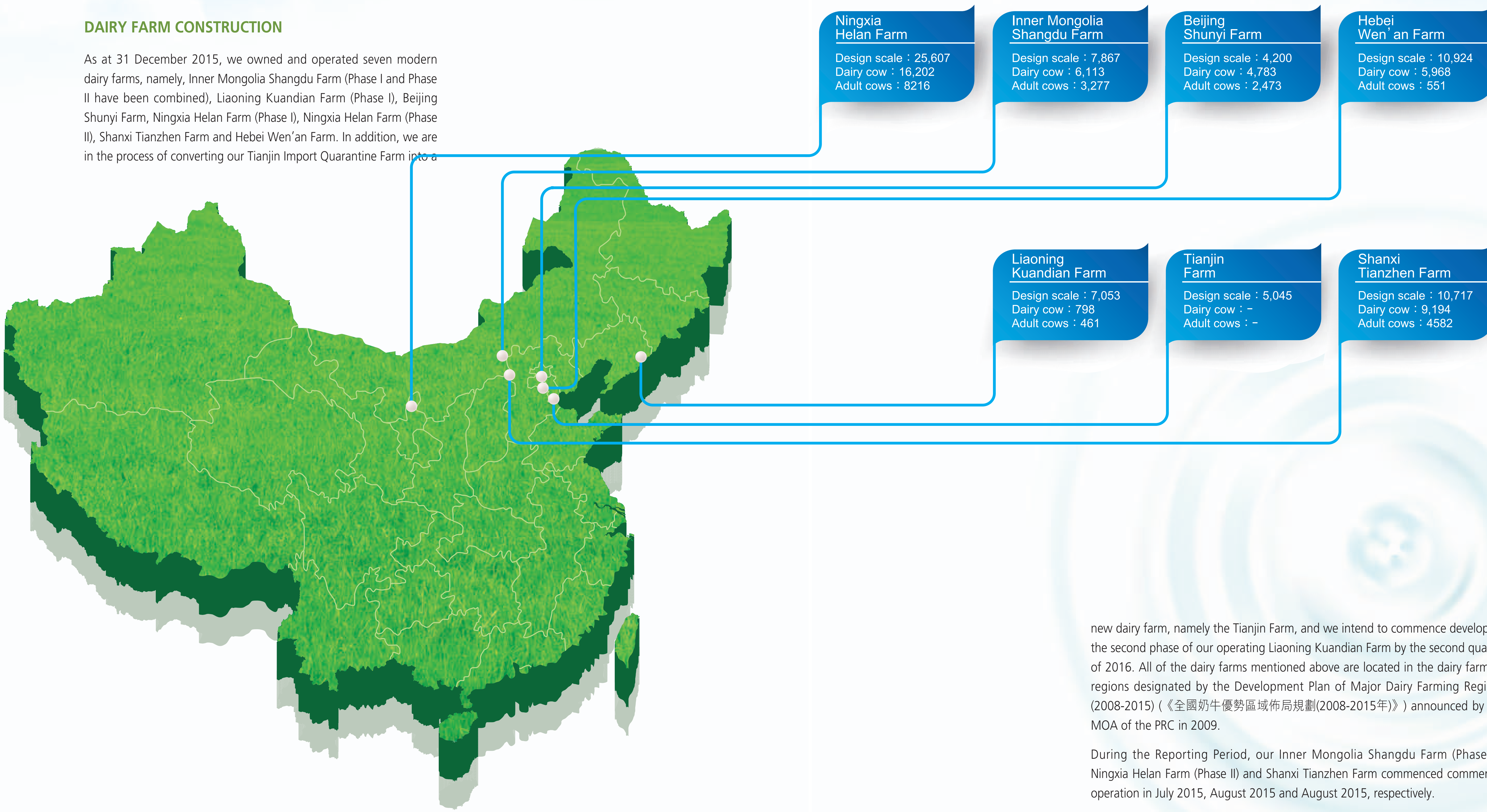
On 2 November 2015, the Group and Mr. Song Naishe, the deputy general manager of the Group, were granted the team award and the individual award in the Cow Nutrition and Feed Science Innovation (奶牛營養與飼料科學創新團隊獎及個人獎) by the MOA of China respectively. This award is set up by the MOA of China to recognize the profound scientific research results in the technical improvements of Chinese agricultural sciences. It shows that the Group's achievements in the exploration of cow nutrition and feed science have been recognized by authoritative institutions.

Management Discussion and Analysis

Management Discussion and Analysis

DAIRY FARM CONSTRUCTION

As at 31 December 2015, we owned and operated seven modern dairy farms, namely, Inner Mongolia Shangdu Farm (Phase I and Phase II have been combined), Liaoning Kuandian Farm (Phase I), Beijing Shunyi Farm, Ningxia Helan Farm (Phase I), Ningxia Helan Farm (Phase II), Shanxi Tianzhen Farm and Hebei Wen'an Farm. In addition, we are in the process of converting our Tianjin Import Quarantine Farm into a new dairy farm, namely the Tianjin Farm, and we intend to commence developing the second phase of our operating Liaoning Kuandian Farm by the second quarter of 2016. All of the dairy farms mentioned above are located in the dairy farming regions designated by the Development Plan of Major Dairy Farming Regions (2008-2015) (《全國奶牛優勢區域佈局規劃(2008-2015年)》) announced by the MOA of the PRC in 2009.



During the Reporting Period, our Inner Mongolia Shangdu Farm (Phase II), Ningxia Helan Farm (Phase II) and Shanxi Tianzhen Farm commenced commercial operation in July 2015, August 2015 and August 2015, respectively.

Management Discussion and Analysis

The table below sets forth the selected information of dairy farms in operation and dairy farms under current expansion plans as at 31December 2015:

Our dairy farm network	Location	Commencement of commercial milk production (actual or estimate)	Designed capacity (head of dairy cows)	Size (mu)	Actual Stock (head of dairy cows)
Dairy farms in operation					
Inner Mongolia Shangdu Farm (Phase I) (Note)	Northern China	Q3 2003	2,200	300	1,686
Inner Mongolia Shangdu Farm (Phase II) (Note)	Northern China	Q3 2015	5,667	579	4,427
Liaoning Kuandian Farm (Phase I)	Northeastern China	Q4 2003	1,000	118	798
Beijing Shunyi Farm	Northern China	Q4 2011	4,200	336	4,783
Ningxia Helan Farm (Phase I)	Northwestern China	Q4 2013	16,000	4,600	12,969
Ningxia Helan Farm (Phase II)	Northwestern China	Q3 2015	9,607	1,066	3,233
Shanxi Tianzhen Farm	Northern China	Q3 2015	10,717	1,156	9,194
Hebei Wen'an Farm	Northern China	Q1 2016	10,924	1,305	5,968
Subtotal			60,315	9,460	43,058
Dairy farms under expansion plans					
Tianjin Farm	Northern China	Q2 2017	5,045	700	0
Liaoning Kuandian Farm (Phase II)	Northeastern China	Q4 2017	6,053	2,060	0
Subtotal			11,098	2,760	0
Total			71,413	12,220	43,058

Note : Inner Mongolia Shangdu Farm (Phase I) and Inner Mongolia Shangdu Farm (Phase II) have been combined.

Management Discussion and Analysis

MILK YIELD

As at 31 December 2015, we operated seven dairy farms in superior locations in Northern China, Northeastern China and Northwestern China with a total of 43,058 dairy cows, excluding the male calves at our dairy farms and the dairy cows held for sale kept at our quarantine farms. Our dairy cows were of Holstein breed. According to Frost & Sullivan, in terms of average milk yield per head, the Holstein breed was the highest among all breeds of dairy cows in the world. As at 31 December 2015, the average annual milk yield of our milking cows was 10.7 tonnes and the average annual milk yield of our milkable dairy cows was 9.4 tonnes, representing a slight decrease as compared to that of last year. The decrease is mainly due to the fact that the new dairy farms have just commenced production, which has an effect on the unit milk yield of the Group's milkable dairy cows. It is expected that the unit milk yield of our milkable dairy cows will be increased substantially in 2016.

RAW MILK QUALITY

We are dedicated to producing premium raw milk, and we sell our raw milk mainly to high quality customers within the industry who will in turn further process our raw milk into high-end liquid milk, such as UHT milk (i.e. sterilised milk that has been heat-treated at an ultra-high temperature (135 ℃ to 150℃) for one to two seconds, referred to as "**UHT milk**"), fresh milk and yogurt. Viewing from a series of key quality indicators, our raw milk products are of stable and premium quality and their physical and chemical indicators are superior to European, American and Japanese standards. Therefore, we have been able to sell our products at a comparatively higher price.

Management Discussion and Analysis

ALFALFA AND FEEDS PLANTATIONS

In order to ensure the quality of our feeds and their stable supply at economically efficient cost, as at 31 December 2015, we had used the leased or contracted land with a total area of approximately 48,930 mu for constructing five crop farms surrounding or close to our dairy farms as plantations of feeds for dairy cows. Our crop farms grew and supplied feeds, such as corn and alfalfa, for our dairy cows. Crop farms saved transportation expenses of feeds for us, ensured the quality and stable supply of feeds, enhanced cost effectiveness, and part of the cow wastes produced by our dairy farms were processed into organic fertilizers, which had reduced the processing cost of cow waste from dairy cows in an environmental friendly manner.

OUTLOOK

We intend to continue expanding our scale of operations, produce premium and safe raw milk, and ultimately become one of the largest dairy farming companies in China. We plan to implement the following strategies in order to realize these objectives:

Continue expanding existing dairy farms and develop new dairy farms

During the Reporting Period, the dairy farms developed and expanded by us and which had been put into operation include the Inner Mongolia Shangdu Farm (Phase II), the Ningxia Helan Farm (Phase II), the Shanxi Tianzhen Farm and the Hebei Wen'an Farm. In addition, we are in the process of converting our Tianjin Import Quarantine Farm into a new dairy farm, namely the Tianjin Farm. We intend to commence developing the second phase of our operating Liaoning Kuandian Farm by the second quarter of 2016. Upon completion of our current expansion plans, the total size of our dairy farms is expected to be approximately 12,220 mu, representing an increase of approximately 29.2% in total size compared to the current size of 9,460 mu of our seven operating dairy farms as at 31 December 2015. We will own and operate nine dairy farms in total, with an aggregate designed capacity for raising approximately 71,413 heads of dairy cows, representing an increase of approximately 18.4% from the current aggregate capacity for raising 60,315 heads of dairy cows at our seven operating dairy farms. Combining our expandable operating model for dairy farms with our ability to import a large number of quality dairy cows, we intend to fast track the development of dairy farms under our expansion plans and engage in commercial milk production eventually. Our

Management Discussion and Analysis

Inner Mongolia Shangdu Farm (Phase II), Ningxia Helan Farm (Phase II) and Shanxi Tianzhen Farm commenced commercial production in July 2015, August 2015 and August 2015, respectively, and these dairy farms are ramping up their production to reach full-scale operation. We currently expect our Liaoning Kuandian Farm (Phase II) to commence commercial milk production in the fourth quarter of 2017, and our Hebei Wen'an Farm and Tianjin Farm to commence commercial milk production in early 2016 and the second quarter of 2017 or later, respectively. The strong supply channel of dairy farms under our expansion plans provides us with the platform to achieve significant growth in terms of our operating scale and market share in the near future. With a larger operating scale and market share, we believe that we could maximize our competitive advantages with respect to breeding technology and herd management, improve our profit margin and eventually solidify our position in the dairy farming industry in China. With an expanded network of dairy farms covering major dairy farming regions in China, we could increase penetration into our target markets and raise our product awareness throughout the domestic market.

Management Discussion and Analysis

Actively boost the dairy product processing and sales business

We intend to actively boost the dairy product processing and sales business, while taking into consideration of the amount of capital required, the supply and demand dynamic of the PRC dairy products and maturity of our dairy farming business. Taking advantage of our dairy farming business production of premium raw milk, we currently expect to focus on fresh milk and yogurt production in our future downstream dairy operations, which we believe, compared with other dairy products such as UHT milk, have more promising market prospects in China and place more stringent requirements on the quality of raw milk. We expect to use the premium raw milk that our upstream dairy farming business produces which is not sold to Mengniu or Yili to process into fresh milk and yogurt. We may choose to invest in and establish downstream operations independently, or cooperate with third parties in the form of joint ventures, through which we could leverage the resources provided by third parties such as strong marketing capability, mature distribution channels and strong financial backings. We may also consider acquiring at an opportune time regional downstream dairy processors in China that are potentially competitive, so that we can achieve accelerated growth in scale in our future downstream dairy operations. We believe that if we expand into the downstream dairy operations, we can fully enhance the full value of the premium raw milk produced by our upstream dairy farming business. By combining downstream processing with upstream dairy farming, we would be in a position to provide quality and safe dairy products to consumers and improve the general operation level and risk tolerance. We believe that a vertically integrated business will help us further improve our profitability and eventually maximize Shareholders' returns.

Management Discussion and Analysis

Continue improving operational efficiency of our dairy farms

We intend to continue adopting normalized management models, standardized processes and systematic breeding management measures to improve and enhance the genetic features of our dairy cows and the herd improvement efforts, continue feeding scientific, nutritious, balanced and precise ration to our dairy cows by researching on the ration of dairy cows and utilizing advanced equipment to monitor and assess the feeding efficiency, thereby saving costs and improving efficiency and enhancing the profitability of our dairy farms.

Seek to establish additional new crop farms and further improve yield and efficiency of our crop farms

We will seek to lease additional sizable parcels of crop land in the vicinity of our dairy farms to grow feeds as a stable and cost-efficient source of feeds for dairy cows. We strive to strengthen the management of growers and optimize the operation efficiency of our crop farms to further improve the yield and efficacy of the crops grown at our crop farms. For example, we intend to require the growers to adjust the timing and breeds for sowing according to the features of local climate, further improve the irrigation at our crop farms and strengthen the daily management of the crops planted.

We believe, as urbanization process in China develops further, recognition by Chinese residents of fresh premium domestic milk will be gradually enhanced and the per capita consumption of premium domestic milk will be increased substantially. In addition, according to Frost & Sullivan, after the full implementation of the "Two-Child Policy", the Chinese population is likely to witness a boom during the next decade. Chinese newborns are likely to reach 18.0 million in 2018, compared to 16.9 million in 2014. The increasing infant population aged 0-3 is likely to be the main force driving the growth of infant formula milk powder market. When the generation of the second child grows up, the demand for liquid milk is likely to increase accordingly in the long run, which will further drive the growth of the entire dairy industry in China. Due to the growing demand for dairy products, the demand for raw milk supply and imported heifers and calves is likely to increase accordingly. As a result, leading dairy farming companies will likely import more heifers and calves for their expanded or newly developed dairy farms to ensure stable raw milk supply. Frost & Sullivan expects that the "Two-Child Policy" will bring positive development for raw milk producers and dairy cow importers.

Management Discussion and Analysis

FINANCIAL OVERVIEW

Revenue

The table below sets forth the revenue of each business segment for the years ended 31 December 2015 and 2014, respectively:

	For the year ended 31 December					
	2015			2014		
	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	**428,019**	**—**	**428,019**	308,426	—	308,426
Import trading business	**55,039**	**206,482**	**261,521**	413,129	388,228	801,357
Total	**483,058**	**206,482**	**689,540**	721,555	388,228	1,109,783

Our revenue for 2015 amounted to RMB483.1 million, representing a year-on-year decrease of approximately 33.1% compared to RMB721.6 million for 2014, which was mainly attributed to the market impact, the decline in raw milk prices and the reduction in import trading sales.

Dairy Farming Business

The increase in the turnover of our dairy farming business was attributed to the expansion of the scale of our dairy herd.

Revenue, sales volume and unit selling price of our raw milk and reproduced heifers and calves businesses for the years indicated are detailed in the table below:

	For the year ended 31 December					
	2015			2014		
	Revenue (RMB'000)	**Sales Volume tonne/head**	**Unit Selling Price RMB/tonne (head of cows)**	Revenue (RMB'000)	Sales Volume tonne/head	Unit Selling Price RMB/tonne (head of cows)
Sales of raw milk	**428,019**	**100,498**	**4,259**	301,938	63,099	4,785
Reproduced heifers and calves	**—**	**—**	**—**	6,488	325	19,963
Total	**428,019**			308,426		

In 2015, with Inner Mongolia Shangdu Farm (Phase II), Ningxia Helan Farm (Phase II) and Shanxi Tianzhen Farm put into production successively, our sales volume of raw milk amounted to 100,498 tonnes, representing an increase of approximately 59.3% as compared to last year. Because of the continuing expansion of the dairy herds and the increased internal demand of our dairy farms, no sales of reproduced heifers and calves were made.

Management Discussion and Analysis

Import Trading Business

The import trading business saw a decline in 2015, which was mainly due to the declined demand of the imported cows in the PRC.

Revenue from our principal trading business and import agency business for the years indicated are detailed in the table below:

	For the year ended 31 December			
	2015		2014	
	Revenue (RMB'000)	**Percentage**	Revenue (RMB'000)	Percentage
Principal trading business	**54,661**	**99.3%**	408,254	98.8%
Import agency business	**378**	**0.7%**	4,875	1.2%
Total	**55,039**	**100.0%**	413,129	100.0%

Revenue from our import trading business decreased by 86.7% from RMB413.1 million in 2014 to RMB55.0 million in 2015, primarily reflecting the declined demand of imported cows in the PRC.

Gross Profit and Gross Profit Margin

The breakdown analysis of gross profit and gross profit margin before fair value adjustments of our two business segments for the years indicated is set out below:

	For the year ended 31 December			
	2015		2014	
	Gross Profit (RMB'000)	**Gross Profit Margin**	Gross Profit (RMB'000)	Gross Profit Margin
Dairy farming business	**182,469**	**42.6%**	130,451	42.3%
Import trading business	**6,082**	**11.1%**	58,358	14.1%
Total	**188,551**	**39.0%**	188,809	26.2%

Gross profit of our dairy farming business increased by 39.8% from RMB130.5 million for the year ended 31 December 2014 to RMB182.5 million for the year ended 31 December 2015, which was mainly attributed to the expansion of the scale of our dairy herds as well as a sharp increase in both production and sales volume of raw milk. The gross profit of our import trading business declined significantly from RMB58.4 million for the year ended 31 December 2014 to RMB6.1 million for the year ended 31 December 2015, which was mainly attributed to a significant decline in our import trading business as affected by the market.

Management Discussion and Analysis

Gross profit margin of our dairy farming business for the year ended 31 December 2015 was 42.6%, representing an increase of 0.3% as compared to the gross profit margin of 42.3% for the year ended 31 December 2014, which was mainly attributed to an improved percentage of the raw milk business. Under the background of declining average milk prices, the gross profit margin of raw milk was still maintained at a relatively high level of 42.6%, which was attributed to our effective cost control. The gross profit margin of our import business declined from 14.1% for 2014 to 11.1% for 2015, which was mainly attributed to the fact that prices of our import trading business were affected by fluctuations in the market.

Cost of Sales

Cost of sales of raw milk is as follows:

	For the year ended 31 December			
	2015		2014	
	(RMB'000)	**Percentage**	(RMB'000)	Percentage
Feeds	**192,904**	**78.6%**	137,638	80.1%
Labour costs	**14,905**	**6.1%**	9,377	5.4%
Depreciation	**11,415**	**4.7%**	7,851	4.6%
Veterinary medicine costs	**12,824**	**5.2%**	6,017	3.5%
Utilities	**5,271**	**2.1%**	3,606	2.1%
Others	**8,231**	**3.3%**	7,447	4.3%
Total	**245,550**	**100.0%**	171,936	100.0%

Feeds costs represented approximately 78.6% of the sales cost of raw milk production (before fair value adjustments) for the year ended 31 December 2015. As the feeds costs declined, our sales cost per tonne of raw milk (excluding depreciation) decreased by 10.4% to RMB2,330 for the year ended 31 December 2015 from RMB2,600 for the year ended 31 December 2014.

Management Discussion and Analysis

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

Gains from changes in the fair value of biological assets less costs to sell recorded from continuing operations for the year ended 31 December 2015 was RMB23.8 million, representing a year-on-year decrease of approximately 78.6% as compared to RMB111.0 million for the year ended 31 December 2014, which was mainly attributed to the regular and systematic culling of milkable 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 on Initial Recognition of Agricultural Produce at Fair Value Less Costs to Sell upon Harvest

Our gains arising on initial recognition of agricultural produce at fair value less costs to sell upon harvest from continuing operations increased by approximately 46.3% from RMB115.7 million for the year ended 31 December 2014 to RMB169.3 million for the year ended 31 December 2015, primarily reflecting an increase in the sales volume of our raw milk.

Other Income

Other income mainly includes government grants and bank interest income. Income from government grants recognized for the year ended 31 December 2015 was RMB11.6 million, representing a year-on-year decrease of 28.8% as compared to RMB16.3 million for the year ended 31 December 2014. Bank interest income recognized for the year ended 31 December 2015 was RMB0.6 million, representing a year-on-year decrease of 73.9% as compared to RMB2.3 million for the year ended 31 December 2014.

Management Discussion and Analysis

Operating Expenses

	For the year ended 31 December		
	2015 (RMB'000)	2014 (RMB'000)	Rate of Change
Distribution cost	**19,031**	11,952	59.2%
Administration expenses	**49,573**	39,328	26.1%
Other expenses	**27,358**	9,752	180.5%
Total	**95,962**	61,032	57.2%

The amount of operating expenses increased from RMB61.0 million for the year ended 31 December 2014 to RMB96.0 million for the year ended 31 December 2015. During the Reporting Period, as a result of the expansion of the Group's dairy farm scale, distribution cost and administration expenses had increased by approximately 59.2% and 26.1%, respectively. Other expenses includes listing expenses, bank transaction fee and others. During the Reporting Period, other expenses increased by approximately 180.5%, which was mainly due to the increase in listing expenses.

Finance Costs

Finance costs increased by approximately 8.5% from RMB28.3 million for the year ended 31 December 2014 to RMB30.7 million for the year ended 31 December 2015, which was mainly attributable to an increase in bank borrowings to support the expansion of the farm scale.

Management Discussion and Analysis

Liquidity and Sources of Funds

During the Reporting Period, the working capital of the Group mainly derived from cash inflow generated from daily operating activities, bank borrowings and net proceeds from the share issue upon listing. As at 31 December 2015, the gearing ratio of the Group was 40.5%. As at 31 December 2015 and 31 December 2014, the balance of cash and cash equivalents was RMB296.4 million and RMB146.1 million, respectively, denominated in RMB, HKD, USD and AUD, and mainly in cash and bank deposits.

Capital Expenditure

For the year ended 31 December 2015, the amount of capital expenditure incurred by our Group was RMB786.2 million, representing a year-on-year decrease of approximately 18.3% as compared to RMB962.2 million for the year ended 31 December 2014. During the Reporting Period, capital expenditure was mainly used for purchase of property, plant and equipment, payment of land rent and purchase of dairy cows.

Management Discussion and Analysis

Indebtedness

Borrowings of the Group during the Reporting Period were mainly borrowings denominated in RMB and USD. As at 31 December 2015, the balance of short-term borrowings including long-term borrowings due within one year was approximately RMB612.4 million. The lowest and highest interest rates of the variable-rate borrowings were 4.79% and 7.48%, respectively. As at 31 December 2015, the balance of long-term borrowings after deducting the amount due within one year was approximately RMB297.3 million. The lowest and highest interest rates of the fixed-rate bank borrowings were 2.70% and 6.96%, respectively, and the amount of fixed-rate bank borrowings was approximately RMB383.9 million.

Contingent Liabilities

As at 31 December 2015, the Group had no contingent liabilities.

Foreign Exchange Risk

For the year ended 31 December 2015, the Directors do not consider that the currency risks disclosed by the Group in the note 35 to the Financial Statements would have a material impact on the financial results of the Group. Therefore, no financial instruments such as forward foreign exchange settlement and sales contracts were adopted by the Group to hedge such risks.

Significant Investments, Acquisitions and Disposals of Assets

During the Reporting Period, save as disclosed in the prospectus of the Company dated 20 November 2015 (the "**Prospectus**"), the Group did not have any significant investments. During the Reporting Period, the Group also did not have any significant acquisitions and disposals regarding subsidiaries, associated companies and joint ventures.

Pledge of Assets

As at 31 December 2015, save as disclosed in note 27 to the Financial Statements of the Group and except for the restriction imposed on our cash amounting to approximately RMB38.3 million as disclosed in the "Consolidated Statement of Financial Position" which was due to the issuance of letters of credit in our import trading business, there was no other pledge of assets of the Group.

Gearing Ratio

As at 31 December 2015, the Group had a gearing ratio of 40.5%, while as at 31 December 2014, the gearing ratio was 35.6%. The gearing ratio was calculated by total liabilities divided by total assets of the Company.

Management Discussion and Analysis

USE OF PROCEEDS FROM LISTING

The Shares were listed on the Main Board of the Stock Exchange on 2 December 2015. Net proceeds from the Global Offering (as defined in the Prospectus) amounted to approximately HK$450 million (equivalent to approximately RMB371 million). As at 31 December 2015, such net proceeds have been planned to be applied in accordance with that as disclosed in the Prospectus, of which approximately 1.3% were used for financing the construction and purchase of property, plant and equipment needed for the implementation of our current expansion plans, approximately 25.3% were used for raising the foundation cows in our newly developed or expanded dairy farms and breeding and raising our reproduced heifers and approximately 5.6% were used for replenishing working capital and other general corporate purposes. The balance of approximately RMB252 million has been deposited in licensed banks in Hong Kong and the PRC. The Company currently does not have any intention to change the plan for the use of proceeds as stated in the Prospectus.

HUMAN RESOURCES

We had approximately 957 formal employees in Mainland China and Hong Kong as at 31 December 2015 (31 December 2014: 546). During the Reporting Period, total staff costs (excluding independent non-executive Directors' fees) were approximately RMB64.5 million as compared to approximately RMB43.4 million for the corresponding period in 2014.

We redesigned and adjusted the Group's corporate organization structure and improved the Group's human resources management base in order to make it more consistent with the Company's strategic development.

We adjusted our existing remuneration polices 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 maximize shareholder value. The Company will regularly adjust its remuneration polices and employee benefits with reference to industry standards and performance of individual employees.

In the meanwhile, we 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.

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

The PRC employees of the Group are members of a state-managed retirement benefit plan operated 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.

The Company adopted the Post-IPO Share Option Scheme (as defined in the Prospectus) on 28 October 2015, details of which are set out in the section headed "Statutory and General Information -D. Other Information-1. Post-IPO Share Option Scheme" in Appendix IV to the Prospectus and the section headed "SHARE OPTION SCHEME" in the Directors' Report of this annual report.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Directors and Senior Management

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhang Jianshe (張建設), aged 56, is our Chairman, executive Director and Chief Executive Officer. Mr. Zhang Jianshe was appointed as an executive Director in April 2014 and is primarily responsible for the overall management of our Company's strategic planning and supervision of its implementation. He joined our Group in October 2002. He has subsequently assumed various roles in our subsidiaries since he took up the position as a deputy manager of Kuandian ZhongDi Farming Co., Ltd. ("**ZhongDi Kuandian**") in October 2002. Mr. Zhang Jianshe is currently a director of all our subsidiaries. Prior to joining our Group, Mr. Zhang Jianshe had served as a staff of the Department of Management on Rural Cooperative Economy of the MOA (中華人民共和國農業部農村合作經濟經營管理總站) from July 1984 to December 1988. He had also served as a department director of China Agricultural Supplies Trading Company Limited (中國農業物資供銷總公司) from January 1989 to May 1996 and the general manager of Beijing Construction and Agriculture Wealth Supplies Trading Company (北京建農順物資商貿公司) from May 1996 to December 1999. He had then been committed to the pursuit of development of his personal business from January 2000 to October 2002 through which he accumulated both financial and industrial foundation for founding our Gorup. Mr. Zhang Jianshe graduated from Northwest Agriculture College (currently known as Northwest Agriculture and Forestry University (西北農林科技大學)) located in Shaanxi Province with a bachelor degree of science in management of agricultural economics in July 1984. He has been the vice president of China Animal Agriculture Association (中國畜牧業協會) since December 2011. He is a senior economist in agricultural economics credentialed by the MOA. Mr. Zhang Jianshe is a director of YeGu Investment Company Limited ("**YeGu Investment**") and Green Farmlands Group, the controlling Shareholders (as defined in the Listing Rules). He does not have any family relationship with any Directors or members of the senior management of our Company.

Mr. Zhang Kaizhan (張開展), aged 52, was appointed as an executive Director in July 2014 and is primarily responsible for assisting the Chairman in the overall management of strategic planning of our Company and overseeing human resources related matters and operation of the import trading business of our Company. He joined our Group in May 2006 as the deputy general manager of Beijing ZhongDi Stud Livestock Co., Ltd. ("**ZhongDi Beijing**") and has been its general manager since September 2012. He had also served as a director of ZhongDi Beijing from October 2011 to August 2014. Prior to joining our Group, Mr. Zhang Kaizhan had been engaged with China Stud Livestock Import and Export Company Limited (中國種畜進出口有限公司) from July 1988 to May 2006, working at various times as a staff, a deputy department manager, a department manager and the deputy general manager. He had also served as the deputy general manager of SinoFarm Genesis & Seeds (Group) Co., Ltd. ("**SinoFarm Group**") from November 2006 to December 2009. Mr. Zhang Kaizhan graduated from Northwest Agriculture University (currently known as Northwest Agriculture and Forestry University (西北農林科技大學)) located in Shaanxi Province with a bachelor degree in animal husbandry in July 1988. He has been an executive member of China Dairy Association (中國奶業協會) since November 2010 and an executive member of China Animal Agriculture Association (中國畜牧業協會) since December 2011. He is a senior husbandry engineer credentialed by the MOA. Mr. Zhang Kaizhan is the sole director of SiYuan Investment Company Limited ("**SiYuan Investment**"), a controlling Shareholder. He does not have any family relationship with any Directors or members of the senior management of our Company.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Liu Dai (劉岱), aged 64, was appointed as a non-executive Director in July 2014 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. He had assumed various roles in our subsidiaries since joining our Group in January 2003, including those set out below:

Name of subsidiary	Position	Tenure
Shangdu ZhongDi Farming Co., Ltd. ("**ZhongDi Shangdu**")	executive director	January 2003 to November 2005
	director	November 2005 to November 2007
ZhongDi Beijing	executive director and manager	June 2004 to August 2007
	director	April 2010 to August 2014
Beijing ZhongDi Livestock Technology Co., Ltd. ("**ZhongDi Technology**")	manager	December 2003 to September 2012
ZhongDi Kuandian	director	September 2005 to November 2007

Prior to joining our Group, Mr. Liu Dai had been engaged with Northern China Shuanghui Food Company Limited (華北雙匯食品有限公司) and had been the deputy director of the Economic and Trading Committee of Ulanqab, Inner Mongolia (內蒙古烏蘭察布盟經濟貿易委員會) until December 2002. Mr. Liu Dai has been the general manager of SinoFarm Group since October 2002. He is an intermediate-level engineer credentialed by the Personnel Department of Inner Mongolia Autonomous Region of the PRC in August 2000. Mr. Liu Dai is the sole director of Tai Shing Company Limited ("**Tai Shing**"), a controlling Shareholder.

Mr. Du Yuchen (杜雨辰), aged 39, was appointed as a non-executive Director in March 2015 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. Prior to joining our Group, Mr. Du Yuchen had been engaged with Beijing Capital Assets Management Co., Ltd. (北京首創資產管理有限公司), an asset management company, from April 2001 to November 2008, working at various times as a project manager, deputy general manager and general manager of the investment management department. He has also been a director of Nanchang Rotary Cultivator Co., Ltd. (南昌旋耕機有限公司), a company principally engaged in the manufacturing of rotary cultivators and combined cultivators, since March 2007. Mr. Du Yuchen has also been engaged with Beijing Agricultural Investment Co., Ltd. (北京市農業投資有限公司), a company principally engaged in the investment activities in the agricultural industry, since December 2008, working at various times as the head of fund preparatory committee, supervisor and deputy general manager. He has been the executive vice president and general manager of Beijing Agriculture Investment Fund (Limited Partnership) (北京農業產業投資基金(有限合夥)) since September 2009. Mr. Du Yuchen has also assumed various positions in several entities principally engaged in investment activities, including the legal representative and chairman of the board of Zhuhai Agriculture Industrial Investment Fund Management Corporation (珠海農業產業投資基金管理公司) since January 2014, the legal representative and chairman of the board of Beijing Zhonghe Agriculture Investment Fund Management Co., Ltd. (北京中合農投投資基金管理公司) for the period from May 2014 to November 2015 and the legal representative and chairman of the board of Beijing Nong Jin Fu Investment Center (Limited Partnership) (北京農金服投資中心(有限合夥)) since September 2014. Mr. Du

Directors and Senior Management

Yuchen is a director of Hubei Yinfeng Cotton Co., Ltd. (湖北銀豐棉花股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 831079) since February 2015 and the legal representative and executive director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司) since May 2015. Mr. Du Yuchen graduated from Jilin University (吉林大學) located in Changchun, Jilin Province with a master degree in technology economics in March 2001 and Cheung Kong Graduate School of Business with an executive master degree in business administration in July 2013.

Mr. Li Jian (李儉), aged 54, joined our Group as a non-executive Director in September 2014 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. Prior to joining our Group, Mr. Li Jian has been the deputy general manager of Kaixin Investment Management (Beijing) Co., Ltd. (開信創業投資管理(北京)有限公司), a private equity investment company, since April 2010. He is currently the managing director of CITIC Capital Investment Fund (中信資本創業投資基金), a company which is also principally engaged in private equity investment. Mr. Li Jian graduated from Massachusetts Institute of Technology with a bachelor degree of science in electrical engineering and a master degree of science in electrical engineering and computer science.

Ms. Yu Tianhua (于天華), aged 40, was appointed as a non-executive Director in February 2015 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. Prior to joining our Group, Ms. Yu Tianhua has been engaged with Yangzhou Yalian Steel Pipe Co., Ltd. (揚州亞聯鋼管有限公司) since January 2009 and is currently its vice president and representative of its Beijing Branch. She had also been engaged with the Balloch Group (貝祥投資集團) (now known as Canaccord Genuity Asia) until September 2008. Ms. Yu Tianhua graduated from the University of British Columbia located in Vancouver, Canada with a bachelor degree in commerce in May 2001. Ms. Yu Tianhua is a director of YeGu Investment and Green Farmlands Group, the controlling Shareholders.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Li Shengli (李勝利), aged 50, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. Prof. Li Shengli joined our Group in September 2012 and had since then served as an independent director of ZhongDi Beijing until August 2014. Prior to joining our Group, Prof. Li Shengli has been, since September 1996, engaged with the College of Animal Science and Technology in China Agricultural University (中國農業大學), working at various times as an assistant professor, a professor, a doctor tutor and the vice-dean of Animal Nutrition and Feed Science Department of College of Animal Science and Technology. Prof. Li Shengli graduated from Shihezi Agricultural College (石河子農學院) (currently known as Shihezi University (石河子大學)) located in Xinjiang Uyghur Autonomous Region with a bachelor degree in animal husbandry and veterinary science in July 1987 and China Agricultural University located in Beijing with a doctorate degree in animal nutrition science in July 1996. Over the years, Prof. Li Shengli has received various awards and accolades acknowledging his accomplishments. For example, he was awarded the Second Prize and the Third Prize of the Beijing Science and Technology Award (北京市科學技術獎) in 2000 and 2011, respectively. He was also awarded the Second Prize of National Science and Technology Progress Award (國家科學技術進步獎) in 2012 and 2014, the First Prize of Science and Technology Progress Award granted by the Ministry of Education of the PRC (教育部科技進步獎) in 2013 and the First Prize of China Agricultural Science and Technology Progress Award (中華農業科技進步一等獎) granted by the MOA in 2013, respectively. Prof. Li Shengli has assumed various positions in many intra-industry associations, such as an executive member of China Dairy Association (中國奶業協會) since January 2004, the executive member of the Cattle Division of China Animal Agriculture

Directors and Senior Management

Association (中國畜牧業協會牛業分會) since July 2007, an executive member of China Society of Forestry, Animal Husbandry and Fishery Economics (中國林牧漁業經濟學會) since October 2005 and the president of the Cattle Breeding Division of Chinese Association of Animal Science and Veterinary Medicine (中國畜牧獸醫學會養牛分會) since January 2009. Prof. Li Shengli has been an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司), a company listed on China Venture Exchange (stock code: 300106), since July 2009 and an independent non-executive director of China Modern Dairy Holdings Ltd., a company listed on the Stock Exchange (stock code: 1117), since October 2010.

Dr. Zan Linsen (昝林森), aged 53, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. Dr. Zan Linsen joined our Group in September 2012 and had since then served as an independent director of ZhongDi Beijing until August 2014. Prior to joining our Group, Dr. Zan Linsen has been, since 1986, engaged with Northwest Agriculture and Forestry University (formerly known as Northwest Agriculture University (西北農業大學)), working at various times as an assistant researcher, a deputy researcher, a researcher and a professor. He is currently a professor at the College of Animal Science and Technology of Northwest Agriculture and Forestry University. Dr. Zan Linsen graduated from Northwest Agriculture University (西北農業大學) located in Shaanxi Province with a bachelor degree in agriculture in July 1986, a master degree in agricultural science in December 1992 and a doctorate degree in agricultural science in July 1997. Over the years, Dr. Zan Linsen has received various awards and accolades acknowledging his accomplishments. For example, he was granted with the special governmental allowance by the State Council in February 2007 in recognition of his contribution to national educational business and was awarded the prize of National Outstanding Scientists (全國優秀科技工作者) by China Association for Science and Technology (中國科學技術協會) in February 2012 and the prize of National Outstanding Research Talents (全國農業科研傑出人才) by the MOA in October 2012. Dr. Zan Linsen was also awarded the prize of Advanced Worker of Animal Husbandry Industry in China (中國畜牧行業先進工作者) by China Animal Agriculture Association in May 2014. He has also been a member of Cattle, Horse and Camel Professional Committee of the Second State Animal Genetic Resources Committee (第二屆國家家畜禽遺傳資源委員會牛馬駝專業委員會) since March 2012 and a member of the expert consultants' team of the Breeding Committee of China Dairy Association since June 2013.

Mr. Joseph Chow, aged 53, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. Prior to joining our Group, Mr. Joseph Chow has accumulated ample experience and knowledge in formulating and monitoring investment strategies through his roles as chief financial officer of various companies and his senior managerial roles in various financial institutions' investment related functions. He has been a director of China Lodging Group Limited, a multi-brand hotel company listed on NASDAQ (stock code: HTHT), since 2010, a chief financial officer of Synutra International, Inc, an infant milk formula company listed on NASDAQ (stock code: SYUT) from 2009 to October 2015 and an independent non-executive director of Intime Retail (Group) Company Limited, a company listed on the Stock Exchange (stock code: 1833), since February 2007. He has also been the chairman of the audit committee of Intime Retail (Group) Company Limited since June 8, 2009. Prior to that, he had successively served as a managing general partner of CJC Partners, a consulting firm, a managing director of Moelis & Company, a global investment bank, a managing director of Goldman Sachs & Co., the chief financial officer of China Netcom (Holdings) Company Limited, a vice president of Citi Capital (now part of Citigroup) and a director of the strategic planning division of Bombardier Capital, a financial services company. Before that, Mr. Joseph Chow had also worked in GE Capital. Mr. Joseph Chow graduated from the University of Maryland, College Park with a master degree of business administration in May 1993. Save as disclosed above, Mr. Joseph Chow has not held any directorships in other listed companies in Hong Kong or overseas in the past three years.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Song Naishe (宋乃社), aged 51, was appointed as the deputy general manager of our Company in September 2014 and is primarily responsible for the management of the operation of our dairy farms. He has assumed various roles in our subsidiaries since joining our Group in August 2007, including those set out below:

Name of subsidiary	Position	Tenure
ZhongDi Beijing	supervisor	August 2007 to April 2010
	deputy general manager	January 2010 to present
ZhongDi Shangdu	supervisor	November 2007 to September 2008
ZhongDi Kuandian	supervisor	November 2007 to September 2008
Beijing ZhongDi Breeding Dairy Cows Research Co., Ltd.	manager	December 2012 to present

Prior to joining our Group, Mr. Song Naishe had been engaged with Shuangqiao Farm of Beijing Sanyuan Group (北京三元集團雙橋農場) from September 1988 to June 1997, working at various times as a technician and a dairy farm director. He had also been a department manager of China Stud Livestock Import and Export Company Limited (中國種畜進出口有限公司) from June 1997 to June 2003. Mr. Song Naishe was also engaged by the SinoFarm Group from June 2003 to August 2007, working at various times as a department director and the deputy general manager. Mr. Song Naishe graduated from Northwest Agriculture University (currently known as Northwest Agriculture and Forestry University (西北農林科技大學)) located in Shaanxi Province with a bachelor degree in animal husbandry science in July 1988. He is a senior animal husbandry engineer credentialed by the MOA.

Mr. Lian Enchen (廉恩臣), aged 46, was appointed as the deputy general manager and the joint company secretary of our Company in September 2014 and is primarily responsible for company secretarial matters and legal affairs of our Company. Mr. Lian Enchen joined our Group in January 2012 and has served as deputy general manager and the secretary of the board of ZhongDi Beijing since August 2012.

Prior to joining our Group, Mr. Lian Enchen had been engaged with Shandong Deheng Law Firm (山東德衡律師事務所) from June 1999 to July 2008, working at various times as an associate, the managing partner of the Beijing branch and a partner. He also had served as an associate in Beijing Huamao & Guigu Law Firm (北京市華貿矽谷律師事務所) from July 2008 to March 2010 and a partner of Beijing Fidelity Law Group (formerly known as Beijing Hanzhe Law Firm (北京瀚哲律師事務所)) from April 2010 to December 2011. Mr. Lian Enchen graduated from University of International Business and Economics (對外經濟貿易大學) located in Beijing with a bachelor degree in economics in June 1993 and a master degree in international law in June 2000. He is admitted to practice law in the PRC.

Directors and Senior Management

Ms. He Shan (何珊), aged 35, was appointed as the chief financial officer of our Company in November 2015 and is primarily responsible for overseeing the overall financial and accounting related matters of our Group. Ms. He Shan joined our Group in January 2010 as the chief accountant responsible for accounting and audit, preparation of financial statements, tax filings and assisting in the preparation of loan facilities. She had worked as the deputy manager of the financial department of ZhongDi Beijing since March 2010 and the manager of the financial department since July 2013 responsible for financial audit, bank financing, financial analysis, budgeting, communication with external accountants and preparation of financial statements. Ms. He Shan had worked as the manager of the finance management center of ZhongDi Beijing responsible for overall management of daily financials, budgeting, financial personnel, debt financing of ZhongDi Beijing and its subsidiaries. Prior to joining our Group, Ms. He Shan had been engaged with SinoFarm Group from August 2005 to December 2009, working at various times as a staff of the import and export department, a staff of the trade management department and a treasurer and accountant of the financial department. Ms. He Shan graduated from Central University of Finance and Economics (中央財經大學) with a bachelor degree in finance in July 2004. Ms. He Shan was awarded the certificate of accounting professional by Beijing Finance Bureau (北京市財政局) in June 2008.

JOINT COMPANY SECRETARIES

Mr. Lian Enchen (廉恩臣) has been appointed deputy general manager of the Company and joint company secretary in September 2014. Please see "Senior Management" in this section for his biographical details.

Ms. Ng Sin Yee, Clare (吳倩儀), aged 56, was appointed as the other joint company secretary of our Company on 19 September 2014. Ms. Ng Sin Yee, Clare is a fellow of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a holder of the Practitioner's Endorsement from Hong Kong Institute of Chartered Secretaries. Ms. Ng Sin Yee, Clare is currently a director of the Corporate Services Department of Tricor Services Limited. Before joining the Tricor Group, Ms. Ng Sin Yee, Clare worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng Sin Yee, Clare has more than 25 years of experience in the company secretarial field and has been providing corporate services to both multi-national companies and listed companies in Hong Kong.

Corporate Governance Report

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Good corporate governance has always been recognized as vital to the Group's success. The Board acknowledges the importance of good corporate governance and is devoted to sustaining high corporate governance standards.

The Shares were listed on the Main Board of the Stock Exchange on 2 December 2015 (the "**Listing Date**"). The Company adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and for the period from the Listing Date to 31 December 2015, the Company has applied the principles in the CG Code which are applicable to the Company.

The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders and to enhance corporate value and accountability.

In the opinion of the Directors, throughout the period from the Listing Date to 31 December 2015, the Company has complied with all applicable code provisions as set out in the CG Code, save and except for code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, details of which are set out below.

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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

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 period from the Listing Date to 31 December 2015.

The Company's Securities Dealings Code also applies to all employees of the Group who are likely to possess inside information of the Company. No incident of non-compliance of the Company's Securities Dealings Code by the employees was noted by the Company.

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises nine members as follows:

Executive Directors:

Mr. Zhang Jianshe *(Chairman, Chief Executive Officer and Chairman of the Nomination Committee)*
Mr. Zhang Kaizhan

Non-executive Directors:

Mr. Liu Dai
Mr. Du Yuchen *(Member of the Remuneration Committee)*
Mr. Li Jian
Ms. Yu Tianhua *(Member of the Audit Committee)*

Independent Non-executive Directors:

Prof. Li Shengli *(Chairman of the Remuneration Committee and Member of the Audit Committee)*
Dr. Zan Linsen *(Member of the Remuneration Committee and the Nomination Committee)*
Mr. Joseph Chow *(Chairman of the Audit Committee and Member of the Nomination Committee)*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 35 to 41 of this annual report. None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer 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 Chairman and Chief Executive Officer in Mr. Zhang would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. Furthermore, in view of Mr. Zhang'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 that Mr. Zhang continues to act as both Chairman and Chief Executive Officer, 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.

Corporate Governance Report

Independent Non-executive Directors

During the period from the Listing Date to 31 December 2015, the Board at all times had met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive Directors is appointed under a services contract and each of the non-executive Directors and independent non-executive Directors is appointed under a letter of appointment for an initial term of three years commencing from the Listing Date.

In accordance with the Company's Articles of Association, all Directors are subject to retirement by rotation and re-election at annual general meeting at least once every three years.

According to the current corporate governance practices of the Company, any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by the Shareholders at the first general meeting after appointment. All Directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

Corporate Governance Report

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his or her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2015, the Company had organized a training session conducted by lawyer to brief the Directors on their duties, responsibilities and obligations under the Listing Rules. All Directors have attended the training session. Mr. Du Yuchen had also read publications on case studies relating to regulatory compliance of listed companies in Hong Kong and workflow of merger and acquisition of listed companies.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company (www.zhongdidairy.hk) and Hong Kong Exchanges and Clearing Limited ("**HKEX**") (www.hkexnews.hk) and are available to Shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Board of Directors" in this Corporate Governance ("**CG**") Report.

Corporate Governance Report

Audit Committee

The main duties of the Audit Committee include:-

– reviewing the financial information and reporting process of the Company;

– reviewing the internal control and risk management systems of the Company;

– reviewing and monitoring the audit plan and relationship with external auditor; and

– reviewing the arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

As the Shares were listed on the Stock Exchange on the Listing Date, the Audit Committee did not hold any meeting during the year ended 31 December 2015. From 2016 onwards, the Audit Committee will make arrangements for holding at least two meetings a year to review the interim and annual financial results and reports and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, the scope of work and appointment of external auditor, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee will also meet with the external auditor without the presence of the executive Directors at least twice a year.

As at the date of this CG Report, the Audit Committee met once to review the Company's annual financial results and annual report for the year ended 31 December 2015. During the meeting, the Audit Committee reviewed the significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor, connected transactions and arrangements for employees to raise concerns about possible improprieties.

Remuneration Committee

The primary functions of the Remuneration Committee include:-

– reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

– reviewing and making recommendations to the Board on the remuneration policy and structure for all Directors and senior management; and

– establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

As the Shares were listed on the Stock Exchange on the Listing Date, the Remuneration Committee did not hold any meeting during the year ended 31 December 2015.

Corporate Governance Report

As at the date of this CG Report, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy of the Directors and senior management, and the terms of the Directors' service contracts /letters of appointment.

Details of remuneration paid to members of senior management by band are set out in the section headed "REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT" in the Directors' Report of this annual report.

Nomination Committee

The principal duties of the Nomination Committee include:-

– reviewing the structure, size and composition of the Board;

– developing and formulating relevant procedures for the nomination and appointment of Directors;

– making recommendations to the Board on the appointment and succession planning of Directors; and

– assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character and integrity, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

As the Shares were listed on the Stock Exchange on the Listing Date, the Nomination Committee did not hold any meeting during the year ended 31 December 2015.

As at the date of this CG Report, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring directors standing for election at the forthcoming annual general meeting and to recommend the appointment of Mr. Zhang Jianshe who stands for election at the forthcoming annual general meeting as Chairman of the Board.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company's Securities Dealings Code, and the Company's compliance with the CG Code and disclosure in this CG Report.

Corporate Governance Report

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

As the Shares were only listed on the Stock Exchange on the Listing Date, the Board Committees have not held any meetings during the period from the Listing Date to 31 December 2015. The attendance record of each Director at the Board meetings of the Company held during the year ended 31 December 2015 is as follows:

Name of Directors	Attendance/Number of Meetings
Executive Directors	
Mr. Zhang Jianshe	2/2
Mr. Zhang Kaizhan	2/2
Non-executive Directors:	
Mr. Liu Dai	2/2
Mr. Du Yuchen	2/2
Mr. Li Jian	2/2
Ms. Yu Tianhua	1/2
Independent Non-executive Directors	
Prof. Li Shengli	1/2
Dr. Zan Linsen	1/2
Mr. Joseph Chow	1/2

The attendance record of Ms. Yu Tianhua, Prof. Li Shengli and Dr. Zan Linsen at the Board meetings by their respective alternates is set out below:

Name of Directors	Name of Alternate Directors	Number of Meetings
Ms. Yu Tianhua	Mr. Zhang Jianshe	1
Prof. Li Shengli	Dr. Zan Linsen	1
Dr. Zan Linsen	Prof. Li Shengli	1

As the Shares were only listed on the Stock Exchange on the Listing Date, no regular Board meetings were held and the Chairman has not met with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the period from the Listing Date to 31 December 2015.

The Board will make arrangements for holding at least four regular Board meetings and a meeting between the Chairman and the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors a year.

As at the date of this CG Report, the first regular Board meeting and a meeting between the Chairman and the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors have been held.

Corporate Governance Report

According to Article 12.1 of the Articles of Association, the Company shall hold a general meeting as its annual general meeting in each year, in addition to any other meeting in that year, other than the year of the Company's adoption of the Amended and Restated Articles of Association. As the Company's Amended and Restated Articles of Association which became effective on the Listing Date was adopted pursuant to written resolutions of all Shareholders passed on 28 October 2015, no annual general meeting was held during the year ended 31 December 2015.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2015.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 71 to 72 of this annual report.

AUDITOR'S REMUNERATION

A fee of RMB1,500,000 was paid to the external auditor of the Company, Messrs. Deloitte Touche Tohmatsu ("**DTT**"), in respect of audit services for the year ended 31 December 2015. No non-audit services fee was paid to DTT for the year ended 31 December 2015.

INTERNAL CONTROLS

The Board acknowledges the responsibility for maintaining an effective internal control system to safeguard the Shareholders' interest and the assets of the Company. Prior to the listing of the Shares on the Stock Exchange, the Company engaged an external professional to review its internal control systems in relation to, among other things, historical non-compliance incidents, financial reporting and accounting control. The Board, through the Audit Committee, has also conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function.

COMPANY SECRETARY

Mr. Lian Enchen, Deputy General Manager, and Ms. Ng Sin Yee Clare of Tricor Services Limited, external service provider, are the joint company secretaries of the Company. Ms. Ng's primary contact person in the Company is Mr. Lian Enchen.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

To safeguard Shareholder interests and rights, separate resolution will be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules (except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands as permitted by the Listing Rules) and poll results will be posted on the websites of the Company and of the HKEX after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 12.3 of the Articles of Association of the Company, general meetings shall be convened on the written requisition of any two or more Shareholders or any one Shareholder which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Company's Articles of Association or in the Companies Law of the Cayman Islands for putting forward proposals of new resolutions by Shareholders at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. For proposing a person for election as a Director, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director" posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Corporate Governance Report

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	10th Floor, Block A, Time Fortune Compound No. A6, Shuguang Xili, Chaoyang District Beijing PRC For the attention of Mr. Lian Enchen
Fax:	+86-10-58677130
Email:	ir@zhongdidairy.hk

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other extraordinary general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Company has adopted an Amended and Restated Memorandum and Articles of Association pursuant to written resolutions passed by Shareholders on 28 October 2015 when preparing for the listing of the Shares on the Stock Exchange. The Amended and Restated Memorandum and Articles of Association became effective on the Listing Date. During the period from the Listing Date to 31 December 2015, the Company has not made any changes to its memorandum and articles of association. An up-to-date version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the HKEX.

Directors' Report

Directors' Report

The Board would like to present to the Shareholders the Directors' Report for the Reporting Period.

ISSUE AND LISTING OF THE SHARES

On 2 December 2015, the Shares were listed on the Main Board of the Stock Exchange by way of initial public offering. The Company allotted and issued a total of 391,056,000 new ordinary Shares with nominal value of US$0.00001 each to the public at a price of HK$1.20 per Share pursuant to the global offering. The over-allotment option was partially exercised on 24 December 2015 for 1,542,000 Shares which were issued by the Company on 4 January 2016 at HK$1.20 per Share. As at 4 January 2016, after the issue of the over-allotment Shares, the Company had an aggregate of 2,174,078,000 Shares in issue.

PRINCIPAL OPERATIONS

The Group mainly operates two major businesses: (i) the dairy farming business that primarily produces and sells raw milk; and (ii) the import trading business primarily importing cows, alfalfa hay, live poultry, breeding stock and other animal husbandry-related products such as frozen bull semen. The details of the principal operations of major subsidiaries of the Company are set out in note 6 to the Financial Statements.

GROUP RESULTS

The results of the Group for the Reporting Period and the financial position of the Company and the Group as at 31 December 2015 are set out on pages 73 to 76 of the Financial Statements.

BUSINESS REVIEW

The business review of the Group for the Reporting Period and the discussion on and the analysis of the important factors relating to the performance and results and financial position of the Group are set out in Chairman's Statement on pages 9 to 11 of this annual report and Management Discussion and Analysis on pages 15 to 33 of this annual report. The discussion on the future business development of the Group is set out in the section headed "PROSPECTS" in Chairman's statement and the section headed "OUTLOOK" in Management Discussion and Analysis of this annual report. The explanations of the relationship of the Company with its employees, customers, suppliers and parties who have a significant influence on the Group are set out in the section headed "HUMAN RESOURCES" in Management Discussion and Analysis and the section headed "MAJOR CUSTOMERS AND SUPPLIERS" in the Directors' Report of the annual report respectively.

As of the date of this annual report, save as disclosed in the section headed "SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD" in this Directors' Report, the Group did not have any disclosable significant events after the Reporting Period.

Directors' Report

MAJOR RISKS AND UNCERTAINTIES

Other than matters referred to in the Management Discussion and Analysis and Chairman's Statement of this annual report, major risks and uncertainties facing the Company which are required to be disclosed in accordance with the Companies Ordinance (Chapter 622 Laws of Hong Kong) are as follows:

1. *Product Safety and Quality Risk*

Real or perceived incidents of product contamination could materially adversely affect our reputation, results of operations and financial condition, and subject us to regulatory actions and contractual liabilities. The raw milk sold by us has never been found to have contaminants or reported to be associated with any contamination incidents, and we have not been subject to any product liability claims during the Reporting Period and up to the date of this annual report. However, there can be no assurance that contamination will not happen during the production and transportation of our products.

2. *Disease Risk*

Outbreak of diseases at our dairy farms or in their neighboring areas could materially and adversely affect our business. We have implemented a strict and comprehensive disease control system to maintain the overall health of our herd. We had not experienced any material outbreak of diseases at our dairy farms during the Reporting Period. However, there can be no assurance that such incidents will not happen in the future. Although we carry insurance policies to cover us against losses related to cow diseases, and we may also be entitled to receive certain government compensations in the event of an outbreak of diseases among our dairy cows, we cannot guarantee that these will be sufficient to cover all of our losses in the event of an outbreak of disease.

3. *Customer Reliance Risk*

We rely heavily on a limited number of customers, such as Mengniu and Yili, for sales of our raw milk and our business, results of operations and financial condition could be materially adversely affected in the event of breach or early termination of our raw milk purchase and sale agreements or if we do not enforce the minimum purchase obligations of Mengniu or Yili. In August and September 2014, we entered into strategic cooperation agreements with Mengniu and Yili for a term of ten years, respectively. In the next three to five years, we expect that no less than 80% of our total dairy farming revenue will derive from the sales to Mengniu and Yili. As such, we rely heavily on Mengniu and Yili for sales of our raw milk. If the Mengniu Strategic Agreement or the Yili Strategic Agreement is terminated, we may not be able to find an equivalent strategic partner in a short period of time because Mengniu and Yili ranked in first and second place, with a market share of 27.4% and 26.2%, respectively, in terms of retail sales value in the PRC liquid milk market in 2014.

Directors' Report

4. *Foreign Competition Risk*

Due to the increase of the volume of imported milk powder into China, the market price of raw milk has been subject to downward pressure. If the competition from foreign dairy brands and foreign milk powder imports continue to intensify, the raw milk price may be subject to further downward pressure, and our business, financial position and results of operations may be materially adversely impacted.

5. *Feed Price Risk*

Our dairy farming operations require a substantial amount of feeds. Our feed costs represented approximately 80% of the cost of sales for raw milk before biological fair value adjustments. Therefore, fluctuations in feed prices and disruptions of our feed supply could materially adversely affect our business and results of operations.

6. *Industry Risk*

There have been various food safety incidents in recent years in China regarding contaminated dairy products produced by certain Chinese dairy companies, shaking consumers' confidence in the PRC dairy industry. We do not produce infant formula and none of our raw milk has been involved in any food safety incidents during the Reporting Period and up to the date of this annual report. However, negative publicity concerning the food safety of dairy products in China, whether true or not, could materially and adversely affect the PRC dairy farming industry, which in turn could also adversely affect sales of our raw milk to the PRC dairy producers, resulting in a material adverse effect on our business, results of operations and financial position.

7. *Other Risks*

1) During the transition period in which we expand our operating dairy farms, or in the event of any failure in our quality control system, we may not be able to guarantee the production volume and quality of our raw milk, which could materially and adversely affect our business;

2) The market prices for raw milk are driven by external supply and demand factors. In the event that the applicable price is lower than our expected level, our business, results of operations and financial position could be materially and adversely affected;

3) Our results of operations are subject to fair value adjustments in relation to biological assets and agricultural produce at the point of harvest, which can be volatile and are subject to a number of assumptions;

4) Disruptions of operations at our facilities could materially and adversely affect our business;

5) Natural disasters, acts of war and other factors beyond control may materially and adversely affect our business, results of operations and financial position;

6) We may not have full control over third-party contractors or service providers;

7) We may face challenges and incur additional costs if we expand into the downstream dairy products market in the future; and

8) Other risks relating to the industry and conducting business in the PRC.

Directors' Report

ENVIRONMENTAL POLICIES AND PERFORMANCE

We take responsibility for the impact of business operation on the environment. We conduct business in an industry that is subject to stringent PRC environmental laws and regulations. Before any new dairy farm could be constructed, an environmental impact assessment must be carried out. Upon completion of the construction, the environmental protection authority will conduct inspection of environmental facilities of the newly constructed dairy farm. Our dairy farming business produces manure and other environmental waste, and is subject to restrictions relating to prevention and control of pollution. We are required to adopt measures to effectively control and properly dispose of the waste materials strictly in accordance with applicable laws and regulations. For example, we have installed cow waste treatment facilities to separate solid waste from liquid waste at our farms. The solid waste would be sold to third party fertilizer manufacturers as raw materials, while the liquid will generally be provided to the local farmers or our crop farms in the vicinity for use as biological fertilizer. We strictly comply with and conform to all material aspects of environmental protection laws and regulations promulgated by the PRC government. During the Reporting Period, we have not been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially and adversely affected our production.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular those that have significant impacts on the Group. Our Audit Committee and the Internal Audit and Supervision Department under the Audit Committee were delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed by them. The external legal adviser engaged by us will from time to time conduct legal trainings on standardized operation of listing companies for the Directors and management staff of the Company. The external compliance adviser will also advise on the Company's on-going compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

We have enhanced the supervision of our subsidiaries on employees' matters. Our human resources department at our headquarters is responsible for periodically reviewing the employees' registration forms and ensuring the compliance with all laws and regulations with respect to employment. According to provisions of the laws, regulations and relevant policies of Hong Kong and China, the Company has provided and established statutory benefits including, but not limited to mandatory provident fund, basic medical insurance, pension insurance, work injury insurance, unemployment insurance, maternity insurance as well as commercial insurance for personal accident for its employees. Employees enjoy leaves such as public holidays, marriage leave, bereavement leave and maternity leave.

The Group has registered its media products, domain name and trademarks in Hong Kong, China and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

To the best knowledge of the Board, for the period ended 31 December 2015, the Group has not been engaged in any litigation or arbitration of material importance and there is no legal proceeding or claim of material importance pending or threatened by or against the Group.

Directors' Report

DIVIDENDS

Based on the funding requirement of the Group's business expansion, the Board did not recommend the payment of a final dividend for the year ended 31 December 2015.

SHARE CAPITAL

As at 31 December 2015, the issued share capital of the Company was US$21,725.36, divided into 2,172,536,000 Shares of US$0.00001 each. After partial exercise of the over-allotment option, the issued share capital of the Company as at 4 January 2016 was US$21,740.78, divided into 2,174,078,000 Shares of US$0.00001 each. Details of the movements in the share capital of the Company during the Reporting Period are set out in note 29 to the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Law of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2015, none of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Reporting Period are set out in note 29 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution to the Shareholders, comprising retained profits, if any, and share premium, amounted to approximately RMB967.1 million (31 December 2014: RMB629.9 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the changes in the property, plant and equipment of the Group during the Reporting Period are set out in note 20 to the Financial Statements.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the financial year, the largest customer and supplier of the Group accounted for 45.68% and 26.22% of the Group's total revenue and total purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for 98.10% and 38.15% of the Group's total revenue and total purchases, respectively. None of the Directors or any of their close associates or any Shareholders (which to the best knowledge of our Directors owned more than 5% of the issued Shares) had a material interest in our five largest customers. Except for Beijing Urban Construction Engineering Company Limited (北京城股建設工程有限公司) ("**Urban Construction**"), an associate of Mr. Zhang Jianshe, our executive Director, none of the Directors or any of their close associates or any Shareholders (which to the best knowledge of our Directors owned more than 5% of the issued Shares) had a material interest in our five largest suppliers or customers.

DIRECTORS

The members of the Board of the Company during the financial year and up to the date of this Directors' Report were:

Executive Directors

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

Non-executive Directors

Mr. Liu Dai
Mr. Du Yuchen (appointed on 1 March 2015)
Mr. Li Jian
Ms. Yu Tianhua (appointed on 13 February 2015)
Ms. Wang Ying (resigned on 13 February 2015 [Note])

Note: Ms. Wang Ying resigned as non-executive director of the Company on 13 February 2015 due to change of job. The resignation of Ms. Wang Ying was unrelated to the affairs of the Company.

Independent non-executive Directors

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

Pursuant to article 16.2 of the Articles of Association of the Company, all Directors shall retire at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election as Directors thereat.

Directors' Report

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as set out in the section headed "CONNECTED TRANSACTIONS" in this Directors' Report and notes 27 and 37 to the Financial Statements, none of the Company or any of its subsidiaries, the holding company or its fellow subsidiaries, was a party to any transaction, arrangement or contract of significance to the business of the Group in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, and which was subsisting during the year or at the end of the year.

Save as set out in the section headed "CONNECTED TRANSACTIONS" in this Directors' Report and notes 27 and 37 to the Financial Statements, during the Reporting Period, no contract of significance had been entered into between the Company, or any of its subsidiaries, and the controlling Shareholders or any of its subsidiaries, nor had any contract of significance been entered into for the provision of service by the controlling Shareholders or any of its subsidiaries to the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company other than a contract of service with a Director or any person engaged in the full-time employment of the Company were entered into or existed during the Reporting Period and up to the date of this annual report.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group, none of the Directors or the controlling Shareholders was interested in any business which competes or is likely to compete with the businesses of the Group during the Reporting Period and up to the date of this annual report.

Each of our controlling Shareholders has confirmed to the Company that he has complied with the non-competition undertaking as disclosed in the Prospectus during the Reporting Period and up to the date of this annual report.

DIRECTORS' INTERESTS IN SUBSCRIPTION OF SHARES AND DEBENTURES

Interests in securities of the Company held by the Directors' and the controlling Shareholders for the Reporting Period are disclosed in the sections headed "INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS" in this Directors' Report, respectively. Other than as disclosed in the aforesaid two sections, at no time during the Reporting Period was the Company or any of its subsidiaries, the holding company or its fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or convertible securities including debentures of, the Company or any other corporations.

Directors' Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The details of the remuneration of the Directors and chief executive of the Company are set out in note 17 to the Financial Statements. The remuneration of other senior management members of the Company is within the following scope:

	2015 (Person)	2014 (Person)
RMB0.8 million and below	**1**	3
RMB0.8 million to RMB1 million	**2**	0
Total	**3**	3

SERVICE CONTRACTS OF DIRECTORS

The Company has entered into service contracts or letters of appointment with all Directors for a term of three years. None of the Directors have entered into or proposed to enter into with members of the Group any service contract which cannot be terminated by the employer within one year without paying compensation (excluding statutory compensation).

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association of the Company, each Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged appropriate directors' liability insurance for relevant legal actions that might be faced by the Directors.

SHARE OPTION SCHEME

The Company adopted the Post-IPO Share Option Scheme (the "**Share Option Scheme**") on 28 October 2015 (effective on the Listing Date), 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.

Pursuant to the Share Option Scheme, the Directors may at their discretion invite any party falling within any of the following participant categories to take up share options to subscribe for Shares:

a) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of our Group; and

b) any advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners and service providers of any members of the Group.

Directors' Report

In respect of the Share Option Scheme, share options may be granted to any companies wholly-owned by party(ies) who fall within any of the above categories of participants.

The maximum number of Shares that may be issued pursuant to the exercise of all share options granted and outstanding under the Share Option Scheme or any other share option schemes adopted by the Company shall not in aggregate exceed 30% of the Shares in issue from time to time.

Subject to refreshment, the total number of Shares that may be issued pursuant to the exercise of all share options to be granted under the Share Option Scheme and any other share option schemes to which the provisions of Chapter 17 of the Listing Rules are applicable of the Company shall not exceed 10% of the aggregate of the Shares in issue on the date of commencement of trading of the Shares on the Stock Exchange and any Shares that may be allotted and issued by the Company under the exercise of the over-allotment option (the "**Scheme Mandate Limit**"), i.e. 217,407,800 Shares, which represented 10% of the Shares in issue on the date on which trading of the Shares commences on the Stock Exchange and the Shares alloted and issued by the Company pursuant to the exercise of the over-allotment option. Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option scheme(s) of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Unless approved by the Shareholders, the total number of Shares issued and to be issued pursuant to the exercise of share options granted and to be granted to each grantee (including share options exercised and outstanding) under the Share Option Scheme and any other share option schemes of the Company during any 12-month period shall not exceed 1% of the total number of Shares in issue of the Company. Share options (including those outstanding, cancelled or lapsed or exercised in accordance with their terms) previously granted under the Share Option Scheme and any other share option schemes (to which the provisions of Chapter 17 of the Listing Rules are applicable) of the Company shall not be included in the updated limit. The Company is required to issue a circular to the Shareholders in respect of the meeting at which Shareholders' approval will be sought. The circular shall contain (among others) information as required by Rule 17.02(2) (d) of the Listing Rules and a disclaimer as required by Rule 17.02(4) of the Listing Rules.

The offer of the grant of an option shall remain for acceptance by a participant to whom the offer is made for a period of 5 business days from the date on which the letter containing the offer is delivered to that participant, provided that no such offer shall be open for acceptance after the period of ten years commencing from the Listing Date or after the Share Option Scheme has been terminated in accordance with the provisions thereof, whichever is earlier. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee at the time of making an offer, which period shall commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Share Option Scheme. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price per Share under the Share Option Scheme shall be determined by the Directors, but shall not be less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange); and (iii) the nominal value of a Share on the date of grant.

Directors' Report

A nominal consideration of HK$1 is payable upon acceptance of the grant of an option. The Share Option Scheme shall remain in effect for a period of 10 years from the date of its adoption.

For the year ended 31 December 2015, no share options were granted by the Company or remained outstanding under the Share Option Scheme and no relevant expenses were recognized for 2015.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors and chief executive of the Company in 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 are required to be entered in the register kept under section 352 of the SFO, or interests and short positions required to be notified to the Company and the Stock Exchange in accordance with the Model Code are as follows:

Long Positions ("L") and Short Positions ("S") in the Shares of the Company/Associated Corporation

Name of Director	Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Zhang Jianshe [(1)]	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.28%
Zhang Kaizhan [(1)]	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.28%
Liu Dai [(1)]	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.28%

Notes:

(1) As at 31 December 2015, Mr. Zhang Jianshe was the sole shareholder of 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 is deemed to be interested in the 666,568,000 Shares held, directly and indirectly by YeGu Investment. In addition, as at 31 December 2015, Mr. Zhang Kaizhan and Mr. Liu Dai, through their respective holding company (namely SiYuan Investment and 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 31 December 2015, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai would, through their respective holding companies, together hold 875,068,000 Shares, representing approximately 40.28% of the issued share capital of the Company as of 31 December 2015. Under the SFO, because of the Concert Parties Arrangement, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai are deemed to be interested in 40.28% of the issued share capital of the Company as at 31 December 2015.

Directors' Report

Save as disclosed above, as at 31 December 2015, 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 or debentures of the Company or its associated corporations (as defined in Part XV of the SFO), which are 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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, 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 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 of the Company were as follows:

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

Name of Shareholders	Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Li Jingtao [1]	Interest of spouse	875,068,000(L)	40.28%
YeGu Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.28%
Zhang Fanghong [2]	Interest of spouse	875,068,000(L)	40.28%
SiYuan Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.28%
Yang Shulan [3]	Interest of spouse	875,068,000(L)	40.28%
Tai Shing	Beneficial owner/Interest of concert parties	875,068,000(L)	40.28%
Green Farmlands Group	Beneficial owner/Interest of concert parties	875,068,000(L)	40.28%
Shanghai Jingmu Investment Center ("**Shanghai Jingmu**") [4]	Interest of controlled corporation	277,760,000(L)	12.79%
Goldstone Agri-Investment Funds Management Center (Limited Partnership) [4]	Interest of controlled corporation	277,760,000(L)	12.79%
Beijing Agriculture Investment Fund (Limited Partnership) ("**Agriculture Investment Fund**") [4]	Interest of controlled corporation	277,760,000(L)	12.79%
Beijing Jianye Fengde Investment Consulting Co., Ltd. [4]	Interest of controlled corporation	277,760,000(L)	12.79%
Agriculture Investment Company Limited ("**Agriculture Investment**") [4]	Beneficial owner	172,500,000(L)	7.94%
CITIC Capital Holdings Limited [5]	Interest of controlled corporation	174,100,000(L)	8.01%

Directors' Report

Notes:

1) Ms. Li Jingtao is the spouse of Mr. Zhang Jianshe and is therefore deemed to be interested in the same number of 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 same number of 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 same number of Shares in which Mr. Liu Dai is interested under the SFO.

4) Shanghai Jingmu is the sole shareholder of both Agriculture Investment and Jingmu Investment Company Limited and is therefore deemed to be interested in the Shares held by 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 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.

5) As at 31 December 2015, CITIC Capital Holdings Limited held 174,100,000 Shares through a number of wholly-owned subsidiaries.

Save as disclosed above, as at 31 December 2015, the Company had not been notified by any other persons (other than the Directors and 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.

CONNECTED TRANSACTIONS

The details of the related party transactions (including those constituting connected transactions and continuing connected transactions under the Listing Rules of the Group are set out in note 37 to the Financial Statements. Those transactions which constitute connected transactions or continuing connected transactions have been disclosed below or those which have not been disclosed hereunder constitute fully exempted connected transactions or continuing connected transactions of the Company. The Company has complied with disclosure requirements under Chapter 14A of the Listing Rules in relation to the non-exempt connected transactions. Items that are required to be disclosed under Chapter 14A of the Listing Rules are set out below:

Connected Persons

Urban construction is beneficially owned by Mr. Zhang Dashe (張大社), the elder brother of Mr. Zhang Jianshe, as to 51% and is therefore an associate of Mr. Zhang Jianshe. Accordingly, Urban Construction is a connected person of the Company. The other beneficial owners of Urban Construction are Ms. Liu Lenan (劉樂楠) (the adult daughter of Mr. Liu Dai) and Mr. Ji Xinshe (姬新社) (the brother-in-law of Mr. Zhang Kaizhan).

Directors' Report

Non-exempt continuing connected transactions

During the three financial years ended 31 December 2014 and the six months ended 30 June 2015, the Group entered into a number of construction services agreements (collectively, the "**Construction Services Agreements**" and each, a "**Construction Services Agreement**") with Urban Construction in respect of eight construction projects in our dairy farms and import quarantine farms. Pursuant to each of the Construction Services Agreements, Urban Construction provides the Group with construction and related services, including but not limited to construction of cowshed, office units and silage pit, sewage treatment, waste treatment and cablecasting.

The following table sets forth certain details of the six construction projects in our dairy farms/import quarantine farms:

No.	Name of dairy farm/ import quarantine farm	Stage of development	Estimated amount of construction fees to be incurred by the Group to Urban Construction for the year ending 31 December 2015 (RMB'000)	Amount of construction fees incurred by the Group to Urban Construction for the year ending 31 December 2015 (RMB'000)
1.	Hebei Tangshan Import Quarantine Farm	Reconstruction of the import quarantine farm has been completed, checked and accepted in July 2015.	6,207	6,153
2.	Tianjin Import Quarantine Farm(1)	Construction of the main production facilities has completed.	15,020	13,815
3.	Ningxia Helan Farm (Phase II)	Construction of the main production facilities has completed.	64,803	64,795
4.	Shanxi Tianzhen Farm	Construction of the main production facilities has completed.	80,991	80,900
5.	Inner Mongolia Shangdu Farm (Phase II)	Construction of the main production facilities has completed.	58,887	58,818
6.	Hebei Wen'an Farm	Construction of the main production facilities has completed.	63,643	63,545
	TOTAL		**289,551**	**288,026**

Note:

(1) We are in the process of converting the Tianjin Import Quarantine Farm into a new dairy farm, the Tianjin Farm.

Directors' Report

In respect of such continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted to us, a waiver exempting us from strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules, subject to the conditions that (i) the aggregate values of the continuing connected transaction for each financial year not exceeding the relevant annual cap set forth above; and (ii) we will fully comply with the requirements under Chapter 14A of the Listing Rules for transactions conducted after 31 December 2016.

For the details of the above transactions, please refer to the section headed "Connected Transactions" in the Prospectus.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDITOR OF THE COMPANY

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed and confirmed that such continuing connected transactions were entered into:

(i) on normal commercial terms or terms better to the Group;

(ii) in the ordinary and usual course of business of the Group; and

(iii) in accordance with the agreements governing them whose terms and conditions were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor have performed the agreed procedures in relation to such continuing connected transactions and issued a letter to the Board, confirming that:

(i) nothing has come to their attention that causes them to believe that such continuing connected transactions have not been approved by the Board;

(ii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iii) with respect to the aggregate amount of each of such continuing connected transactions, nothing has come to their attention that causes them to believe that such continuing connected transactions have exceeded the annual cap as set by the Company.

The details of the related party transactions conducted by the Group in the usual course of business during the Reporting Period are set out in note 37 to the Financial Statements. Save as disclosed above, none of the related party transactions as set out in note 37 to the financial statements are connected transactions or continuing connected transactions that are required to be disclosed under the Listing Rules. The Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

Directors' Report

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Details of subsequent events of the Group after the Reporting Period are set out in note 40 to the Financial Statements.

DONATIONS

During the Reporting Period, the Group made charitable and other donations amounting to RMB55,004.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, from the Listing Date up to the date of this annual report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued share capital as required under the Listing Rules.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2015 has been audited by Deloitte Touche Tohmatsu, the auditors of the Company.

Deloitte Touche Tohmatsu was the reporting accountant of the Company during the listing period and the Company has not changed its auditors since the Listing Date.

On behalf of the Board
Zhang Jianshe
Chairman

29 March 2016

Independent Auditor's Report

TO THE MEMBERS OF CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 73 to 154, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

		Year ended 31 December					
		2015			2014		
	NOTES	**Results before Biological fair value adjustments RMB'000**	**Biological fair value adjustments RMB'000**	**Total RMB'000**	Results before Biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
Continuing operations							
Revenue	7	**483,058**	**—**	**483,058**	721,555	—	721,555
Cost of sales	9	**(294,507)**	**(174,277)**	**(468,784)**	(532,746)	(177,668)	(710,414)
Gross profit		**188,551**	**(174,277)**	**14,274**	188,809	(177,668)	11,141
Gains arising from changes in fair value less costs to sell of biological assets		**—**	**23,790**	**23,790**	—	110,959	110,959
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		**—**	**169,337**	**169,337**	—	115,699	115,699
Other income	10	**13,845**	**—**	**13,845**	20,112	—	20,112
Other gains and losses	11	**3,551**	**—**	**3,551**	(2,787)	—	(2,787)
Distribution costs		**(19,031)**	**—**	**(19,031)**	(11,952)	—	(11,952)
Administration expenses		**(49,573)**	**—**	**(49,573)**	(39,328)	—	(39,328)
Other expenses	12	**(27,358)**	**—**	**(27,358)**	(9,752)	—	(9,752)
Profit before change in fair value of convertible preferred shares, finance costs and tax from continuing operations	13	**109,985**	**18,850**	**128,835**	145,102	48,990	194,092
Change in fair value of convertible preferred shares	30	**—**	**—**	**—**	(13,474)	—	(13,474)
Finance costs	14	**(30,696)**	**—**	**(30,696)**	(28,307)	—	(28,307)
Profit before tax from continuing operations.		**79,289**	**18,850**	**98,139**	103,321	48,990	152,311
Income tax expenses	15	**—**	**—**	**—**	(15)	—	(15)
Profit for the year from continuing operations		**79,289**	**18,850**	**98,139**	103,306	48,990	152,296

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

		Year ended 31 December					
		2015			2014		
	NOTES	**Results before Biological fair value adjustments RMB'000**	**Biological fair value adjustments RMB'000**	**Total RMB'000**	Results before Biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
Discontinued operation							
Loss for the year from discontinued operation	16	—	—	—	(1,836)	(2,112)	(3,948)
Profit for the year		**79,289**	**18,850**	**98,139**	101,470	46,878	148,348
Profit and total comprehensive income for the year attributable to owners of the Company		**79,289**	**18,850**	**98,139**	101,470	46,878	148,348
Earnings per share	19						
From continuing and discontinued operations							
– Basic (RMB cents per share)				**5.4**			10.5
– Diluted (RMB cents per share)				**5.4**			10.5
From continuing operations							
– Basic (RMB cents per share)				**5.4**			10.8
– Diluted (RMB cents per share)				**5.4**			10.8

Consolidated Statement of Financial Position

As at 31 December 2015

	NOTES	As at 31 December 2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	20	**1,130,067**	751,025
Prepayments for acquisition of property, plant and equipment		**44,723**	50,107
Lease prepayments	21	**76,799**	60,139
Biological assets	22	**1,185,540**	890,391
		2,437,129	1,751,662
CURRENT ASSETS			
Inventories	23	**324,480**	195,760
Trade and other receivables	24	**65,702**	111,993
Lease prepayments	21	**3,579**	4,445
Biological assets	22	**45,586**	44,152
Pledged bank deposits	25	**38,289**	4,344
Bank balances and cash	25	**296,380**	146,148
		774,016	506,842
CURRENT LIABILITIES			
Trade and other payables	26	**363,278**	180,700
Bank borrowings	27	**612,397**	466,652
		975,675	647,352
NET CURRENT LIABILITIES		**(201,659)**	(140,510)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,235,470**	1,611,152
CAPITAL AND RESERVES			
Share capital	29	**135**	110
Share premium and reserves	29	**1,910,990**	1,448,603
Equity attributable to owners of the Company		**1,911,125**	1,448,713
Non-controlling interests		**—**	4,900
TOTAL EQUITY		**1,911,125**	1,453,613

Consolidated Statement of Financial Position

As at 31 December 2015

	NOTES	As at 31 December 2015 RMB'000	2014 RMB'000
NON-CURRENT LIABILITIES			
Bank borrowings	27	**297,304**	135,804
Deferred income	28	**27,041**	21,735
		324,345	157,539
		2,235,470	1,611,152

The consolidated financial statements on pages 73 to 154 were approved and authorized for issue by the board of directors on 29 March 2016 and are signed on its behalf by:

Zhang Jianshe
Director

Zhang Kaizhan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the Company							
	Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2014	110,780	—	285,448	11,644	236,637	644,509	—	644,509
Profit and total comprehensive income for the year	—	—	—	—	148,348	148,348	—	148,348
Issue of ordinary shares pursuant to the Group Reorganisation (note 29)	69	—	(69)	—	—	—	—	—
Transfer of convertible preferred shares from financial liability to equity (note 30)	41	653,433	—	—	—	653,474	—	653,474
Capital injection by a non-controlling shareholder to ZhongDi Lhasa (note 6)	—	—	—	—	—	—	4,900	4,900
Disposal of ZhongDi Meijia (note 16)	—	—	2,382	—	—	2,382	—	2,382
Adjustments arising from the Group Reorganisation (note 29)	(110,780)	—	110,780	—	—	—	—	—
Appropriations (note 29)	—	—	—	9,487	(9,487)	—	—	—
As at 31 December 2014	110	653,433	398,541	21,131	375,498	1,448,713	4,900	1,453,613
Profit and total comprehensive income for the year	—	—	—	—	98,139	98,139	—	98,139
Issue of new shares (note 29)	25	387,158	—	—	—	387,183	—	387,183
Costs of issue of new shares	—	(22,910)	—	—	—	(22,910)	—	(22,910)
Distribution to the non-controlling shareholder of ZhongDi Lhasa (note 6)	—	—	—	—	—	—	(4,900)	(4,900)
Appropriations (note 29)	—	—	—	9,181	(9,181)	—	—	—
As at 31 December 2015	**135**	**1,017,681**	**398,541**	**30,312**	**464,456**	**1,911,125**	**—**	**1,911,125**

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	As at 31 December 2015 RMB'000	 2014 RMB'000
OPERATING ACTIVITIES			
Profit for the year		**98,139**	148,348
Adjustments for:			
Income tax expense recognised in the profit or loss		**—**	15
Depreciation of property, plant and equipment		**20,869**	15,300
Recognition of lease prepayments		**4,037**	6,576
Government grants related to biological assets and other assets		**(7,509)**	(14,160)
Finance costs		**30,696**	28,307
Interest income	10	**(568)**	(2,315)
Loss on disposal of property, plant and equipment	11	**21**	474
Loss on disposal of a subsidiary	11	**25**	—
Gain from extinguishment of interest payable	11	**—**	(500)
Gains arising from changes in fair value less costs to sell of biological assets		**(18,850)**	(48,587)
Change in fair value of convertible preferred shares		**—**	13,474
Operating cash flows before movements in working capital		**126,860**	146,932
Increase in inventories		**(95,212)**	(53,814)
Decrease (increase) in trade and other receivables		**14,716**	(32,640)
(Increase) decrease in biological assets - current		**(138)**	62,187
Increase (decrease) in trade and other payables		**187,766**	(146,813)
Cash generated from (used in) operations		**233,992**	(24,148)
Income taxes paid		**—**	(15)
Interest income received		**568**	2,315
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**234,560**	(21,848)

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	NOTES	As at 31 December	
		2015	2014
		RMB'000	RMB'000
INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(399,170)**	(299,997)
Payments for biological assets		**(294,565)**	(548,761)
Payments for lease prepayments		**(53,339)**	(49,341)
Proceeds from disposal of property, plant and equipment		**—**	268
Proceeds from disposal of biological assets		**33,560**	21,429
Loan to a related party		**—**	(12,128)
Repayment of loan from a related party		**16,633**	—
Placements of pledged bank deposits		**(53,873)**	(184,579)
Withdraws of pledged bank deposits		**19,928**	348,369
Net cash inflow (outflow) on disposal of a subsidiary	16	**13,565**	(414)
Net cash outflow on acquisition of a subsidiary	38	**—**	(16,379)
Government grants received in relation to biological assets and other assets		**12,815**	14,700
NET CASH USED IN INVESTING ACTIVITIES		**(704,446)**	(726,833)
FINANCING ACTIVITIES			
New borrowings raised		**909,788**	831,152
Repayment of borrowings		**(602,543)**	(624,214)
Interest and guarantee fees paid		**(50,459)**	(39,066)
Repayment of debentures		**—**	(20,000)
Proceeds from issue of new shares to the public		**387,183**	—
Payments of share issue costs		**(18,951)**	—
Capital contribution from non-controlling interests		**—**	4,900
Distribution to non-controlling interests		**(4,900)**	—
Proceeds from issue of convertible preferred shares		**—**	640,000
NET CASH FROM FINANCING ACTIVITIES		**620,118**	792,772
NET INCREASE IN CASH AND CASH EQUIVALENTS		**150,232**	44,091
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR.		**146,148**	102,057
CASH AND CASH EQUIVALENTS AT END OF THE YEAR,			
Represented by bank balances and cash		**296,380**	146,148

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL 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 office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, and its principal place of business is located at Beijing, the People's Republic of China (the "PRC").

Beijing ZhongDi Stud Livestock Co., Ltd. (the "ZhongDi Beijing") was established in the PRC as a limited company on 4 June 2004. Before the group reorganisation as described below, the Group's businesses were carried out by ZhongDi Beijing and its subsidiaries.

In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing"), the Group underwent the group reorganisation (the "Group Reorganisation"). As part of the Group Reorganisation, ZhongDi Beijing became a wholly owned subsidiary of the Company and the then shareholders or the beneficial owners of ZhongDi Beijing became the shareholders or beneficial owners of the Company proportionately on 8 July 2014.

The Group Reorganisation involves interspersing the Company and intermediate holding company between ZhongDi Beijing and the then shareholders or beneficial owners of ZhongDi Beijing. The financial statements are therefore prepared as a continuation of ZhongDi Beijing. The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2014 include the results of operations and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the year, or since the respective dates of incorporation or establishment of the relevant entity, where this is a shorter period (except for the acquisition of Luannan Huayuan Livestock Co. Ltd. ("Luannan Huayuan") and disposal of Beijing ZhongDi Meijia Breeding Hogs Co., Ltd. ("ZhongDi Meijia")).

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.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group had net current liabilities of RMB201,659,000 as at 31 December 2015. In view of the net current liabilities position, the board of directors (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 31 December 2015 and cash flow projections for the year ending 31 December 2016, 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 consolidated financial statements on a going concern basis.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Application of new and revised IFRSs

For the purpose of preparing and presenting the consolidated financial statements for the years ended 31 December 2014 and 2015, the Group has applied all the IFRSs which are effective for the Group's financial year beginning on or after 1 January 2015 consistently since 1 January 2014.

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IAS 27	Equity Method in Separate Financial Statements[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IAS 7	Disclosure Initiative[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]

1. Effective for annual periods beginning on or after 1 January 2018
2. Effective for annual periods beginning on or after 1 January 2019
3. Effective for annual periods beginning on or after 1 January 2016
4. Effective for annual periods beginning on or after a date to be determined
5. Effective for annual periods beginning on or after 1 January 2017

Except as described below, the Directors do not anticipate that the application of the abovementioned IFRSs issued but not yet effective will have a material effect on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

(b) *New and revised IFRSs in issue but not yet effective* *(continued)*

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Directors will assess the impact of the application of IFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of IFRS 16 until the Group performs a detailed review.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or the Listing Rules but not under the new CO or the amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for biological assets, which are measured at fair value less costs to sell, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

(i) has power over the investee;

(ii) is exposed, or has rights, to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business.

Revenue from sales of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of milk produced is recognised when the milk is delivered and title has been passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land

Interest in leasehold land that is accounted for as an operating lease is included in "lease prepayments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Grants relating to biological assets

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

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants *(continued)*

Other grants

Other government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries and other short-term employee benefits in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Constructions in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such items are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other items, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost or the deemed cost for agriculture produce harvested from biological assets and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Biological assets

Biological assets comprise dairy cows, hogs and alfalfa. Dairy cows include calves and heifers, milkable cows and cows held for sale which are raised or imported by the Group for the purpose of producing raw milk and for sale. Hogs include commodity hogs and breeder hogs which are raised by the Group for the purpose of sale. Alfalfa is grown by the Group for the purpose of feeding dairy cows.

Biological assets are measured on initial recognition and at the end of each reporting period at their fair values less costs to sell. Any resulting gain or loss arising on initial recognition and from changes in fair value less costs to sell is recognised in the profit or loss for the period in which the gain or loss arises.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Biological assets *(continued)*

Dairy cows

The feeding costs and other related costs such as staff costs, depreciation expenses, utilities costs and consumables incurred for raising dairy cows held for sale, heifers and calves are capitalised, until such time as the dairy cows held for sale are sold and heifers and calves begin to produce milk and transferred to milkable cows.

Hogs

The feeding costs and other related costs such as staff costs, depreciation expenses, utilities costs and consumables incurred for raising hogs are capitalised until they are sold.

Alfalfa

The sowing and plantation costs and other related costs such as staff costs, depreciation expenses, lease expenses and utilities costs incurred for growing alfalfa are capitalised. Upon harvest, the costs incurred to bring the grass to harvest and the adjustments for fair value less cost to sell at the point of harvest are transferred to inventories.

Agricultural produce

Agricultural produce represents raw milk produced and alfalfa grass harvested. The agricultural produce is recognised at the point of harvest at its fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on trade receivables.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at "fair value through profit or loss ("FVTPL")" or "other financial liabilities".

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss and presented as change in fair value of convertible preferred shares. Fair value is determined in the manner described in note 30.

Other financial liabilities

Other financial liabilities including borrowings, and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Fair value of biological assets

The Group's biological assets are valued at fair value less costs to sell at the end of each reporting period. The determination of the fair value involves the use of assumptions and estimates. Any changes in the estimates may affect the fair value of the Group's biological assets significantly. The independent qualified professional valuer and management of the Group review the assumptions and estimates periodically to identify any significant change in fair value of the Group's biological assets. The carrying amounts of the Group's biological assets as at 31 December 2015 were RMB1,231,126,000 (31 December 2014: RMB934,543,000). Further details are given in note 22.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Depreciation of property, plant and equipment

Property, plant and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. Management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during the reporting period. The determination of the useful lives and residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods would be adjusted if there are significant changes from previous estimates. The carrying amounts of the Group's property, plant and equipment as at 31 December 2015 were RMB1,130,067,000 (31 December 2014: RMB751,025,000), respectively. Details of the estimated useful lives of the Group's property, plant and equipment are disclosed in note 20.

Inventories

Inventories are stated at the lower of cost or the deemed cost for agriculture produce harvested from biological assets and net realisable value. Management of the Group periodically reviews inventories for slow moving, obsolescence or declines in market value.

This review requires the management of the Group to estimate the net realisable value based upon assumptions about future demand and market conditions. If the estimate of net realisable value is below the cost of inventory, the Group will record a write-down of inventories for the difference between cost and net realisable value, which will result in a corresponding increase in cost of sales. No write-down of inventories was recognised at the end of each reporting period. The carrying amounts of the Group's inventories as at 31 December 2015 were RMB324,480,000 (31 December 2014: RMB195,760,000), respectively.

Trade and other receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. In determining whether there is objective evidence of allowance for bad and doubtful debts, the Group takes into consideration the collectability, aged analysis of trade and other receivables and estimation of future cash flows. The amount of the allowance for bad and doubtful debts is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, an allowance for bad and doubtful debts may arise. No allowance for bad and doubtful debts was recognised during the year ended 31 December 2015. The carrying amounts of the Group's trade and other receivables as at 31 December 2015 were RMB65,702,000 (31 December 2014: RMB111,993,000), respectively.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

6. SUBSIDIARIES

Details of the Company's subsidiaries at the end of the reporting period are set out below:

Name of subsidiary	Place of establishment/ incorporation/ operations	Issued and fully paid share capital/registered capital at the date of this report	Attributable equity interest held by the Company as at 31 December 2015 %	2014 %	Principal activities
China ZhongDi Dairy Investment (HK)Company Limited (中國中地乳業投資(香港)有限公司) ("ZhongDi Hong Kong")	Hong Kong	Hong Kong dollar ("HKD") 10,000	**100**	100	Investment holding
Kaixin Peak Ring Holding (HK) Limited (開信平潤控股(香港)有限公司) ("Kaixin Peak Ring")	Hong Kong	HKD1	**100**	100	Investment holding
Beijing ZhongDi Stud Livestock Co., Ltd.# (北京中地種畜有限公司)	Beijing, the People's Republic of China (the "PRC")	RMB904,709,000	**100**	100	Import and sales of cows
Beijing ZhongDi Livestock Technology Co., Ltd. # (北京中地畜牧科技有限公司) ("ZhongDi Technology")	Beijing, the PRC	RMB31,000,000	**100**	100	Dairy farming operation
Shangdu ZhongDi Farming Farming Co., Ltd. # (商都中地生態牧場有限公司) ("ZhongDi Shangdu")	Inner Mongolia, the PRC	RMB30,000,000	**100**	100	Dairy farming operation
Kuandian ZhongDi Farming Co., Ltd. # (寬甸中地生態牧場有限公司) ("ZhongDi Kuandian")	Liaoning, the PRC	RMB12,000,000	**100**	100	Dairy farming operation
Helan ZhongDi Farming Co., Ltd. # (賀蘭中地生態牧場有限公司) ("ZhongDi Helan")	Ningxia, the PRC	RMB530,000,000	**100**	100	Dairy farming operation

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

6. SUBSIDIARIES *(continued)*

Name of subsidiary	Place of establishment/ incorporation/ operations	Issued and fully paid share capital/registered capital at the date of this report	Attributable equity interest held by the Company as at 31 December 2015 %	2014 %	Principal activities
Langfang ZhongDi Farming Co., Ltd. # (廊坊中地生態牧有限公司) ("ZhongDi Langfang")	Hebei, the PRC	RMB300,000,000	**100**	100	Dairy farming operation
Tianzhen ZhongDi Farming Co., Ltd. # (天鎮中地生態牧場有限公司) ("ZhongDi Tianzhen")	Shanxi, the PRC	RMB300,000,000	**100**	100	Dairy farming operation
Beijing ZhongDi Breeding Dairy Cows Research Co., Ltd. # (北京中地奶牛養殖育種技研究有限公司) ("ZhongDi Research")	Beijing, the PRC	RMB5,000,000	**100**	100	Inactive
Luannan Huayuan Livestock Co., Ltd # (灤南華元畜牧養殖有限公司) ("Luannan Huayuan")	Hebei, the PRC	RMB3,000,000	**100**	100	Dairy farming operation
Zhangye ZhongDi Farming Co., Ltd. # (張掖中地生態牧場有限公司) ("ZhongDi Zhangye")	Gansu, the PRC	RMB30,000,000	**100**	100	Inactive
Lhasa ZhongDi Farming Co., Ltd. # (拉薩中地生態牧場有限公司) ("ZhongDi Lhasa") (Note a)	Xizang, the PRC	RMB10,000,000	**—**	51	Deregistered
Tianjin ZhongDi livestock Co. Ltd. # (天津中地畜牧養殖有限公司) ("ZhongDi Tianjin")	Tianjin, the PRC	—	**100**	—	Inactive

The English name is for identification purpose only.

ZhongDi Hong Kong is a direct subsidiary of the Company and other subsidiaries are indirect subsidiaries of the Company.

The Company and its subsidiaries have adopted 31 December as their financial year end date.

None of the subsidiaries had issued any debt securities at the end of the year.

Note:

a: ZhongDi Lhasa did not carried out any business since its establishment. The Group and the other shareholder holding 49% equity interests determined to wind up ZhongDi Lhasa and deregistered ZhongDi Lhasa in November 2015 and ZhongDi Lhasa distributed the capital contribution made by the other shareholder of RMB 4,900,000 back to other shareholder.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

7. REVENUE

The principal activities of the Group are raising and breeding dairy cows, raw milk production, importing and selling cows and feeds and provision of import agency service in the PRC. Revenue represents the sales amount of products sold to customers and service income during the year ended 31 December 2015.

The Group also engaged in the hog production business during the year ended 31 December 2014. The Group disposed of its hog production business in August 2014, details of which are set out in note 16.

An analysis of the Group's revenue for the year from continuing operations is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Revenue from sales of:		
– Cows held for sale	**40,793**	408,033
– Raw milk	**428,019**	301,938
– Alfalfa	**13,868**	6,709
Revenue from provision of services:		
– Import agency services	**378**	4,875
	483,058	721,555

8. SEGMENT INFORMATION

Mr. Zhang Jianshe, the chairman of the board of directors of the Company and chief executive of the Group, is identified as the chief operating decision maker (the "CODM") of the Group for the purposes of resources 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 as a reportable segment. The Group's import trading business is carried out by ZhongDi Beijing, which is also responsible for headquarter management function. The operating results and financial information of the import trading business is reviewed by the CODM apart from the costs and expenses incurred by ZhongDi Beijing for headquarter management purpose.

The Group's reportable segments for segment reporting purpose are as follows:

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

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

8. SEGMENT INFORMATION *(continued)*

The Group disposed of its hog production business in August 2014, which is accounted for as a discontinued operation. The segment revenue and result information reported below does not include amounts for the discontinued operation, which is described in note 16.

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

Continuing operations

Segment revenue, results, assets and liabilities

	Import trading business RMB'000	Dairy farming business RMB'000	Total from continuing operations RMB'000
For the year ended 31 December 2015			
Segment revenue	**261,521**	**428,019**	**689,540**
Less: Inter-segment revenue	**(206,482)**	**—**	**(206,482)**
External revenue	**55,039**	**428,019**	**483,058**
Segment (loss) profit	**(2,580)**	**95,667**	**93,087**
Biological assets fair value adjustments			**80,211**
Elimination of inter-segment results			**(10,232)**
Finance costs			**(30,696)**
Unallocated operating expenses			**(34,231)**
Profit before tax from continuing operations			**98,139**
Other segment information			
Amounts included in the measure of segment profit or segment assets:			
Loss on disposal of property, plant and equipment	**10**	**11**	**21**
Depreciation	**6,918**	**33,123**	**40,041**
Bank interest income	**468**	**100**	**568**
Recognition of lease prepayments	**4,195**	**33,350**	**37,545**
Additions to non-current assets*	**17,271**	**768,934**	**786,205**

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

8. SEGMENT INFORMATION *(continued)*

Continuing operations *(continued)*

Segment revenue, results, assets and liabilities *(continued)*

	Import trading business RMB'000	Dairy farming business RMB'000	Total from continuing operations RMB'000
As at 31 December 2015			
Segment assets	690,217	2,790,211	3,480,428
Elimination of inter-segment receivables	(223,395)	(241,714)	(465,109)
	466,822	2,548,497	3,015,319
Biological assets fair value adjustments			195,826
Total assets			3,211,145
Segment liabilities	311,559	542,646	854,205
Elimination of inter-segment payables	(241,714)	(223,395)	(465,109)
	69,845	319,251	389,096
Borrowings			909,701
Other unallocated liabilities			1,223
Total liabilities			1,300,020

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

8. SEGMENT INFORMATION *(continued)*

Continuing operations *(continued)*

Segment revenue, results, assets and liabilities *(continued)*

	Import trading business RMB'000	Dairy farming business RMB'000	Total from continuing operations RMB'000
For the year ended 31 December 2014			
Segment revenue	801,357	308,426	1,109,783
Less: Inter-segment revenue	(388,228)	—	(388,228)
External revenue	413,129	308,426	721,555
Segment profit	112,565	82,837	195,402
Biological assets fair value adjustments			85,379
Elimination of inter-segment results			(72,065)
Finance costs			(28,307)
Change in fair value of convertible preferred shares			(13,474)
Unallocated operating expenses			(14,624)
Profit before tax from continuing operations			152,311
Other segment information			
Amounts included in the measure of segment profit or segment assets:			
Loss on disposal of property, plant and equipment	8	466	474
Depreciation	6,545	20,418	26,963
Bank interest income	2,225	90	2,315
Recognition of lease prepayments	1,818	28,431	30,249
Additions to non-current assets*	421,199	541,017	962,216

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

8. SEGMENT INFORMATION *(continued)*

Continuing operations *(continued)*

Segment revenue, results, assets and liabilities *(continued)*

	Import trading business RMB'000	Dairy farming business RMB'000	Total from continuing operations RMB'000
As at 31 December 2014			
Segment assets	1,272,963	1,707,721	2,980,684
Elimination of inter-segment receivables	(768,006)	(78,389)	(846,395)
	504,957	1,629,332	2,134,289
Biological assets fair value adjustments			120,256
Unallocated assets			3,959
Total assets			2,258,504
Segment liabilities	118,430	930,400	1,048,830
Elimination of inter-segment payables	(78,389)	(768,006)	(846,395)
	40,041	162,394	202,435
Borrowings			602,456
Total liabilities			804,891

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

8. SEGMENT INFORMATION *(continued)*

Continuing operations *(continued)*

Segment revenue, results, assets and liabilities *(continued)*

* Additions to non-current assets consist of additions to property, plant and equipment, additions to lease prepayments and additions to non-current biological assets from continuing operations.

Segment revenue reported above represents revenue generated from both external and inter-segment customers.

Save as described below, the accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the profit before tax earned by each segment, excluding fair value adjustments of biological assets and agricultural produce held by the Group at the end of each reporting period, change in fair value of convertible preferred shares, finance costs and costs and expenses incurred for headquarter management purpose, which represents the internally generated financial information regularly reviewed by the CODM. This is the measure reported to the CODM for the purposes of resources allocation and assessment of segment performance.

Inter-segment sales are charged at prices agreed between contracting parties.

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments and measured without taking into account fair value adjustments for biological assets and agricultural produce held by the Group at the end of each reporting period and certain corporate and head office assets; and all liabilities are allocated to operating segments other than borrowings and certain corporate and head office liabilities.

Geographical information

All of the Group's revenue is derived from customers based in the PRC, and all of the Group's operations and non-current assets are located in the PRC by location of assets.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

8. SEGMENT INFORMATION *(continued)*

Information about major customers

Revenue from customers individually contributing over 10% of the Group's revenue from continuing operations during the year is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue from import trading business:		
Customer A	*	72,900
Customer B	**207,291**	140,094
Customer C	**220,638**	**

* There was no revenue from Customer A for the year ended 31 December 2015.

** The revenue from Customer C was less than 10% of the Group's total revenue for the year ended 31 December 2014.

9. COST OF SALES

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Purchase, feeds and other related costs for cows held for sale	**35,853**	354,453
Gains arising from changes in fair value less costs to sell of biological assets	**4,940**	53,580
Cost of sales of cows held for sale	**40,793**	408,033
Feeds and other related costs for raw milk production	**245,550**	171,936
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**169,337**	124,088
Cost of sales of raw milk	**414,887**	296,024
Costs related to trading of alfalfa	**13,104**	6,357
	468,784	710,414

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

10. OTHER INCOME

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Government grants related to		
– Income (note i)	**4,115**	2,398
– Biological assets (note ii)	**5,555**	10,704
– Other assets	**1,954**	3,197
	11,624	16,299
Bank interest income	**568**	2,315
Others	**1,653**	1,498
	13,845	20,112

Notes:

i. These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

ii. These government grants are government subsidies received by the Group from relevant government bodies for the purpose of supporting the Group for procurement of dairy cows and plantation of alfalfa. The Group recognises the government grants when the conditions attaching to the grants have been met.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

11. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Loss on disposal of property, plant and equipment	**(21)**	(474)
Exchange gain (loss), net	**4,122**	(2,755)
Loss on deregistration of a subsidiary	**(25)**	—
Gain from extinguishment of interest payable	**—**	500
Others	**(525)**	(58)
	3,551	(2,787)

12. OTHER EXPENSES

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Listing expenses	**26,073**	8,693
Bank transaction fees	**339**	78
Others	**946**	981
	27,358	9,752

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For the years ended 31 December 2014 and 2015

13. PROFIT BEFORE CHANGE IN FAIR VALUE OF CONVERTIBLE PREFERRED SHARES, FINANCE COSTS AND TAX FROM CONTINUING OPERATIONS

Profit before change in fair value of convertible preferred shares, finance costs and tax from continuing operations has been arrived at after charging:

(a) Staff cost (including the Directors' emoluments)

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Salaries, bonuses and allowances	**60,312**	40,669
Contributions to retirement benefit scheme	**4,705**	2,941
Total employee benefits	**65,017**	43,610
Less: capitalised in biological assets	**(22,793)**	(13,456)
Employee benefits charged directly in profit or loss	**42,224**	30,154

(b) Depreciation and recognition of lease expenses

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Depreciation of property, plant and equipment	40,041	26,963
Less: capitalised in biological assets	(19,172)	(11,762)
Depreciation charged directly to profit or loss	20,869	15,201
Recognition of lease payments	37,545	30,249
Less: capitalised	(33,508)	(23,678)
Charged directly to profit or loss	4,037	6,571
Office rental expenses	1,553	1,685

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For the years ended 31 December 2014 and 2015

13. PROFIT BEFORE CHANGE IN FAIR VALUE OF CONVERTIBLE PREFERRED SHARES, FINANCE COSTS AND TAX FROM CONTINUING OPERATIONS *(continued)*

(c) Other items

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Auditors' remuneration	**1,500**	350

14. FINANCE COSTS

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Interest on borrowings	**50,788**	37,935
Less: amounts capitalised in the cost of property, plant and equipment	**(20,092)**	(9,628)
	30,696	28,307

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying capitalisation rate of 6.87% per annum during the year ended 31 December 2015 (2014: 7.42%), respectively, to expenditures on construction in progress.

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15. INCOME TAX EXPENSES

The income tax expenses for the year can be reconciled to the profit before tax from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Continuing operations		
Profit before tax	**98,139**	152,311
Tax at applicable income tax rate at 25%	**24,535**	38,078
Effect of expenses that are not deductible in determining taxable profit	**6,760**	5,860
Effect of tax exemption granted to agricultural operations	**(31,295)**	(43,923)
Income tax expenses	**—**	15

The Company is a tax exempted company incorporated in the Cayman Islands.

ZhongDi Hong Kong and Kaixin Peak Ring were incorporated in Hong Kong and have had no assessable profits subject to Hong Kong Profits Tax for both years.

The PRC subsidiaries of the Group are subject to enterprise income tax at statutory tax rate of 25% for both years.

According to the prevailing tax rules and regulation in the PRC, certain subsidiaries of the Company are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC. The Company's subsidiaries engaged in agricultural business during the years ended 31 December 2014 and 2015 are listed as below:

ZhongDi Beijing	Exempted for operation of agricultural business
ZhongDi Technology	Exempted for operation of agricultural business
ZhongDi Shangdu	Exempted for operation of agricultural business
ZhongDi Kuandian	Exempted for operation of agricultural business
ZhongDi Helan	Exempted for operation of agricultural business
ZhongDi Langfang	Exempted for operation of agricultural business
ZhongDi Tianzhen	Exempted for operation of agricultural business
Luannan Huayuan	Exempted for operation of agricultural business

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15. INCOME TAX EXPENSES *(continued)*

ZhongDi Research, ZhongDi Zhangye, ZhongDi Lhasa and ZhongDi Tianjin did not carry out any operation during the years ended 31 December 2014 and 2015. The income tax expenses for the year ended 31 December 2014 represent current tax charge and is attributable to taxable profit of a subsidiary of the Company that was not related to agricultural business.

In accordance with the PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends payable by the Company's PRC operating subsidiaries based on their profits generated from 1 January 2008 onwards to their "non-resident" investors who do not have an establishment or place of business in the PRC. As at 31 December 2015, the aggregate amount of temporary differences associated with the undistributed earnings of the PRC subsidiaries amount to approximately RMB442,790,000 (31 December 2014: RMB350,891,000) for which deferred tax liabilities have not been recognised. No deferred tax liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

16. DISCONTINUED OPERATION AND DISPOSAL OF A SUBSIDIARY

In June 2014, ZhongDi Beijing resolved to dispose of 100% equity interest in ZhongDi Meijia to Beijing Urban Construction Engineering Company Limited (the "Urban Construction"), a company controlled by a family member of Mr. Zhang Jianshe, at cash consideration based on the net assets value of ZhongDi Meijia as of 30 June 2014 determined in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the People's Republic of China ("PRC GAAP"). In August 2014, ZhongDi Beijing entered into a purchase and sale agreement with Urban Construction to dispose of the 100% equity interest of ZhongDi Meijia to Urban Construction at cash consideration of RMB13,565,000. The transfer of ownership of ZhongDi Meijia was completed in August 2014. The consideration was settled in February 2015.

During the year 2014, ZhongDi Meijia was engaged in the hogs production operation, which represented a separate operating segment of the Group.

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16. DISCONTINUED OPERATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

The profit or loss from the discontinued operation of ZhongDi Meijia before its disposal is set out below:

	Period from 1 January 2014 to the date of disposal RMB'000
Revenue	3,828
Cost of sales	(3,828)
Gross profit	—
Loss arising from changes in fair value less costs to sell of biological assets	(3,777)
Other income	400
Administration expenses	(517)
Other expenses	(54)
Loss before tax	(3,948)
Income tax expenses	—
Loss and total comprehensive loss for the period	(3,948)

Loss for the period from discontinued operation includes the following:

	Period from 1 January 2014 to the date of disposal RMB'000
Depreciation	984
Less: capitalised in biological assets	(885)
Depreciation charged in profit or loss	99
Recognition of lease payments	5
Employee benefit expenses	281

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For the years ended 31 December 2014 and 2015

16. DISCONTINUED OPERATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

ZhongDi Meijia's contributions to the retirement benefit scheme for its employees were RMB26,000 for the period from 1 January 2014 to the date of disposal.

Cash flows from discontinued operation include the following:

	Period from 1 January 2014 to the date of disposal RMB'000
Net cash used in operating activities	(2,257)
Net cash used in investing activities	(223)
Net cash from financing activities	1,849

Analysis of assets and liabilities over which control was lost:

	As at the date of disposal RMB'000
Property, plant and equipment	27,481
Prepayments for acquisition of property, plant and equipment	1,596
Lease prepayments	9
Biological assets	7,078
Inventories	460
Trade and other receivables	467
Bank balances and cash	414
Total assets	37,505
Trade and other payables	16,978
Deferred income	9,344
Total liabilities	26,322
Net assets disposed of	11,183

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For the years ended 31 December 2014 and 2015

16. DISCONTINUED OPERATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

Surplus on disposal of a subsidiary

	RMB'000
Total consideration	13,565
Net assets disposed of	11,183
Surplus on disposal	2,382

The surplus on disposal was recorded in capital reserve as a contribution from a related party. The consideration was received during the year ended 31 December 2015.

Cash flow on disposal of a subsidiary

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Consideration received in cash and cash equivalents	**13,565**	—
Less: cash and cash equivalent balances disposed of	**—**	(414)
	13,565	(414)

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17. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of the emoluments paid or payable to the Directors during the year ended 31 December 2014 and 2015 are as follows:

	Directors' fees RMB'000	Salaries and allowance RMB'000	Discretionary performance - related payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2015:					
Executive directors:					
– Mr. Zhang Jianshe	103	1,328	185	18	1,634
– Mr. Zhang Kaizhan	85	1,061	150	18	1,314
Non-executive directors:					
– Mr. Liu Dai	126	—	—	—	126
– Mr. Du Yuchen	105	—	—	—	105
– Mr. Li Jian	126	—	—	—	126
– Ms. Yu Tianhua	110	—	—	—	110
Independent non-executive directors:					
– Mr. Li Shengli	168	—	—	—	168
– Mr. Zan Linsen	168	—	—	—	168
– Mr. Joseph Chow	168	—	—	—	168
	1,159	2,389	335	36	3,919

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17. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

	Directors' fees RMB'000	Salaries and allowance RMB'000	Discretionary performance - related payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2014:					
Executive directors:					
– Mr. Zhang Jianshe	103	705	114	17	939
– Mr. Zhang Kaizhan	85	621	100	17	823
Non-executive directors:					
– Mr. Liu Dai	—	—	—	—	—
– Mr. Du Yuchen	—	—	—	—	—
– Mr. Li Jian	30	—	—	—	30
– Ms. Yu Tianhua	—	—	—	—	—
Independent non-executive directors:					
– Mr. Li Shengli	89	—	—	—	89
– Mr. Zan Linsen	89	—	—	—	89
– Mr. Joseph Chow	39	—	—	—	39
	435	1,326	214	34	2,009

Mr. Zhang Jianshe is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive during the years presented.

Discretionary performance-related payments are calculated based on the Group's and the respective member's performance for such year.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were mainly for their service as directors of the Company.

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For the years ended 31 December 2014 and 2015

17. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

During the year ended 31 December 2015, no (2014: nil) remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any remuneration during the year ended 31 December 2015 (2014: none).

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two were Directors for the year ended 31 December 2015 (2014: two directors) whose emoluments are included in the disclosures above. The emoluments of the remaining three individuals for the year ended 31 December 2015 are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Salaries and allowances	**2,361**	1,137
Discretionary performance-related payments	**338**	180
Retirement benefit scheme contributions	**36**	48
	2,735	1,365

Discretionary performance-related payments are calculated based on the Group's and respective member's performance for such year.

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For the years ended 31 December 2014 and 2015

17. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) *Employees' emoluments* *(continued)*

The number of highest paid employees who were not Directors and whose remuneration fell within the following band is as follows:

	Year ended 31 December	
	2015	2014
Nil to HKD1,000,000	—	3
HKD1,000,001 to HKD1,500,000	**3**	—
	3	3

During the year ended 31 December 2015, no remuneration (2014: nil) was paid by the Group to any of the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

18. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2015, nor has any dividend been proposed since the end of the reporting period (2014: nil).

19. EARNINGS PER SHARE

	Year ended 31 December	
	2015	2014
	RMB cents	RMB cents
Basic/basic and diluted earnings (loss) per share		
From continuing operations	**5.4**	10.8
From discontinued operation	—	(0.3)
	5.4	10.5

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For the years ended 31 December 2014 and 2015

19. EARNINGS PER SHARE *(continued)*

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows.

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	**98,139**	148,348
Less: Undistributed earnings from continuing and discontinued operations attributable to holders of convertible preferred shares	**33,458**	31,879
Earnings used in the calculation of basic earnings per share from continuing and discontinued operations	**64,681**	116,469
Add: Undistributed earnings from continuing and discontinued operations attributable to holders of convertible preferred shares	**33,458**	—
Earnings used in the calculation of diluted earnings per share from continuing and discontinued operations	**98,139**	116,469
Profit for the year attributable to owners of the Company	**98,139**	148,348
Add: Loss for the year from discontinued operation	**—**	3,948
Profit for the year from continuing operations	**98,139**	152,296
Less: Undistributed earnings from continuing operations attributable to holders of convertible preferred shares	**33,458**	32,727
Earnings used in the calculation of basic earnings per share from continuing operations	**64,681**	119,569
Add: Undistributed earnings from continuing operations attributable to holders of convertible preferred shares	**33,458**	—
Earnings used in the calculation of diluted earnings per share from continuing operations	**98,139**	119,569

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19. EARNINGS PER SHARE *(continued)*

	Year ended 31 December	
	2015	2014
	'000	'000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,195,313**	1,107,800
Dilutive effect on convertible preferred shares	**618,309**	—
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**1,813,622**	1,107,800

The calculation of diluted earnings per share for the year ended 31 December 2014 has not taken into account the effect of the assumed conversion of the convertible preferred shares as they are anti-dilutive for that year.

The over-allotment option granted to the international underwriter was not taken into account in calculation of diluted earnings per share for the year ended 31 December 2015 as the exercise price of the over-allotment option exceeds the average trading price of the Company's ordinary shares for the outstanding period of the over-allotment option during the year.

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20. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Balance at 1 January 2014	318,503	13,181	60,019	114,815	506,518
Additions	9,865	3,396	32,364	293,611	339,236
Transfer	194,416	—	27,218	(221,634)	—
Disposal of a subsidiary (note 16)	(29,185)	(15)	(5,364)	(92)	(34,656)
Disposals	—	(14)	(866)	—	(880)
Balance at 31 December 2014	493,599	16,548	113,371	186,700	810,218
Additions	—	14,018	35,594	369,517	419,129
Transfer	303,076	—	31,491	(334,567)	—
Disposals	—	—	(55)	—	(55)
Deregistration of a subsidiary	—	—	—	(25)	(25)
Balance at 31 December 2015	796,675	30,566	180,401	221,625	1,229,267
ACCUMULATED DEPRECIATION					
Balance at 1 January 2014	24,231	1,797	12,531	—	38,559
Charge for the year	17,667	1,138	9,142	—	27,947
Disposal of a subsidiary (note 16)	(5,152)	(13)	(2,010)	—	(7,175)
Eliminated on disposals	—	(5)	(133)	—	(138)
Balance at 31 December 2014	36,746	2,917	19,530	—	59,193
Charge for the year	24,819	2,292	12,930	—	40,041
Eliminated on disposals	—	—	(34)	—	(34)
Balance at 31 December 2015	61,565	5,209	32,426	—	99,200
CARRYING AMOUNT					
Balance at 31 December 2014	456,853	13,631	93,841	186,700	751,025
Balance at 31 December 2015	735,110	25,357	147,975	221,625	1,130,067

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20. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment (other than construction in progress) after taking into account of their estimated residual values, are depreciated on a straight-line basis over the following periods:

	Useful lives
Buildings	20 - 40 years
Motor vehicles	5 - 10 years
Plant and equipment	3 - 15 years

The depreciation charges of RMB40,041,000 (2014: RMB27,947,000) are attributable to continuing operations as to RMB40,041,000 (2014: RMB26,963,000)and discontinued operation as to nil (2014: RMB984,000) for the year ended 31 December 2015.

21. LEASE PREPAYMENTS

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Carrying amount at beginning of the year	**64,584**	32,139
Additions	**53,339**	49,341
Acquired in acquisition of a subsidiary (note 38)	**—**	13,367
Recognised during the year (note 13(b))	**(37,545)**	(30,254)
Disposal of a subsidiary (note 16)	**—**	(9)
Carrying amount at end of the year	**80,378**	64,584
Current portion	**(3,579)**	(4,445)
Non-current portion	**76,799**	60,139

Lease prepayments represent the lease prepayments made for farm lands under operating leases for alfalfa and other feed crops plantation fields and dairy farms.

The recognition of lease prepayments of RMB37,545,000 (2014: RMB30,254,000) are attributable to continuing operations as to RMB37,545,000 (2014: RMB30,249,000)and discontinued operation as to nil (2014: RMB5,000)for the year ended 31 December 2015, respectively.

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For the years ended 31 December 2014 and 2015

21. LEASE PREPAYMENTS *(continued)*

The lease prepayments are for farm lands situated in the PRC. The Group's lease prepayments are analysed as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Carrying amount at end of the year:		
Lease terms less than 10 years	**351**	1,089
Lease terms between 10 to 50 years	**80,027**	63,495
	80,378	64,584

At 31 December 2015, certain of the Group's lease prepayments with an aggregate carrying amount of RMB7,861,000 (2014: RMB8,223,000) have been pledged as security for bank borrowings of the Group (note 27).

22. BIOLOGICAL ASSETS

A - Nature of activities

The biological assets of the Group are dairy cows held to produce raw milk (i.e. milkable cows, heifers and calves), cows held for sale, commodity hogs, breeder hogs and alfalfa grown for feeding dairy cows. Dairy cows held to produce raw milk, alfalfa and breeder hogs are categorised as bearer biological assets and cows held for sale and commodity hogs are categorised as consumable biological assets given the attributes illustrated below.

(a) Cows

The Group's cows comprise cows held for sale, milkable cows held for milk production and heifers and calves that have not reached the age that can produce raw milk. The quantity of cows owned by the Group at the end of the reporting period is shown below:

	As at 31 December	
	2015	2014
	Heads	Heads
Cows held for sale	**2,812**	2,169
Milkable cows	**19,560**	8,671
Heifers and calves	**25,111**	26,341
	47,483	37,181

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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

22. BIOLOGICAL ASSETS *(continued)*

A - Nature of activities *(continued)*

(a) Cows *(continued)*

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.

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

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 approximately 60 days dry period. 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.

(b) Alfalfa

Alfalfa is a herbaceous perennial legume. When the stem of alfalfa grows up, it will be reaped for feeding cows. After the harvest, alfalfa roots will generally grow up new stems in about 60-70 days. Generally, alfalfa has a sustainable growth for up to seven years with each growth period lasts about 60-70 days.

The Group commenced to grow alfalfa on a commercial scale in 2014 as feeds for dairy cows. In March 2015, the Group subcontracted the alfalfa farm and transferred the associated alfalfa roots to an independent third party.

(c) Hogs

The commodity hogs are primarily held for further growth for resale including suckling hogs, nursery hogs and finishing hogs, which are classified as current assets. The breeder hogs are prime hog that is selected as breeding stock including foundation breeder hogs and reserve breeder hogs, are classified as non-current assets.

In general, once a sow is inseminated it will gestate for a period of 114 days. New born hogs are classified as "suckling". The suckling hogs will stay with their mother for three to four weeks at which time they will be weaned. Once the suckling hogs are weaned, they are transferred to the "nursery" category.

The nursery facilities are designed to meet the needs of newly weaned pigs. They are fed a series of specially formulated diets to meet their changing nutritional needs. The pigs will stay in the nursery for approximately seven weeks where they will grow to approximately 50 pounds and then be transferred to the "finishing" farm.

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22. BIOLOGICAL ASSETS *(continued)*

A - Nature of activities *(continued)*

(c) *Hogs* *(continued)*

Finishing hogs typically stay in this phase for 14 to 23 weeks. During that time they will be considered as a commodity hog with market value. Once the hog reaches the ideal weight, they are sold out. The Group discontinued its hog production in August 2014.

The Group is exposed to a number of risks related to its biological assets. The Group is exposed to the following operating risks:

i. *Regulatory and environmental risks*

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

ii. *Climate, disease and other natural risks*

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

B - Quantity of the agricultural produce of the Group's biological assets

	Year ended 31 December	
	2015	2014
	Tonne	Tonne
Volume - sales of raw milk produced	**100,498**	63,099
Volume - alfalfa harvested	—	2,164

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22. BIOLOGICAL ASSETS *(continued)*

C - Value of biological assets

The amounts of cows, hogs and alfalfa at the end of the reporting period are set out below:

	Year ended 31 December 2015				
	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Alfalfa RMB'000	Total RMB'000
Balance at 1 January 2015	612,489	275,320	44,152	2,582	934,543
Purchase cost	33,535	—	19,882	—	53,417
Feeding cost	280,202	—	16,109	—	296,311
Transfer	(406,172)	406,172	—	—	—
Decrease due to disposal/death	(14,218)	(19,342)	—	(2,582)	(36,142)
Gains arising from changes in fair value less costs to sell of biological assets	(3,136)	20,690	6,236	—	23,790
Transfer out upon selling			(40,793)		(40,793)
Balance at 31 December 2015	502,700	682,840	45,586	—	1,231,126
Represented by:					
Current portion	—	—	45,586	—	45,586
Non-current portion	502,700	682,840	—	—	1,185,540
Total	502,700	682,840	45,586	—	1,231,126

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22. BIOLOGICAL ASSETS *(continued)*

C - Value of biological assets *(continued)*

The amounts of cows, hogs and alfalfa at the end of the reporting period are set out below: *(continued)*

	Year ended 31 December 2014						
	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Alfalfa RMB'000	Breeder hogs RMB'000	Commodity hogs RMB'000	Total RMB'000
Balance at 1 January 2014	146,770	164,970	100,348	—	2,340	4,656	419,084
Purchase cost	409,512	—	259,895	—	—	—	669,407
Plantation cost	—	—	—	15,657	—	—	15,657
Feeding cost	135,108	—	32,504	—	370	7,903	175,885
Transfer	(152,579)	152,579	—	—	761	(761)	—
Decrease due to disposal/death.	(7,308)	(13,608)	—	—	(513)	(73)	(21,502)
Gains (losses) arising from changes in fair value less costs to sell of biological assets	80,986	(28,621)	59,438	(844)	(403)	(3,374)	107,182
Losses arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	—	—	—	(8,389)	—	—	(8,389)
Transfer out upon harvest or selling	—	—	(408,033)	(3,842)	—	(3,828)	(415,703)
Disposal of a subsidiary (note 16)	—	—	—	—	(2,555)	(4,523)	(7,078)
Balance at 31 December 2014	612,489	275,320	44,152	2,582	—	—	934,543
Represented by:							
Current portion	—	—	44,152	—	—	—	44,152
Non-current portion	612,489	275,320	—	2,582	—	—	890,391
Total	612,489	275,320	44,152	2,582	—	—	934,543

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For the years ended 31 December 2014 and 2015

22. BIOLOGICAL ASSETS *(continued)*

C - Value of biological assets (continued)

The Directors have engaged an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited to assist the Group in assessing the fair values of Group's biological assets. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in note 36.

As at 31 December 2015, the Group pledged its dairy cows of approximately RMB375,855,000 (31 December 2014: RMB387,123,000), to banks to secure certain of the Group's bank borrowings (note 27).

The aggregate gain or loss arising on initial recognition of raw milk and alfalfa harvested and from the change in fair value less costs to sell of biological assets for the year ended 31 December 2015 is analysed as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**169,337**	115,699
Gains (losses) arising from changes in fair value less costs to sell of biological assets		
– cows	**23,790**	111,803
– alfalfa	**—**	(844)
– hogs	**—**	(3,777)
	23,790	107,182
	193,127	222,881

23. INVENTORIES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Feeds	**313,547**	191,972
Others	**10,933**	3,788
	324,480	195,760

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For the years ended 31 December 2014 and 2015

24. 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 approximate to the respective dates on which revenue is recognised as at the end of the reporting period is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade receivables:		
– 0 to 30 days	**44,962**	23,544
– 31 to 90 days	**2,111**	1,709
– 91 to 180 days	**—**	4,221
– Over 181 days	**—**	68
	47,073	29,542
Other receivables:		
– Receivables from agency customers	**—**	67
– Advances to suppliers	**14,463**	31,672
– Amount due from Urban Construction	**59**	13,565
– Amount due from ZhongDi Meijia*	**838**	32,579
– Others	**3,269**	4,568
	65,702	111,993

* The amount due from ZhongDi Meijia as at 31 December 2015 includes a balance of RMB838,000 (31 December 2014: RMB 15,946,000) for sales of feeds to ZhongDi Meijia which is aged within 360 days (31 December 2014: within 360 days).

At the end of the reporting period, the aged analysis of trade receivables that are not individually nor collectively considered to be impaired as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Neither past due nor impaired	**44,962**	23,544
Less than 60 days past due	**2,111**	1,709
Over 61 days past due	**—**	4,289
	47,073	29,542

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24. TRADE AND OTHER RECEIVABLES *(continued)*

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

Receivables that were past due but not impaired relate to customers that have a good repayment history with the Group. Based on past experience, the management of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The financial position of the creditors will be closely monitored by the management of the Group and provision will be made as appropriate.

25. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES AND CASH

Pledged bank deposits

Pledged bank deposits of the Group represent deposits pledged for letters of credit and bank borrowings. The Group's pledged bank deposits carried interest at prevailing interest rates of 0.35% (31 December 2014: 0.35%) per annum at 31 December 2015.

Bank balances and cash

Bank balances and cash of the Group comprise cash and short-term bank deposits with an original maturity of three months or less. The Group's bank balances carried interest at prevailing interest rates ranging from 0.01% to 0.35% (31 December 2014: 0.01% to 0.35%) per annum at 31 December 2015.

Pledged bank deposits and bank balances and cash were denominated in United States Dollar ("USD"), HKD and RMB as at 31 December 2015. RMB is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

Pledged bank deposits, and cash and bank balances and cash of the Group that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
USD	**243,525**	29,085
HKD	**8,750**	18

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For the years ended 31 December 2014 and 2015

26. 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 each reporting period:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade payables:		
– 0 - 90 days	**170,256**	47,580
– 91 - 180 days	**26,340**	5
– over 181 days	**4,217**	617
	200,813	48,202
Payable for acquisition of property, plant and equipment	**85,975**	79,492
Payable to agency suppliers	**—**	5,073
Advance payments from customers	**57,925**	27,855
Advance payments from agency customers	**4,139**	1,849
Accrued staff costs	**5,749**	3,687
Interest payables	**1,513**	1,184
Consideration payable for acquisition of dairy farming assets	**—**	12,000
Deposits	**3,836**	—
Others	**3,328**	1,358
	363,278	180,700

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For the years ended 31 December 2014 and 2015

27. BANK BORROWINGS

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Unsecured bank borrowings	**773,897**	340,000
Guaranteed and unsecured bank borrowings	**804**	44,304
Secured bank borrowings	**45,000**	118,152
Guaranteed and secured bank borrowings	**90,000**	100,000
	909,701	602,456
Carrying amount repayable:		
Within one year	**612,397**	466,652
Between one to two years	**140,304**	44,500
Between two to five years	**157,000**	91,304
	909,701	602,456
Less: Amounts due within one year shown under current liabilities	**(612,397)**	(466,652)
Amounts due after one year	**297,304**	135,804
The bank borrowings comprise:		
Fixed-rate bank borrowings	**383,897**	170,000
Variable-rate bank borrowings.	**525,804**	432,456
	909,701	602,456

The Group had available unutilised banking facilities of RMB180,000,000 as at 31 December 2015 (31 December 2014: RMB111,848,000).

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For the years ended 31 December 2014 and 2015

27. BANK BORROWINGS *(continued)*

i. As at 31 December 2015, bank loans of RMB90,000,000 (31 December 2014: RMB100,000,000) was jointly guaranteed by ZhongDi Genetics & Seeds Co. Ltd. (中地種業（集團）有限公司) ("ZhongDi Seeds"), a related party defined in note 37, and Mr. Zhang Jianshe and secured by certain dairy cows of the Group as set out in note 22; a bank loan of RMB804,000 (31 December 2014: RMB1,304,000) was guaranteed by Beijing Agriculture Guaranty Co., Ltd., an independent third party; a bank loan of RMB45,000,000 (31 December 2014: RMB50,000,000) was secured by the lease prepayments of the Group as set out in note 21 and certain dairy cows of the Group as set out in note 22.

As at 31 December 2014, a bank loan of USD11,138,000 (equivalent to RMB68,152,000) was secured by certain pledged bank deposits. Bank loans of RMB 43,000,000 were solely guaranteed by ZhongDi Seeds.

The effective interest rates of the bank borrowings, which are also equal to contracted interest rates, at the end of the reporting period, are as follows:

	As at 31 December	
	2015	2014
	%	%
Effective interest rates (per annum):		
Fixed-rate bank borrowings	**2.70 - 6.96**	6.60 - 7.50
Variable-rate bank borrowings	**4.79 - 7.48**	6.60 - 8.61

Interest rate of the Group's variable-rate bank borrowings are based on the benchmark interest rates promulgated by the People's Bank of China ("PBOC").

28. DEFERRED INCOME

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Deferred income in respect of government grants:		
– Balance at beginning of the year	**21,735**	30,539
– Addition	**7,260**	3,906
– Release to income - continuing operations	**(1,954)**	(3,197)
– Release to income - discontinued operation	**—**	(169)
– Disposal of a subsidiary (note 16)	**—**	(9,344)
– Balance at end of the year	**27,041**	21,735

Deferred income arising from government grants of the Group represents the government subsidies obtained in relation to the construction of property, plant and equipment. Government grants are included in the consolidated statement of financial position as deferred income and are credited to the profit or loss on a systematic basis over the useful lives of the related assets.

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29. SHARE CAPITAL AND RESERVES

Share Capital

The balance of share capital as at 1 January 2014 represented the issued capital of ZhongDi Beijing. Upon the completion of the Group's Reorganisation, the issued capital of ZhongDi Beijing of RMB110,780,000 was transferred to capital reserve.

Issued and fully paid-up share capital of the Company:

	As at 31 December	
	2015	2014
	USD'000	USD'000
Share capital of USD0.00001 each	**22**	18

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Presented as:		
Ordinary shares	**135**	69
Convertible preferred shares	**—**	41
	135	110

	As at 31 December	
	2015	2014
	'000	'000
Number of shares:		
Fully paid ordinary shares	**2,172,536**	1,107,800
Fully paid convertible preferred shares	**—**	673,680
	2,172,536	1,781,480

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

29. SHARE CAPITAL AND RESERVES *(continued)*

Ordinary shares

	Authorised shares		Issued capital	
	Number of shares	Share capital RMB'000	Number of shares RMB'000	Share capital
Balance at the date of incorporation	5,000,000,000	306	1	—
Issue of ordinary shares	—	—	1,107,799,999	69
Balance at 31 December 2014	5,000,000,000	306	1,107,800,000	69
Issue of new shares	—	—	391,056,000	25
Conversion of convertible preferred shares	—	—	673,680,000	41
Balance at 31 December 2015	5,000,000,000	306	2,172,536,000	135

Convertible preferred shares

	Authorised shares		Issued capital	
	Number of shares '000	Share capital RMB'000	Number of shares RMB'000	Share capital
Balance at the date of incorporation	—	—	—	—
Increase of authorised capital and transfer of convertible preferred shares from financial liability to equity	673,680	41	673,680,000	41
Balance at 31 December 2014	673,680	41	673,680,000	41
Conversion to ordinary shares	(673,680)	(41)	(673,680,000)	(41)
Balance at 31 December 2015	—	—	—	—

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For the years ended 31 December 2014 and 2015

29. SHARE CAPITAL AND RESERVES *(continued)*

Convertible preferred shares *(continued)*

On 24 April 2014, the Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability with an authorised share capital of USD50,000 divided into 5,000,000,000 ordinary shares with par value of USD0.00001 each. Upon incorporation, one ordinary share was subscribed, credited as fully paid at par as initial capital of the Company.

On 29 April 2014, an aggregate of 595,377,999 ordinary shares were allotted and issued, credited as fully paid, to a number of entities owned by the beneficial owners of the then shareholders of ZhongDi Beijing.

On 8 July 2014, 89,800,000 ordinary shares were allotted and issued to the then sole shareholder of Kaixin Peak Ring (a then shareholder of ZhongDi Beijing), which was in consideration for all issued share capital of Kaixin Peak Ring being transferred to ZhongDi Hong Kong.

On 18 June 2014, an aggregate of 422,622,000 ordinary shares were allotted and issued at cash consideration of USD14,422,800 (equivalent to RMB90,143,000) to entities owned by the beneficial owners of the remaining then shareholders of ZhongDi Beijing. The cash consideration was received in August 2014 and subsequently fully paid out to the same group of shareholders or their beneficial owners for transfer of their equity interests in ZhongDi Beijing to the Group.

On 14 July 2014, 568,420,000 convertible preferred shares with par value of USD0.00001 per share were issued to a series of independent third-party investors at an aggregate consideration of RMB540,000,000.

On 22 August 2014, 105,260,000 convertible preferred shares with par value of USD0.00001 per share were issued to an independent third-party investor at an aggregate consideration of RMB100,000,000.

On 2 December 2015, 391,056,000 ordinary shares with par value of USD0.00001 each of the Company were issued at cash consideration of HKD1.20 each upon the listing of the Company's shares on the Main Board of the Stock Exchange. On the same date, the Company's convertible preferred shares of 673,680,000 shares were converted to ordinary shares of the Company.

Reserves

Capital reserve

The balance of capital reserve as at 1 January 2014 represented the aggregated capital reserves arising from the capital injection to ZhongDi Beijing by its shareholders in addition to registered capital prior to 1 January 2014.

Statutory surplus reserve

According to the PRC Company Law and the Articles of Association of the PRC subsidiaries of the Group, these companies are required to transfer 10% of their respective after-tax profits, calculated in accordance with PRC GAAP, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital.

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For the years ended 31 December 2014 and 2015

30. CONVERTIBLE PREFERRED SHARES

On 14 July 2014, pursuant to the Series A Preferred Share Purchase Agreement (the "Series A Agreement") entered into among a number of independent investors (the "Series A Investors"), the Company, ZhongDi Hong Kong and ZhongDi Beijing, the Company issued an aggregate of 568,420,000 convertible preferred shares (the "Series A Preferred Shares") at an aggregate consideration of RMB540,000,000.

On 22 August 2014, pursuant to the Series B Preferred Share Purchase Agreement (the "Series B Agreement") (the Series A Agreement and the Series B Agreement are collectively referred to as the "Agreements") entered into among an independent investor (the "Series B Investor") (the Series A Investors and the Series B Investor are collectively referred to as the "Investors"), the Company, ZhongDi Hong Kong and ZhongDi Beijing, the Company issued an aggregate of 105,260,000 convertible preferred shares (the "Series B Preferred Shares") (the Series A Preferred Shares and the Series B Preferred Shares are collectively referred to as the "Preferred Shares") at an aggregate consideration of RMB100,000,000.

The key terms related to the Preferred Shares are as follows:

I. Conversion

The conversion price on which each Preferred Share is convertible into ordinary shares of the Company (the "Conversion Price") shall initially be the issue price of the Preferred Shares (RMB0.95 each) and is subject to adjustments as detailed below. The number of ordinary shares to be converted is determined by dividing the total issue price by the Conversion Price at the time in effect.

Additionally each Preferred Share shall automatically be converted into ordinary shares, at applicable conversion price upon (i) the closing of a qualified initial public offering (the "Qualified IPO"), or (ii) the election of holders of at least 50% of the then issued and outstanding Preferred Shares.

II. Adjustments to applicable conversion price for dilutive issuance

If the Company issues new securities after the date of issuance of the Preferred Shares for a consideration per share which is less than the Conversion Price of the Preferred Shares, the Conversion Price shall automatically be reduced, concurrently with such issue, to such lower price, unless such adjustment of Conversion Price is waived by the holders of at least fifty percent (50%) of the Preferred Shares.

III. Dividends

Any dividend payable by the Company shall be paid on a pro rata basis to all ordinary shares and all Preferred Shares (on an as-converted basis). The Investors shall also be entitled to receive any non-cash dividends declared by the Company's board on an as converted basis.

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30. CONVERTIBLE PREFERRED SHARES *(continued)*

IV. Liquidation preference

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or any of the following deemed liquidation events (the "Trade Sale Events") of (i) any acquisition of any of the Group's companies by another entity by means of any transaction or series of related transactions (including, without limitation, any share acquisition, reorganisation, merger or consolidation) other than a transaction or series of transactions in which the holders of the voting securities of such Group's company outstanding immediately prior to such transaction continue to retain (either by such voting securities remaining outstanding or by such voting securities being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of such Group's company or such surviving entity outstanding immediately after such transaction or series of transaction, (ii) a sale, transfer, lease or other disposition of all or substantially all of the assets (including intellectual property) of any of the Group's companies (or any series of related transactions resulting in such sale, transfer, lease or other disposition of all or substantially all of the assets of any of the Group's companies), or (iii) the exclusive licensing of all or substantially all of any of the Group's companies' intellectual property to a third party, the Investors are first entitled to be paid, prior to and in preference of any distribution to the other Shareholders, an amount per Preferred Share equal to the greater of (i) RMB0.95, being the issue price of the Preferred Shares and subject to adjustment for any share splits, share dividends, combinations, recapitalizations or similar transactions, and (ii) the amount each Preferred Share shall be entitled to if the whole proceeds from the deemed liquidation event shall be distributed to the holders of ordinary shares and Preferred Shares on pro rata and as-converted basis.

The Company may be required to issue variable number of its ordinary shares upon conversion of the Preferred Shares in the events of: (i) adjustments to conversion price for dilutive issuance, and (ii) Trade Sale Events as mentioned above. Therefore, the Preferred Shares are accounted for as non-derivative financial liabilities in its entirety and are measured at fair value on a recurring basis.

V. Waiver of the rights by the Investors

On 31 October 2014, the Investors waived their rights in relation to the adjustments to applicable conversion price for dilutive issuance and the liquidation preference in the events of Trade Sale as set out above.

Upon the waiver of these clauses on 31 October 2014, the Preferred Shares were accounted for as equity instruments of the Group.

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For the years ended 31 December 2014 and 2015

30. CONVERTIBLE PREFERRED SHARES *(continued)*

V. *Waiver of the rights by the Investors* (continued)

The movement of the Preferred Shares are as follows:

	RMB'000
At 1 January 2014	—
Issue of the Preferred Shares	640,000
Changes in fair value (note)	13,474
Transfer of the Preferred Shares from financial liability to equity	(653,474)
At 31 December 2014 and 2015	—

Note:

It represents the fair value change of Preferred Shares of RMB0.95 per share upon issuance to RMB0.97 per share upon transfer to equity. Fair value of RMB0.97 per share is based on the fair value assessment of the Preferred Shares as at 31 October 2014 performed by management using the Black Scholes Option Pricing Model. The inputs used for the fair value assessment are as follow:

Equity value	RMB2,161 million
Conversion price	RMB640 million
Risk-free rate	3.43%
Dividend yield	nil
Volatility	40%
Discount rate	14%

Equity value is estimated base on discounted cash flow projections of the Group.

Risk-free interest rate is estimated based on the market yield of China International Government Bond with similar maturity as of the valuation date.

The volatility of the underlying shares during the life of the conversion options was estimated based on average historical volatility of comparable companies for the year before the valuation date with lengths similar to the expected terms of the conversion options.

The dividend yield was estimated by the Company based on its expected annual dividend of the Preferred Shares divided by the fair values of the equity of the Group.

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31. RETIREMENT BENEFIT PLANS

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the PRC government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme for the year ended 31 December 2015 for continuing and discontinued operations amounted to RMB 4,705,000 (2014: RMB 2,967,000).

32. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Capital expenditures in respect of acquisition of property plant and equipment:		
– contracted but not provided for	**346,995**	464,563

33. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitment to make future minimum lease payments in respect of office and farm land rented under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within one year	**35,856**	32,830
In the second to fifth year inclusive	**133,585**	129,317
Over five years	**252,287**	312,850
	421,728	474,997

Operating lease payments primarily represent rentals payable by the Group for leasing of office and farm land which are negotiated for terms ranging from 2 years to 20 years and rentals are fixed or with a fixed rate/amount of periodic rent adjustments.

The minimum lease payments under operating lease recognised as expenses during the year ended 31 December 2015 are approximately RMB39,098,000 (2014: RMB31,939,000), respectively.

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34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which included bank borrowings as disclosed in note 27, net of bank balances and cash and equity attributable to owners of the Company, comprising capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The management of the Group review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital and will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**385,908**	230,813
Financial liabilities		
Amortised cost	**1,205,166**	749,765

Financial risk management objectives and polices

The Group's major financial instruments include bank balances and cash, pledged bank deposits, trade and other receivables, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below.

The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall strategy remains unchanged from prior year.

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35. FINANCIAL INSTRUMENTS *(continued)*

Market risk

i) Currency risk

The Group undertakes certain purchase and agency payment transactions in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge its exposure to currency risk. The management of the Group manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets (pledged bank deposits, bank balances and trade and other receivables) and monetary liabilities (bank borrowings and trade and other payables) at the end of the reporting period are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Assets		
USD	**245,340**	29,085
HKD	**10,577**	18
	255,917	29,103
Liabilities		
USD	**54,942**	68,152

Foreign currency sensitivity analyses

5% (2014: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. No sensitivity analyses is considered for HKD denominated financial assets as the amount involved is insignificant.

The Group was primarily subject to foreign currency risk from the movement of the exchange rates between RMB and USD during the Track Record Periods. At the end of each reporting period, if the exchange rate had been weaken in RMB against USD by 5% (2014: 5%) and all other variables were held constant, the Group's post-tax profit for the reporting period would increase as follow:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
USD denominated monetary assets and monetary liabilities against RMB	**9,520**	(1,953)

For a 5% (2014: 5%) strengthening of the RMB against USD, there would be an equal and opposite impact on the post-tax profit.

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35. FINANCIAL INSTRUMENTS *(continued)*

i) *Currency risk* *(continued)*

Foreign currency sensitivity analyses *(continued)*

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. The Group's bank balances denominated in USD are mainly from the proceeds of issue of new shares in December 2015.

ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances, pledged bank deposits and borrowings which carry interest at variable interest rates.

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings. The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rates promulgated by the PBOC for the Group's bank borrowings.

Interest rate sensitivity analyses

The sensitivity analyses below have been determined based on the exposure to benchmark interest rates promulgated by the PBOC for the Group's bank borrowings at the end of the reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances and pledged bank deposits are excluded from the sensitivity analyses as a reasonably possible change in the interest rate would not have a significant effect on the Group's post-tax profit during the year.

The analyses are prepared assuming the variable interest rate bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2014: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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35. FINANCIAL INSTRUMENTS *(continued)*

ii) *Interest rate risk* *(continued)*

Interest rate sensitivity analyses *(continued)*

If interest rates on variable interest rate borrowings had been 50 basis points (2014: 50 basis points) higher and all other variables were held constant (without taking into account of the effect of interest capitalisation), the potential effect on post-tax profit of the Group is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Post-tax profit would decrease by	**2,629**	2,162

There would be an equal and opposite impact on the above post-tax results, should the aforesaid interest rates be lower in the above sensitivity analyses.

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

As at 31 December 2015, 96% (2014: 93%) of the Group's trade receivables were from the sales of raw milk. The Group only transacted with limited number of customers for sales of raw milk. Therefore, there is concentration of credit risk arising from the Group's trade receivables from raw milk customers. Management of the Group considers the risk is low because the Group only transacts with credit-worthy customers and there is no history of default of these customers.

The credit risk on liquid funds of the Group is limited because the counterparties are authorised banks with high credit ratings in the PRC.

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For the years ended 31 December 2014 and 2015

35. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

The Group had available unutilised banking facilities of RMB180,000,000 as at 31 December 2015.

Having considered the unutilised banking facilities available as at 31 December 2015, the expected future cash generated from operation and other cash flow requirements, the management of the Group is of the view that the Group is able to meet 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.

The following table sets out the Group's remaining contractual maturity for its non-derivative financial liabilities as at the end of the reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period.

	Interest rates	On demand or less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total undiscounted cash flows	Carrying amounts
As at 31 December 2015							
Trade and other payables		135,828	157,556	2,081	—	295,465	295,465
Fixed interest rate bank borrowings	2.70 - 6.96	55,084	2,149	336,202	—	393,435	383,897
Variable interest rate bank borrowings	4.79 - 7.48	2,884	45,146	207,839	319,020	574,889	525,804
		193,796	204,851	546,122	319,020	1,263,789	1,205,166
Non-derivative financial liabilities							
As at 31 December 2014							
Trade and other payables		127,131	20,178	—	—	147,309	147,309
Fixed interest rate bank borrowings	6.60 - 7.50	991	1,886	176,524	—	179,401	170,000
Variable interest rate bank borrowings	6.60 - 8.61	32,846	25,242	280,567	161,476	500,131	432,456
		160,968	47,306	457,091	161,476	826,841	749,765

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair values at the end of the reporting period.

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis (level 3 fair value).

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

36. FAIR VALUE MEASUREMENTS

Biological assets measured at fair value less costs to sell on a recurring basis

The following table presents the fair values of the Group's biological assets measured at fair value less costs to sell on a recurring basis at the end of the reporting period after initial recognition, categorised into the three-level fair value hierarchy as defined in IFRS 13 "Fair value measurement". In estimating the fair value of the biological assets, the highest and best use of the biological assets is their current use.

		As at 31 December 2015		
Recurring fair value	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Cows held for sale	—	—	**45,586**	**45,586**
Heifers and calves	—	—	**502,700**	**506,420**
Milkable cows	—	—	**682,840**	**679,120**
Total biological assets	—	—	**1,231,126**	**1,231,126**

		As at 31 December 2014		
Recurring fair value	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Cows held for sale	—	—	44,152	44,152
Heifers and calves	—	—	612,489	612,489
Milkable cows	—	—	275,320	275,320
Alfalfa	—	—	2,582	2,582
Total biological assets	—	—	934,543	934,543

The reconciliations from the beginning balances to the ending balances for fair value measurements of the above biological assets are disclosed in note 22.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

36. FAIR VALUE MEASUREMENTS *(continued)*

Valuation techniques used in fair value measurements

The following table shows the valuation techniques used in measuring level 3 fair values, as well as the significant unobservable inputs used in the valuation models

Type	Valuation technique	Significant unobersvable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Biological assets Heifers and calves (including self-reproduced heifers/calves held for sale)	The fair value of 14 months old heifers is determined by reference to the local market selling price.	Average local market selling prices of the heifers of 14 months old were estimated at RMB21,000 per head at 31 December 2015 (2014: RMB21,000 per head).	An increase in the estimated local market selling price used would result in a smaller percentage increase in the fair value measurement of the heifers and calves, and vice versa.
	The fair values of heifers and calves at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.	Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old are RMB15,278 at 31 December 2015 (2014: RMB15,546). Average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB9,120 at 31 December 2015 (2014: RMB9,348).	An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in a smaller percentage increase/decrease in the fair value measurement of the heifers and calves older/younger than 14 months old, and vice versa.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

36. FAIR VALUE MEASUREMENTS *(continued)*

Valuation techniques used in fair value measurements (continued)

Type	Valuation technique	Significant unobersvable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	The estimated feed costs per kg of raw milk used in the valuation process are RMB2.13 for the year ended 31 December 2015 (2014: RMB2.4). based on the historical average feed costs per kg of raw milk after taking into consideration of inflation.	An increase in the estimated feed costs per kg of raw milk used would result in a higher percentage decrease in the fair value measurement of the milkable cows, and vice versa.
		A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle is ranged from 23.67kg to 25kg for the year ended 31 December 2015 (2014: from 20kg to 24.7kg), depending on the number of the lactation cycles and the individual physical condition.	An increase in the estimated daily milk yield per head used would result in a slight higher percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Estimated local future market prices for raw milk are RMB4,300 per tonne at 31 December 2015 (2014: RMB4,650).	An increase in the estimated average selling price of raw milk used would result in a much higher percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Discount rate for estimated future cash flow used is 14.0% at 31 December 2015 (2014: 14.0%).	An increase in the estimated discount rate used would result in a smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

36. FAIR VALUE MEASUREMENTS *(continued)*

Valuation techniques used in fair value measurements *(continued)*

Type	Valuation technique	Significant unobersvable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Cows held for sale (excluding self-reproduced heifers/calves for sale)	The fair value for cows held for sales is mainly determined based on the estimated local market selling prices, subtracting estimated feeding costs of these cows.	Estimated local market selling prices per head of the heifers were RMB16,398 at 31 December 2015 (2014: RMB24,369).	An increase in the estimated local market selling price used would result in a similar percentage increase in the fair value measurement of the cows held for sale, and vice versa.

37. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

The management of the Group consider that the following entities are related parties of the Group:

Name	Relationship
Mr. Zhang Jianshe	executive director and a substantial shareholder (as defined in the Listing Rules) of the Company
ZhongDi Seeds	entity controlled by Mr. Zhang Jianshe
ZhongDi Grass (Ulanqab) Co., Ltd. (烏蘭察布市中地草業有限公司) ("ZhongDi Grass") (note)	entity controlled by Mr. Zhang Jianshe
Urban Construction	entity controlled by a family member of Mr. Zhang Jianshe
ZhongDi Meijia	entity controlled by a family member of Mr. Zhang Jianshe

Note: The English name is for identification purpose only.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

37. RELATED PARTY TRANSACTIONS *(continued)*

(b) Related party transactions

The Group had the following significant transactions with related parties during the year:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Sales of feeds:		
– ZhongDi Meijia	**2,638**	6,123
Purchases of goods from:		
– ZhongDi Seeds	**95**	77
Lease prepayments made to:		
– ZhongDi Grass	**—**	8,800
Purchases of property, plant and equipment from:		
– ZhongDi Grass	**—**	2,027
Provision of construction services by:		
– Urban Construction	**288,026**	249,923
Rental charges by:		
– ZhongDi Seeds	**1,553**	2,053

The transactions were carried out in accordance with the terms and conditions mutually agreed by the contracting parties.

Saved as disclosed above, as set out in note 16, the Group disposed of its 100% equity interest in ZhongDi Meijia to Urban Construction at a cash consideration of RMB13,565,000 in August 2014. The Group made a loan of RMB12,128,000 to ZhongDi Meijia subsequent to the disposal during the years ended 31 December 2014. The borrowings to ZhongDi Meijia were interest free, unsecured and had no fixed terms of repayment and was fully settled in the year ended 31 December 2015.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

37. RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties

The following significant balances with related parties were outstanding at the end of the reporting period:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Prepayments for construction services to:		
– Urban Construction	**6,957**	20,000
Trade and other payables to:		
– Urban Construction	**79,433**	76,411
– ZhongDi Seeds	**95**	—
Trade and other receivables from:		
– Urban Construction	**59**	13,565
– ZhongDi Meijia	**838**	32,579

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

(d) Guarantees provided by related parties

The bank borrowings of the Group with the following carrying amounts were guaranteed by:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Mr. Zhang Jianshe		
– Directly (note 27)	**90,000**	100,000
ZhongDi Seeds		
– Directly (note 27)	**90,000**	143,000

Subsequent to 31 December 2015, the Group has repaid bank borrowings of RMB 40,000,000 and is in the process of negotiation with the lender to repay the remaining of the above-mentioned bank borrowings and discharge Mr. Zhang Jianshe and ZhongDi Seeds as guarantor.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

37. RELATED PARTY TRANSACTIONS *(continued)*

(e) Operating lease commitment

At the end of the reporting period, the Group had commitment to make future minimum lease payments to ZhongDi Seeds in respect of office rented under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within one year	**3,278**	1,553

The above future minimum lease payments to ZhongDi Seeds are included in the future minimum lease payments of the Group as disclosed in note 33.

(f) Compensation to key management personnel

The remuneration of the Directors and other members of key management of the Group during the year was as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Salaries, bonuses and other benefits	**6,075**	3,292
Retirement benefit scheme contributions	**88**	82
	6,163	3,374

The remuneration of key management is determined with reference to the performance of individuals and market trends.

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For the years ended 31 December 2014 and 2015

38. ACQUISITION OF A SUBISIDIARY

Acquisition of Luannan Huayuan

In January 2014, the Group acquired 100% of the paid-in capital of Luannan Huayuan for consideration of RMB16,600,000. Luannan Huayuan had ceased operation at the time of acquisition. The acquisition has been accounted for as acquisition of assets and liabilities. The consideration of RMB16,600,000 is allocated to individual assets and liabilities on the basis of their relative fair values at the date of acquisition.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Assets	
Property, plant and equipment	3,221
Lease prepayments	13,367
Bank balances and cash	221
	16,809
Liabilities	
Trade and other payables	209

	RMB'000
Cash consideration paid	16,600
Less: cash and cash equivalent balances acquired	(221)
	16,379

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For the years ended 31 December 2014 and 2015

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the financial position of the Company at the end of the reporting period includes:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Interests in a subsidiary	**914,440**	611,983
CURRENT ASSETS		
Other receivables	—	3,959
Bank balances and cash	**54,639**	14,285
	54,639	18,244
CURRENT LIABILITIES		
Other payables	**1,608**	3
Amount due to a subsidiary	**191**	191
	1,799	194
NET CURRENT ASSETS	**52,840**	18,050
TOTAL ASSETS LESS CURRENT LIABILITIES	**967,280**	630,033
CAPITAL AND RESERVES		
Share capital	**135**	110
Reserves	**967,145**	629,923
	967,280	630,033

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2015

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movements in equity

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At the date of incorporation	—	—	—	—	—
Loss and total comprehensive loss for the year	—	—	—	(23,441)	(23,441)
Issue of ordinary shares	69	—	(69)	—	—
Transfer of convertible preferred shares from financial liability to equity	41	653,433	—	—	653,474
Balance at 31 December 2014	110	653,433	(69)	(23,441)	630,033
Loss and total comprehensive loss for the year	—	—	—	(27,026)	(27,026)
Issue of new shares	25	387,158	—	—	387,183
Costs of issue of new shares	—	(22,910)	—	—	(22,910)
Balance at 31 December 2015	135	1,017,681	(69)	(50,467)	967,280

40. SUBSEQUENT EVENTS

Subsequent to 31 December 2015, the Group had the following subsequent event:

On 4 January 2016, the Company issued an additional 1,542,000 ordinary shares with par value of USD0.00001 each at the price of HK$1.20 per share by means of partial exercise of the overallotment option.