Lanzhou Zhuangyuan Pasture Co., Ltd.*
蘭州莊園牧場股份有限公司

(a joint stock limited liability company incorporated in the People's Republic of China)
Stock Code: 1533

ANNUAL
REPORT
2016

* *For identification purposes only*

ABOUT US

We are one of the leading dairy companies in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We believe our business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ma Hongfu

Mr. Wang Guofu

Mr. Chen Yuhai

Mr. Yan Bin

Non-Executive Directors

Mr. Yap Kean Chong

Mr. Song Xiaopeng

Independent Non-Executive Directors

Ms. Liu Zhijun *(appointed on 14 June 2016)*

Mr. Bai Yongzhi *(retired on 14 June 2016)*

Ms. Xin Shihua

Mr. Wong Cho Hang Stanley

Supervisors

Ms. Du Wei

Mr. Pan Jin

Mr. Wei Lin

AUDIT COMMITTEE

Ms. Liu Zhijun *(Chairman) (appointed on 14 June 2016)*

Mr. Bai Yongzhi *(retired on 14 June 2016)*

Ms. Xin Shihua

Mr. Wong Cho Hang Stanley

REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Zhijun *(Chairman) (appointed on 14 June 2016)*

Mr. Bai Yongzhi *(retired on 14 June 2016)*

Mr. Wang Guofu

Ms. Xin Shihua

NOMINATION COMMITTEE

Ms. Xin Shihua *(Chairman)*

Mr. Ma Hongfu

Mr. Wong Cho Hang Stanley

STRATEGY COMMITTEE

Mr. Ma Hongfu *(Chairman)*

Mr. Song Xiaopeng

Ms. Xin Shihua

AUTHORISED REPRESENTATIVES

Mr. Ma Hongfu

Mr. Li Siu Bun

JOINT COMPANY SECRETARIES

Mr. Yan Bin *(Executive Director)*

Mr. Li Siu Bun *(Chief Financial Officer)*

STOCK CODE

1533

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1225, 12/F
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10 Chater Road
Central
Hong Kong

REGISTERED OFFICE

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PRC

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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PRC

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Hong Kong

PRINCIPAL BANK

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PRC

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Certified Public Accountants
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Central
Hong Kong

COMPLIANCE ADVISOR

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Hong Kong

COMPANY WEBSITE

http://www.lzzhuangyuan.com

Annual Results Highlights

FINANCIAL HIGHLIGHTS

Results

	Years ended 31 December	
	2016	**2015**
	RMB'000	**RMB'000**
Revenue	**621,538**	585,613
Gross profit	**208,809**	185,244
Profit for the year attributable to equity shareholders of the Company	**75,910**	73,246
Earnings per share (RMB)(1)	**0.54**	0.65
Proposed dividend per share (RMB)	**7.42 cents**	7.12 cents

- Revenue increased by 6.1% as compared to the year ended 31 December 2015.

- Gross profit increased by 12.7% as compared to the year ended 31 December 2015.

- Profit for the year attributable to equity shareholders of the Company increased by 3.6% as compared to the year ended 31 December 2015.

(1) The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue during the year.

Chairman's Statement

REPORT TO THE SHAREHOLDERS

Dear Shareholders,

Our revenue increased by 6.1% from RMB585.6 million for the year ended 31 December 2015 to RMB621.5 million for year ended 31 December 2016, primarily due to an increase in our sales of liquid milk products, particularly the modified milk and yogurt products.

Our total gross profit margin of our dairy products was 31.6% for 2015 and 33.6% for 2016. The increase in the overall gross profit margin was primarily due to the optimisation of products mix resulting from consumer awareness on healthy products and the increase in demand for modified milk, the cold chain and high end products which are in high gross profit margin in general. In addition, we offered some new yogurt products (especially with PE bottle packaging) which increased the sales and gross profit.

As one of the leading enterprises in dairy products market in northwestern China, the Group's distribution network covers most local markets in Gansu and Qinghai. As at 31 December 2016, there were 471 distributors and sales agents for our products, a significant increase as compared to 401 in 2015.

We continued to strive to be the best player in the market of northwestern China through ongoing efforts to optimise its product mix, develop new products and expand its sales network. It is expected that sales of our Cold Chain Liquid Milk Products and other products with high profit margins will continue to grow in the foreseeable future. Thus, a stable dividend policy would be implemented to thank for the continuous support on the Group. While there will be numerous challenges in the future development, the Group is confident that, with the adoption of proactive business strategies, its business performance will enjoy continued growth to the benefit of all shareholders.

Ma Hongfu

Chairman

Management Discussion and Analysis

INDUSTRY REVIEW

In China, dairy products are mainly divided into three categories: liquid milk, milk powder, and other dairy products. Liquid milk mainly includes UHT milk, modified milk, pasteurised milk (also known as fresh milk), and yogurt, categorised by different processing techniques. Other dairy products mainly include cheese, cream, condensed milk, lactose, and so on.

China has strong consuming power in dairy products, and Chinese consumers have increasingly realised the benefits of dairy products. The market has therefore been enjoying healthy growth in recent years. According to Frost & Sullivan, it is expected that the total retail sales value of dairy products in China is likely to grow to RMB547.2 billion in 2019.

China's liquid milk product market has been growing rapidly in recent years, and according to Frost & Sullivan, it is projected to continue such growth in the near future. Further, with increasing awareness of health and food safety, Chinese consumers are increasingly attracted to liquid milk products with higher nutrition content and food safety assurance. It is expected to further grow to RMB258.7 billion by 2019, according to Frost & Sullivan.

With the rising disposable income, ongoing urbanisation progress as well as consumers' rising health awareness, the consumption and the market share of pasteurised milk among liquid milk in China are expected to increase in the future. Similar with pasteurised milk, the market share of yogurt has also been increasing among liquid milk and has become the second largest segment in China's liquid milk product market.

Compared with the overall liquid milk market in China, the liquid milk markets in Gansu and Qinghai provinces in China ("Gansu" and "Qinghai") were still at their early growth stage. Pursuant to the rising per capita disposable income and increasing regional nominal GDP of Gansu and Qinghai, the liquid milk markets in these regions are expected to grow faster in the future. According to Frost & Sullivan, the liquid milk products market in Gansu and Qinghai in terms of retail sales value is expected to further grow to RMB6.0 billion by 2019.

BUSINESS REVIEW

We are one of the leading dairy companies in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. We owned and operated four dairy farms and collectively operated four dairy farms through cooperation with local dairy farmers as at 31 December 2016. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so that approximately 60% of our raw milk requirement could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

We offer a broad range of dairy products tailored to the needs and taste preferences of different consumer groups. Our principal products sold to retail consumers, mainly through distributors and sales agents, include (i) liquid milk products, which comprise pasteurised milk (i.e., fresh milk), UHT milk, modified milk and yogurt, and (ii) milk beverages. We place strong emphasis on our product development to continuously develop new products that meet the evolving tastes and preference of our consumers, which differentiates us from our competitors in the region.

We are a major player in the sales of Cold Chain Liquid Milk Products (i.e., liquid milk product(s) that has a short shelf life between 3 to 21 days and need to be stored at low temperature of 2°C – 6°C, which include pasteurised milk and yogurt products) in the Gansu and Qinghai regional market. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market in Gansu and Qinghai due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and then further expand into other provinces in the northwestern China market.

While focusing on the Cold Chain Liquid Milk Product market, we also leveraged on our strong brand recognition in the regional market to continue to strengthen the sales of our popular UHT milk and modified milk products, thereby maintaining our diversified product offerings. Going forward, we intend to continue our efforts in the sales of our yogurt and modified milk products that are popular among local customers to maintain our diversified product offerings.

Key financial ratios

The table below sets out our key financial ratios as at the dates indicated:

	2016	2015
Current ratio[(1)]	**0.79**	0.87
Net gearing ratio[(2)]	**11.1%**	27.0%
Quick ratio[(3)]	**0.63**	0.71
Return on equity[(4)]	**10.4%**	12.3%
Return on assets[(5)]	**5.7%**	5.8%

Notes:

(1) Current assets/current liabilities.

(2) (Debts including bank loans and obligations under finance leases – cash and cash equivalents as at the end of the year)/total equity attributable to equity shareholders of the Company x 100%.

(3) (Current assets – inventory)/current liabilities.

(4) Net profit for the year/(total equity attributable to equity shareholders of the Company as at the beginning of the year + total equity attributable to equity shareholders of the Company as at the end of the year)/2 x 100%.

(5) Net profit for the year/(total assets as at the beginning of the year + total assets as at the end of the year)/2 x 100%.

Biological Assets

During the Reporting Year, our biological assets comprised of dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our biological assets as at 31 December of 2016 and 2015:

	At 31 December	
	2016 RMB'000	2015 RMB'000
Dairy cows		
Milkable cows	**80,869**	75,862
Heifers	**32,914**	49,714
Calves	**12,506**	7,924
Total	**126,289**	133,500

The numbers of dairy cows in our self-owned dairy farms are summarised as follows:

	2016 (Heads)	2015 (Heads)
Dairy cows		
Milkable cows	**2,560**	2,791
Heifers	**1,534**	2,358
Calves	**1,008**	791
Total	**5,102**	5,940

The decrease in the number of our dairy cows during the Reporting Period was mainly due to the disposal of 1,600 cows (comprising 173 calves, 658 heifers and 769 milkable cows) in May 2016. We disposed these dairy cows at selling prices approximate the market prices at the time of disposals. The disposal were part of our efforts to improve the quality of our dairy cows, especially milk yield, by increasing the proportion of imported dairy cows in the total number of dairy cows owned by us. As at 31 December 2016, the proportion of imported cows was 31% (31 December 2015: 17%).

Dairy Farming

- **Milk yield**

  We produced approximately 19,837 tonnes of raw milk for the year ended 31 December 2016, representing an increase of approximately 33.3% from about 14,879 tonnes in 2015. The increase in milk production were mainly attributable to the increase in number as well as average milk yield per annum of milkable cows.

  During the Reporting Year, the average milk yield per milkable cow per annum increased from 6.0~6.4 tonnes during 2015 to 5.9~7.7 tonnes during 2016, which was mainly due to the higher percentage of number of imported cow over the total number of cows.

Dairy Products Production

In 2016, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased. In response to these market conditions, we continuously optimized our product mix using our advantages of milk sources produced by our own farms and quality dairy products with high protein and fresh dairy milk products, thus strengthening our differentiated competitiveness, and focused on developing the northwestern China market.

- **Optimizing Liquid Milk Product Mix**

  Product mix has affected our revenue, gross profit and gross profit margin in the past. We continued to place effort to increase the sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future and will provide higher selling prices and higher gross profit margin to us compared to other dairy products. We have established an extensive distribution network for our Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and purchased additional Ecolean package lines which are designed for packaging of pasteurised milk and yogurt products to expand our production and increase the sales of Cold Chain Liquid Milk Products. As a result, our yogurt products experienced stable growth in sales amount, which increased from RMB262.1 million in 2015 to RMB276.9 million in 2016. Attributable to the increase in sales of Cold Chain Liquid Milk Products with new packaging, the gross profit margin of our yogurt products increased slightly from 37.9% in 2015 to 38.4% in 2016.

  With increasing awareness of health and food safety, consumers are increasingly attracted to liquid milk products with higher nutrition content. It led to the transfer of market demands from milk beverage products to modified milk products. We promoted modified milk products into Gansu region and as a result, revenue from modified milk products increased from RMB195.8 million in 2015 to RMB218.1 million in 2016.

  Our gross profit margin increased to 33.6% in 2016 from 31.6% in 2015 due to the increase in the proportion of sales of products with higher gross profit margin.

  We plan to further increase the sales of Cold Chain Liquid Milk Products and other high margin products. We plan to further expand our cold chain production facilities and distribution network in Gansu and Qinghai by purchasing additional packaging lines and constructing additional cold warehouses. We expect sales of our Cold Chain Liquid Milk Products and high-margin products will continue to increase in the foreseeable future.

- **Expansion of our Distribution Network**

  We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu and Qinghai. As at 31 December 2016, we had entered into distribution agreements with 303 distributors and 168 sales agents, as compared to 231 distributors and 170 sales agents as at 31 December 2015. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network and solidify our established position in our primary markets. We also plan to continue to expand our Cold Chain Liquid Milk Products distribution network to further increase sales of our Cold Chain Liquid Milk Products. We plan to develop our distribution network for the sales of our products outside Gansu and Qinghai and focus on major cities in China. We expect our sales to increase as we expand our geographical reach and distribution channels.

- **Average Selling Price of our Liquid Milk Products**

  Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition. The average selling price of our liquid milk products increased from RMB9,139 per tonne in 2015 to RMB9,320 per tonne in 2016. We believe our ability to achieve increasingly higher average selling price for our liquid milk products was primarily due to the high quality of our products and our ability to develop and launch new products catered to the evolving tastes and preferences of local consumers, as well as our success in changing the product mix of our liquid milk products to focus on marketing and sales of Cold Chain Liquid Milk Products and other high margin products.

Quality Control

Product safety management and quality control are our core values and of paramount importance to our business. We implement stringent quality control and production safety management measures throughout our production process from the procurement of feeds, dairy farming, raw milk sourcing and processing to production, packaging, storage and delivery of our products.

Our quality control system is designed based on the Good Manufacturing Practices (GMPs), the Hazard Analysis and Critical Control Points (HACCPs) and the Sanitation Standard Operating Procedures (SSOPs).

GMPs are the foundation for our milk safety and milk quality programme. GMPs are implemented in four main areas of our dairy processing, specifying control measures in respect of (i) personnel hygiene; (ii) building and facilities; (iii) equipment and utensils; and (iv) production and process control.

In addition, we have also applied the principles of HACCP in the management of our milk safety. Our HACCP plan focuses on areas where problems potentially may occur and requires that production facilities be prepared to deal with problems immediately if they occur. Under our HACCP plan, we conducted a hazard analysis in order to identify any hazardous biological, chemical or physical properties in raw materials and processing steps. Based on the analysis, we identified the critical control points and establish monitoring procedures and use the monitoring results to streamline processes on a continuous basis. As a testament of our efforts in complying with HACCP, our production plants in Gansu and Qinghai received the HACCP Certification issued by the China Quality Certification Centre and Beijing Continental Hengtong Certification Co. Ltd., respectively.

Furthermore, we have also implemented the SSOPs specifying step-by-step procedures needed for processes related to sanitation. Following the SSOPs, we focus on key sanitation conditions and requirements, such as the safety of water that comes into contact with dairy products, condition and cleanliness of contact surfaces, prevention of cross-contamination from insanitary objects to dairy product, protection of dairy products and packaging materials, labelling, storage, and use of cleaning solutions and pesticides, control of employee health conditions, and exclusion of pests from the production plant.

Our quality control system is divided into six stages: (i) control over the quality of feeds; (ii) control over the quality of dairy cows; (iii) control over sourcing and processing of raw milk; (iv) control over raw materials and suppliers; (v) control over production process; and (vi) control over storage and delivery of finished products.

Brand Building

The liquid milk product industry in China, including Gansu and Qinghai, our major markets, is highly concentrated. The competitive landscape of the dairy product industry in China can be split into three categories: (1) national brands; (2) regional brands; and (3) foreign brands. As a regional brand, we are located near to the market with shorter transportation time that guarantees better freshness. Our products are also more tailored to the taste and spending habits of end consumers. Compared with our competitors, we benefited from a stable supply of raw milk from our suppliers with whom we have developed good relationship over the years.

We believe the demand for premium Cold Chain Liquid Milk Products will continue to rise along with the increased awareness of the importance of nutritional products to the health and well-being of consumers. To capture the increasing demand for Cold Chain Liquid Milk Products, we plan to continue to expand our cold chain distribution network in Gansu and Qinghai and further in northwestern China. We believe that one of the key factors to a successful cold chain distribution network is the strategic location of cold warehouses outside of our production plants as it allows our products to reach local markets within 300 kilometers radius of our cold warehouses and also allows us to have better control over the quality of the Cold Chain Liquid Milk Products during the distribution process. We currently have six cold warehouses located in Gansu and Ningxia which enables us to ship some of our Cold Chain Liquid Milk Products from our production plant to these warehouses for further distributions.

We also seek to expand our third party distributors to deepen our regional sales and distribution network and solidify our established position in Gansu and Qinghai, our primary markets. We will also continue to develop the e-commerce sales channels and satisfy the demands and preferences of different consumer groups through the internet direct sales portal to reach a wider customer base and to adapt to consumers’ purchase preference.

FINANCIAL OVERVIEW

Revenue

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the years ended 31 December 2016 and 2015:

	Years ended 31 December					
	2016			2015		
	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne
Liquid Milk Products						
Pasteurised Milk	20,898	2,530	8,260	22,297	2,630	8,478
UHT Milk	97,955	15,791	6,203	94,106	15,249	6,171
Modified Milk	218,146	25,283	8,628	195,763	22,654	8,641
Yogurt	276,937	22,266	12,438	262,052	22,298	11,752
Subtotal	613,936	65,870	9,320	574,218	62,831	9,139
Milk Beverage	5,228	1,250	4,182	7,131	1,585	4,499
Other Dairy Products	2,374	144	16,486	4,264	3,510	1,215
Total	621,538	67,264	9,240	585,613	67,926	8,621

Our revenue increased by 6.1% from RMB585.6 million for the year ended 31 December 2015 to RMB621.5 million for year ended 31 December 2016, primarily due to an increase in our sales of liquid milk products, particularly the modified milk and yogurt products.

The growth of our liquid milk business was primarily due to the increase in the average selling price of yogurt and improvement of our liquid milk product mix as a result of higher sales volume of modified milk products, which has relatively higher average selling price.

Gross profit and gross profit margin

The following table sets forth the breakdown of our cost of sales and gross profit by our product types, as well as their respective gross profit margin after biological asset fair value adjustments, for the years indicated:

	Years ended 31 December					
	2016			2015		
	Cost of Sales RMB'000	**Gross Profit RMB'000**	**GP margin %**	Cost of Sales RMB'000	Gross Profit RMB'000	GP margin %
Liquid Milk Products						
Pasteurised Milk	**11,665**	**9,233**	**44.2%**	13,632	8,665	38.9%
UHT Milk	**78,348**	**19,607**	**20.0%**	76,999	17,107	18.2%
Modified Milk	**145,676**	**72,470**	**33.2%**	137,400	58,363	29.8%
Yogurt	**170,706**	**106,231**	**38.4%**	162,722	99,330	37.9%
Subtotal	**406,395**	**207,541**	**33.8%**	390,753	183,465	32.0%
Milk Beverage	**4,321**	**907**	**17.3%**	5,866	1,265	17.7%
Other Dairy Products	**2,013**	**361**	**15.2%**	3,750	514	12.1%
Total	**412,729**	**208,809**	**33.6%**	400,369	185,244	31.6%

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was 31.6% for the year ended 31 December 2015 and 33.6% for year ended 31 December 2016. The increase in the overall gross profit margin during the Reporting Year was primarily due to the optimisation of products mix resulting from consumer awareness on healthy products and the increase in demand for modified milk, the cold chain and high end products which are in high gross profit margin in general. In addition, the Company offered some new yogurt products (especially with PE bottle packaging) in the Reporting Year which increased the sales and gross profit.

Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased from RMB4.8 million for the year ended 31 December 2015 to RMB8.6 million for the year ended 31 December 2016. The increase during the Reporting Year was primarily due to the increase in raw milk yield.

Loss arising from changes in fair value less costs to sell of biological assets

We recorded loss arising from changes in fair value less costs to sell of biological assets amounted to RMB23.7 million for the year ended 31 December 2016, which increased by 89.6% from RMB12.5 million for the year ended 31 December 2015, primarily due to the fluctuation of raw milk prices and higher discounting rate adopted.

Qualification and independence of the valuers

Jones Lang LaSalle ("JLL") is a firm of independent qualified professional valuer to determine the fair value of our dairy cows for the year ended 31 December 2016. The key member of the Jones Lang LaSalle valuer is Mr. Simon M.K. Chan. Mr. Simon Chan, regional director at JLL, is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Fellow of CPA Australia. He is also a Certified Valuation Analyst (CVA), a member of The International Association of Consultants, Valuers and Analysts (IACVA). Mr. Chan oversees the business valuation services of JLL and has over 16 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in Mainland China, Hong Kong, Singapore and the United States. JLL is an independent firm providing a full range of valuation and advisory services. The valuation results have been prepared independently. JLL and parties preparing the valuation results do not hold any interest in the Company or our related parties. The fee for providing the valuation service is based on JLL's normal professional rates. Payment of fees and reimbursements are not contingent upon the conclusion drawn in the valuation results.

Other net income

Other net income includes government grants, net income from sales of materials and other income. Government grants are generally obtained from our agricultural activities. For the years ended 31 December 2016 and 2015, government grants we recognized amounted to RMB16.8 million and RMB15.9 million, and sales of materials we recognized amounted to RMB8.2 million and RMB4.7 million, respectively.

Operating expenses

	Years ended 31 December	
	2016	2015
	RMB'000	RMB'000
Distribution costs	**53,099**	38,108
Administrative expenses	**63,791**	54,299
Total operating expenses	**116,890**	92,407

Our operating expenses increased from RMB92.4 million for the year ended 31 December 2015 to RMB116.9 million for the year ended 31 December 2016. During the Reporting Year, as we further explored the northwestern China market for our Cold Chain Liquid Milk Products in other major cities and maintained our geographical spread in regional key markets nationwide which required preliminary marketing expenses for securing higher sales growth and gaining larger market shares in the future, coupled with the increase in number of distributors and sales agents which led to the increase in the marketing expenses and personnel expenses correspondingly.

The increase in administrative expenses was primarily due to the rise of labour costs and maintenance expenses during the Reporting Year.

Net finance costs

Our net finance costs decreased by 29.5% from RMB23.7 million for the year ended 31 December 2015 to RMB16.7 million for the year ended 31 December 2016, primarily due to lower interest expenses resulting from decreased bank loans utilized during the Reporting Year.

Current ratio and net gearing ratio

As at 31 December 2016, our current ratio (current assets/current liabilities) was approximately 0.79 compared to 0.87 as at 31 December 2015. As at 31 December 2016, the net gearing ratio was 11.1% compared to 27.0% as at 31 December 2015. Net gearing ratio was calculated by net debt (aggregated bank loans and obligations under finance leases net of cash and cash equivalents as at the end of the year) over total equity attributable to equity shareholders of the Company.

Liquidity and capital resources

During the Reporting Year, we financed our operations primarily through net cash inflows from our daily operations, proceeds from issuance of shares of the Company (the “Shares”) under initial public offering and proceeds from bank loans. As at 31 December 2016 and 2015, we had RMB273.4 million and RMB231.7 million in cash and cash equivalents, respectively, which was mainly denominated in Renminbi and primarily consisted of cash on hand and bank deposits.

Capital expenditures

We had capital expenditures of RMB85.7 million and RMB102.4 million for the years ended 31 December 2016 and 2015, respectively, which were primarily used in purchasing property, plant and equipment and procuring dairy cows.

Working capital

As at 31 December 2016, we had net current liabilities of RMB103.8 million (31 December 2015: net current liabilities of RMB70.8 million).

Indebtedness

During the Reporting Year, our borrowings were denominated in Renminbi. As at 31 December 2016, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB307.0 million at interest rates ranging from 4.35% to 8.00% per annum. As at 31 December 2016, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB44.5 million at interest rates ranging from 4.90% to 5.39% per annum.

The management believes that the existing financing resources will be sufficient to meet current operations, current and future expansion plans and, if necessary, we will be able to obtain additional financing with favorable terms. There is no material effect of seasonality on our borrowing requirements.

For the year ended 31 December 2016, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed.

The book value of our lease prepayments and property, plant and equipment that were used as guarantees was RMB661.3 million as at 31 December 2016 (31 December 2015: RMB626.5 million). The net book value of the pledge of assets are as follow: (1) Plants and buildings: RMB455.3 million (31 December 2015: RMB430.2 million); (2) Machinery and equipment: RMB188.5 million (31 December 2015: RMB178.6 million); and (3) Lease prepayments: RMB17.5 million (31 December 2015: RMB17.7 million).

Contingent liabilities

As at 31 December 2015 and 31 December 2016, we did not have significant contingent liabilities.

Use of Proceeds from Listing

The Company was listed on the Main Board of the Stock Exchange on 15 October 2015 (the "Listing"). Net proceeds from the Listing amounted to approximately RMB116.0 million.

We set out below the status of the application of the net proceeds from the issue of shares in connection with the Listing*Note*:

	As of 31 December 2016	
	Actual amount used RMB'000 (%)	**Intended amount to be used** RMB'000 (%)
Building 3,000 community milk booths in Gansu as part of our effort to expand Cold Chain Liquid Milk Products distribution network	N/A	N/A
Financing a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand	81,222 (70.0%)	81,222 (70.0%)
Promoting our brands	5,624 (4.8%)	23,206 (20.0%)
Construction of our new technology centre to conduct product development activities	N/A	N/A
Working capital and other general corporate purposes	11,603 (10.0%)	11,603 (10.0%)
IPO proceeds not utilized	17,582 (15.2%)	N/A
Total	**116,031 (100%)**	**116,031 (100%)**

Note: The Board resolved to reallocate the net proceeds which were no longer needed for the originally designed purpose to support other purposes of use of proceeds. For details, please refer to the announcement of the Company dated 26 October 2016.

We had one bank account in Mainland China to manage the unutilized IPO proceeds balance. We currently do not have any intention to change our plan for the use of proceeds as stated in the announcement of for change in use of proceeds the Company dated 26 October 2016.

HUMAN RESOURCES

We had 748 employees in PRC and Hong Kong as at 31 December 2016 (31 December 2015: 551 employees). During the Reporting Year, total staff costs, including the portion accounted for in the profit and loss statement and capitalised to assets but excluding independent non-executive Directors' fees, were approximately RMB52.0 million (the corresponding period in 2015: RMB41.1 million).

Our remuneration policies aim to attract, retain and incentivize talents to ensure competency of our team in implementing our business strategies and to maximize shareholder value. We will regularly review our remuneration policies and employee benefits with reference to market practices and performance of individual employees.

For its employees in the PRC, the Group has participated in defined contribution benefit plans and social insurance plans organised by the relevant local governmental authorities. For its employee in Hong Kong, the Group participates in the mandatory provident fund scheme with contributions calculated in accordance with the provisions under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

CORPORATE SOCIAL RESPONSIBILITY

We believe that social responsibility is the foundation for the development of an enterprise. In our opinion, taking part in social welfare activities is an important method for an enterprise to give back to the society, as well as a key way for an enterprise to achieve mutual development and advancement with the society.

OUTLOOK

Our goal is to further strengthen our regional market leading position and brand recognition in Gansu and Qinghai. To achieve this goal, we plan to implement the following strategies:

- Pursue our branding strategies to strengthen our branding positions under our different brands, increase our market shares and enhance consumer loyalty;

- Upgrade our cold chain distribution facilities to strengthen our regional market leader position in Gansu and Qinghai and expand our sales and distribution network;

- Improve our raw milk production capacity and quality to satisfy the needs of our fast growing business; and

- Enrich our product portfolio to address changing consumer preferences and offer new tasting experience to inspire demands for our products through our continuous product development efforts.

Directors, Supervisors and Senior Management

Executive Directors

Mr. Ma Hongfu (馬紅富), aged 51, the founder of our Group, is the chairman of the board of Directors (the "Board") and general manager of our Company. He was appointed to the Board on 6 April 2011. He is responsible for the overall management of our Company. Mr. Ma Hongfu worked as the general manager of Minqinxian Hongchang Agriculture and Trading Co., Ltd. (民勤縣宏昌農貿有限責任公司) from 1988 to 1999 and has more than 10 years of experience in the dairy industry. Mr. Ma Hongfu obtained a degree of Executive Master of Business Administration (EMBA) from Tsinghua University (清華大學) in July 2005. He is the legal representative of Qinghaihu Dairy Co., Ltd.* (青海青海湖乳業有限責任公司) ("Qinghaihu Dairy"), Lanzhou Ruixing Farming Co., Ltd.* (蘭州瑞興牧業有限公司) ("Lanzhou Ruixing"), Wuwei Ruida Pasture Co., Ltd.* (武威瑞達牧場有限公司) ("Wuwei Ruida"), Qinghai Shengya Plateau Pasture Co., Ltd.* (青海聖亞高原牧場有限公司) and Qinghai Shengyuan Pasture Co., Ltd.* (青海聖源牧場有限公司).

Mr. Ma Hongfu currently is the president of the Dairy Association of Gansu Province (甘肅省奶業協會) and deputy president of the Food Industry Association of Gansu Province (甘肅省食品工業協會). In addition, he was honoured as "2004 Excellent Operator in Industrial Economic Field (2004年度工業經濟工作優秀經營者)" by Lanzhou People's Government (蘭州市人民政府) in January 2005, and "Rural Entrepreneur of Lanzhou (蘭州市鄉鎮企業家)" by Lanzhou People's Government in February 2005. He was also awarded the "Labour Model of Lanzhou (蘭州市勞動模範)" by Lanzhou Communist Party Committee (中共蘭州市委) and Lanzhou People's Government in January 2005.

Mr. Ma was the committee member of 6th Yuzhong County of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議榆中縣第六屆委員會委員) from November 2002 to December 2007.

Mr. Wang Guofu (王國福), aged 48, is our executive Director, deputy chairman, deputy general manager and financial controller of our Company. He was appointed to the Board on 6 April 2011 and was appointed as the financial controller of the Company on the same day. Mr. Wang has more than 20 years of experience in the food industry. Mr. Wang completed his master courses majoring in Business Management in Lanzhou University (蘭州大學) in August 2005 and has accountant qualification (會計師) accredited by Gansu Province Villages and Towns Enterprise Administration Bureau Accounting Intermediate Title Examination and Appraisal Committee (甘肅省鄉鎮企業管理局會計專業中級職務評審委員會) in 2004. Prior to joining our Company, he was an accountant in Gansu Import and Export of Agricultural By-products Company (甘肅省農副產品進出口公司) from August 1990 to August 1994, and he was the financial manager and subsequently the financial controller of Lanzhou Yongtai Food Co., Ltd. (蘭州永泰食品有限公司) from November 1994 to May 2001. Mr. Wang joined our Company in August 2001. He is primarily responsible for the overall financial management of our Company. He is the legal representative of Yuzhong Ruifeng Pasture Co., Ltd.* (榆中瑞豐牧場有限公司) and Linxia County Ruian Pasture Co., Ltd.* (臨夏縣瑞安牧場有限公司) ("Linxia Ruian") and the supervisor of Qinghaihu Dairy, Qinghai Shenya, Linxia County Ruiyuan Pasture Co., Ltd.* (臨夏縣瑞園牧場有限公司) and Lanzhou Ruixing.

Executive Directors *(Continued)*

Mr. Chen Yuhai (陳玉海), aged 43, is our executive Director and deputy general manager. He was appointed to the Board on 6 April 2011. After joining our Company in April 2008, Mr. Chen has served as project manager responsible for the overall work of the project development department. Mr. Chen has more than 15 years of experience in the dairy industry. Mr. Chen attended the Business Administration Chief Executive Officer Senior Training Course (工商管理總裁高級研修班) organised by Tsinghua University (清華大學) during 17 March 2011 to 19 May 2012, and the Enterprise Management Senior Research and Study Course (企業管理人員高級研修班) organised by Zhejiang University (浙江大學) in October 2010. Mr. Chen was the branch manager and deputy general manager of the marketing department of Ningxia Xiajin Dairy and Beverage Co., Ltd. (寧夏夏進乳品飲料有限公司) from October 1995 to May 2005 responsible for Henan subsidiary and marketing work in northern China regions. From June 2005 to August 2007, Mr. Chen served as the deputy general manager in Ningxia Hongguo Dairy Co., Ltd. (寧夏紅果乳業有限公司) responsible for overall marketing work. From September 2007 to April 2008, Mr. Chen worked in Ningxia Xiajin Dairy Group Co. Ltd. (寧夏夏進乳業集團股份有限公司) responsible for overall marketing work. He is the legal representative of Ningxia Zhuangyuan Pasture Co., Ltd.* (寧夏莊園牧場有限公司) and the supervisor of Wuwei Ruida, Linxia Ruian and Qinghai Shenyuan.

Mr. Yan Bin (閻彬), aged 55, is our executive Director, deputy general manager, joint company secretary, manager of securities division (證券部經理) and manager of legal department (法務部經理) of our Company. He was appointed to the Board on 6 April 2011. Mr. Yan is responsible for overseeing and supervising the internal legal matters, public relations, relationship with regulatory authority, media propaganda and press releases of our Company. Mr. Yan has more than 10 years of experience in the dairy industry. Mr. Yan obtained a bachelor of Law degree from Lanzhou University (蘭州大學) in June 1994 majoring in Administrative Management. He received economist qualification accredited by Gansu Human Resource Bureau (甘肅省人事局) and Gansu Province Title Reform Leading Group Office (甘肅省職稱改革領導小組辦公室) in April 1994. He also obtained the certificate of Human Resources Innovative Practical Senior Research and Study Programme (人力資源創新實戰高級研修班) by Tsinghua University (清華大學) in March 2011. Mr. Yan was honoured as China Annual Excellent Professional Manager (2009中國年度優秀職業經理人) in December 2009 by China SME Association (中國中小企業協會) and National Professional Manager Association (全國職業經理人協會聯盟). He is recognised as an Outstanding Corporate Management Personnel (企業管理優秀人才) on 26 May 2011 by the Committee of the Chinese Communist Party of Yuzhong County (中國共產黨榆中縣委員會) and Yuzhong County Government (榆中縣人民政府). Prior to joining our Company, Mr. Yan has worked as the administrative manager (行政部經理), assistant general manager (總經理助理) and chief administrative officer (行政總監) of Lanzhou Xuedun Biological Dairy Co., Ltd. (蘭州雪頓生物乳業公司) from 1998 to 2004. He joined our Company in March 2004 and acted as administrative manager and executive assistant to general manager.

Non-executive Directors

Mr. Song Xiaopeng (宋曉鵬), aged 39, is our non-executive Director. He was appointed to the Board on 2 March 2015. Since November 2012, Mr. Song has been the Deputy General Manager of Shenzhen Shenshang Richland Xingye Fund Management Co., Ltd. (深圳市深商富坤興業基金管理有限公司) and, since January 2010, the investment manager and subsequently the senior investment manager in Shenzhen Richland Equities Ltd. (深圳市富坤創業投資有限公司). Mr. Song obtained his bachelor degree in Accounting from Shanxi University of Finance & Economics (山西財經大學) in March 2002. He was a qualified Certified Public Accountant of the PRC accredited by Shenzhen Institute of Certified Public Accountants (深圳市註冊會計師協會) in May 2003.

Mr. Yap Kean Chong (葉健聰), aged 51, is our non-executive Director. He was appointed to the Board on 6 April 2011. Mr. Yap obtained his bachelor degree in Business in Curtin University of Technology in February 1988, and his post graduate diploma in Business from Curtin University of Technology in August 1990. He was qualified as the admitted Associate of the Institute of Chartered Secretaries and Administrators in May 1991 and received the Certificate of Membership of the Institute of Chartered Accountant in Australia in February 2002. Mr. Yap has been the director, chief executive officer and founding partner of Rico Harvest Capital (上海財晟股權投資管理有限公司) since September 2009.

Independent Non-executive Directors

Ms. Liu Zhijun (劉志軍), aged 44, graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in securities and futures (證券與期貨) in July 1996. Ms. Liu then obtained a master degree in finance (金融學) in January 2001 from Wuhan University (武漢大學) and a doctoral degree in economics (經濟學) in June 2009 from Suzhou University (蘇州大學). She is also a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). Since July 1996, Ms. Liu has been teaching in School of Finance of Lanzhou University of Finance and Economics (蘭州財經大學) and is currently a professor of the said university. Ms. Liu also serves as an independent non-executive director of Gansu Dunhuang Seed Co., Ltd. (甘肅省敦煌種業股份有限公司) (a company listed on the Shanghai Stock Exchange: 600354), Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業（集團） 股份有限公司) (a company listed on the Shanghai Stock Exchange: 600108) and Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司) (a company listed on the Shenzhen Stock Exchange: 002644).

Ms. Xin Shihua (信世華), aged 60, is our independent non-executive Director. She was appointed to the Board on 6 April 2011. Ms. Xin received college education in Law at NorthWest University of Politics and Law (西北政法學院) and graduated in June 2001. She received the PRC Lawyer Certificate (律師資格證書) in February 1994 and the PRC Lawyer's Licence (律師執業證) in March 2010 issued by Gansu Department of Justice (甘肅省司法廳). Ms. Xin has been practicing law in Gansu Xicheng Law Firm (甘肅西成律師事務所) as a lawyer since 2007.

Mr. Wong Cho Hang Stanley (黃楚恒), aged 42, is our independent non-executive Director. He was appointed to the Board on 2 March 2015. Mr. Wong is the Deputy Managing Director of Chuan Chiong Co., Ltd. (泉昌有限公司), which was founded in 1931 and is mainly engaged in wholesale and trading of Chinese medicine, food product and tea. He is the president of Hong Kong Chinese Prepared Medicine Traders Association Limited (香港中成藥商會會長) since July 2014. He is awarded the "2014 Excellence in Achievement of World Chinese Youth Entrepreneurs" (世界傑出青年華商) jointly by Yazhou Zhoukan (亞洲週刊) and World Federation of Chinese Entrepreneurs Organisation (世界華商組織聯盟). He is the committee member of 11th Fujian Provincial Committee of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆福建省委員會委員). Mr. Wong obtained his bachelor degree in Economics, in Carleton University in 1998.

Supervisors

Mr. Wei Lin (魏琳), aged 48, was appointed to the Supervisory Committee on 2 March 2015. Mr. Wei has been the managing partner of Gansu Hengrui Asset Valuation Firm (甘肅恒瑞資產評估事務所) since August 2008. Mr. Wei worked in ICBC Gansu Branch Lanzhou Qilihe Sub-branch from August 1987 to June 2005. He has obtained the Finance and Economics Personnel Certificate (金融經濟師證書) accredited by Ministry of Personnel People's Republic of China (中華人民共和國人事部) in October 1996 and the National Certification of Construction Cost Estimator Qualification (全國建設工程造價員資格證書) accredited by China Engineering Cost Association (中國建設工程造價管理協會) in July 2006. He was qualified as a PRC Asset Valuer accredited by the China Appraisal Society (中國資產評估協會) in August 2005. Mr. Wei has completed a three-year Finance programme in Night College of Lanzhou University of Finance and Economics (蘭州商學院) in July 1991.

Ms. Du Wei (杜魏), aged 39, was appointed to the Supervisory Committee on 6 April 2011. Ms. Du has obtained the college diploma majoring in Electronic Technology and Micro-computer Application by Lanzhou University (蘭州大學) in July 2001, and was engaged in a self-learning programme of Lanzhou University majoring in Computer Science Application and graduated in June 2004. Ms. Du is also qualified as Second Level Corporate Human Resource Manager (二級企業人力資源管理師) by the Occupational Skill Testing Centre of Human Resource and Social Security Department (人力資源和社會保障部職業技能鑒定中心) in December 2013. Ms. Du joined our Company in March 2008 and used to serve as the person-in-charge in our human resource department. Ms. Du is currently the manager of our human resource department responsible for management of human resource of our Company.

Mr. Pan Jin (潘錦), aged 49, was appointed to the Supervisory Committee on 30 July 2011. Mr. Pan obtained his master degree in executive Business Administration from Sun Yat-sen University (中山大學) in December 2013. He received the PRC certificates of certified public accountant accredited by Hubei Provincial Institute of Chartered Accountants (湖北省註冊會計師協會) in August 1998 and was qualified as a mid-level supplies economist (中級物資經濟師) accredited by People's Republic of China Ministry of Personnel (中華人民共和國人事部) in April 1994. Mr. Pan has been the deputy president of Shenzhen CDF-Capital Co., Ltd. (深圳市創東方投資有限公司) since March 2010.

Senior Management

Mr. Li Siu Bun (李兆彬), aged 32, is the chief financial officer and joint company secretary of our Company since 12 March and 18 March 2015, respectively. He is responsible for our financial matters and the communication with the Stock Exchange. Mr. Li has worked in well-known accounting firm and financial institutions, including Deloitte Touche Tohmatsu from September 2006 to February 2010 as senior auditor, PetroAsian Energy Holdings Limited from June 2010 to September 2012 as project manager, Glory Sky Capital Holdings Limited as Vice President of the Corporate Finance Department from October 2012 to November 2014, and Cinda International Asset Management Limited as Investment Manager from November 2014 to March 2015. Mr. Li is a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Li obtained his bachelor degree in Finance from Lingnan University, Hong Kong in June 2006 and his master of business administration from the University of Hong Kong in November 2013.

Senior Management *(Continued)*

Mr. Li Baozhu (李寶柱), aged 44, is the deputy general manager of our Company. Mr. Li has almost 20 years of experience in dairy industry. Mr. Li obtained his bachelor degree from Ninxia University majoring in Food Science in July 2003 and received a diploma in manufacturing and operational officer senior study programme (生產與運營總監高級研修班) from Fudan University (復旦大學) in 2010. Mr. Li served in different positions such as workshop director and production manager of Ningxia Xiajin Dairy and Beverage Co., Ltd. (寧夏夏進乳品飲料有限公司) and deputy general manager of a branch company of Ningxia Xiajin Dairy Group Co. Ltd. (寧夏夏進乳業集團股份有限公司) from August 1994 to June 2005. Subsequently, Mr. Li worked in Ningxia Hongguo Dairy Co. Ltd. (寧夏紅果乳業有限公司) responsible for the quality control of production and technology from July 2005 to October 2006. After joining our Company in August 2007, Mr. Li has been our production officer responsible for the production, operation and management of the Yuzhong production plant of our Company.

Mr. Ma Tianliang (馬添糧), aged 37, is the deputy general manager of our Company since July 2011 and general manager of Qinghaihu Dairy, a subsidiary of our Company, since December 2014. Mr. Ma is responsible for the overall management of Qinghaihu Dairy. Mr. Ma participated in Tsinghua University Marketing and Creativity Senior Study Programme (清華大學營銷管理與創新高級研修班) from June 2009 to July 2010. Mr. Ma is enrolled in a master programme at Lanzhou University (蘭州大學) majoring in Business Management. Mr. Ma joined our Company in January 2003 and has served in different positions within our Company, including serving in marketing and management positions in different regions.

Mr. Chen Jianlu (陳建錄), aged 47, is the deputy general manager and chief administrative officer of our Company. He is responsible for overseeing the general management of our administrative affairs, public relations and government relations. Mr. Chen acted as the general manager of Lanzhou Juchuang Digital Technology Company Limited (蘭州巨創數碼科技有限責任公司) from March 2004 to December 2009. Mr. Chen has received college education from Correspondence School of Central Communist Party of China (中共中央黨校函授學院) majoring in Law and graduated in December 2002. Mr. Chen received an EMBA degree conferred by Xi'an Jiaotong University (西安交通大學) in June 2015. Mr. Chen joined our Company in January 2010. Mr. Chen acted as the deputy manager of our subsidiary Qinghaihu Dairy from January 2010 to December 2014. He served as the deputy general manager of our Company from March 2015. Mr. Chen received the Accounting Certificate accredited by the Finance Department of General Logistics Department of Lanzhou Military Region of People's Liberation Army (中國人民解放軍蘭州軍區後勤部財務部) on 23 December 1997.

Corporate Governance Report

The Company is committed to achieving sound corporate governance in order to protect shareholders' interests and enhance investors' confidence, thus paving the way for the Company's development. Save as set out below, the Company has complied with the code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Reporting Year. In addition, the Board is of the view that the balanced composition of executive and non-executive Directors (including the independent non-executive Directors) on the Board and the various committees of the Board (primarily comprising independent non-executive Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority. The Company will continue to commit itself to enhancing its corporate governance standard, promoting sustainable development of the Company and adding value.

BOARD OF DIRECTORS AND MANAGEMENT

The Board is responsible and has general power for the management and conduct of the Group's business. The Board consists of nine Directors, comprising four executive Directors, namely Mr. Ma Hongfu (being the chairman of the Board and the chief executive officer of the Company), Mr. Wang Guofu, Mr. Chen Yuhai and Mr. Yan Bin, two non-executive Directors, namely Mr. Song Xiaopeng and Mr. Yap Kean Chong, and three independent non-executive Directors, namely Ms. Liu Zhijun, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley. Biographical details of the Directors are set out in the "Directors, Supervisors and Senior Management" section on pages 19 to 23 of this annual report.

The Board is responsible for establishing the Group's strategic goals, leading the Group's development and achieving established strategic goals. The principal duties of the Board are to manage and decide on the Company's strategic plans, management structures, investment and financing, financial control, human resources, and so forth. Significant matters of the Group which require approval by the Board include the followings:

- developing the Company's development plans;
- developing the Company's management and business strategies;
- approving financial statements;
- developing and approving the internal control and risk management systems;
- developing and reviewing the Company's corporate governance policies and practices;
- developing, reviewing and monitoring the code of conduct and compliance manual for employees and Directors;
- reviewing and monitoring training and continuous professional development of Directors and senior management of the Company (the "Senior Management");
- reviewing the Company's compliance with the CG Code under the Listing Rules and disclosure as set out in the corporate governance reports included in annual reports of the Company; and
- reviewing and monitoring the Company's policies and practices regarding compliance with laws and regulations.

The Board delegates its functions on the Group's day-to-day operation and administration to the management.

Code Provision A.2.1 of the CG Code

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. Ma Hongfu currently performs both roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

BOARD MEETINGS

The Board meets regularly. During the Reporting Year, 13 Board meetings were held at approximately quarterly intervals.

The Board is responsible for leading and managing the Company. It is primarily responsible for formulating the general strategies and policies of the Company, setting performance and management objectives, assessing operational performance and monitoring the performance of the management. The Board delegates part of its management and administrative functions to the management to manage and operate the Company. The management is responsible for implementing strategies and policies as determined by the Board, and performing their duties within the framework as determined by the Board and specified in any written procedures and directions. Among others, the following matters were considered and approved at Board meetings during the Reporting Year:

- to consider and approve acquisition and merger proposals;
- to consider and approve proposals to optimize liquidity of the Group;
- to consider and approve capital expenditures;
- to consider and approve internal control policies;
- to consider and approve the announcement of financial results; and
- to consider and approve other disclosures specifically required by or matters as specifically mentioned under the Listing Rules.

BOARD COMMITTEES

In order to assist the Board in discharging its duties in a more efficient manner, the Board has established four specialized committees, namely the audit committee, nomination committee, remuneration and appraisal committee and strategy committee. Each committee has its terms of reference and is responsible for making recommendations to the Board. All of the committees are allocated with resources sufficient for the performance of their respective duties.

Audit Committee

The audit committee consists of three independent non-executive Directors, being Ms. Liu Zhijun, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley. The chairman of the audit committee is Ms. Liu Zhijun. Details of the terms of reference of the audit committee are set out on the Company's website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

(1) suggest engagement or change of external audit organisation;

(2) supervise on internal audit agency and its implementation;

(3) take charge of communication between internal and external audit;

(4) audit on our Company's financial information and its disclosures;

(5) supervise on our Company's internal control system and audit on significant connected transactions; and

(6) other issues as authorised by the Board.

Nomination Committee

The nomination committee consists of one executive Director, being Mr. Ma Hongfu, and two independent non-executive Directors, being Ms. Xin Shihua and Mr. Wong Cho Hang Stanley. The chairman of the nomination committee is Ms. Xin Shihua. Details of the terms of reference of the nomination committee are set out on the Company's website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

(1) provide advice on the Board's scale and composition according to our Company's operation condition, asset size and shareholding structure;

(2) research on selecting standards and procedure of Directors and Senior Management and provide advice to the Board accordingly;

(3) search for suitable candidates as qualified Directors and Senior Management;

(4) examine and provide advice on candidates as Directors and Senior Management;

(5) examine and provide advice on other candidates of Senior Management that needs to be appointed by the Board; and

(6) other issues as authorised by the Board.

The nomination committee will also give consideration to the board diversity policy adopted by the Board ("Board Diversity Policy") when identifying suitably qualified candidates to become the members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the same and to monitor the progress on achieving these objectives.

Appointment of Directors

The principal particulars of these service contracts for each of the executive Directors, non-executive Directors and independent non-executive Directors are (a) for a term of three years commencing from the respective effective dates of their appointment, and (b) are subject to termination in accordance with their respective terms.

None of the Directors and the Supervisors had entered into a service contract with the Company or its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Training and Development of Directors

The four executive Directors, namely Mr. Ma Hongfu (being the chairman of the Board and the chief executive officer of the Company), Mr. Wang Guofu, Mr. Yan Bin and Mr. Chen Yuhai, two non-executive Directors, namely Mr. Yap Kean Chong and Mr. Song Xiaopeng, and three independent non-executive Directors, namely Ms. Liu Zhijun, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley, took part in various continuous training with respect to Directors' duties through regularly receiving latest information and updates in relation to the Listing Rules and related regulations, participating in relevant training programmes or through regularly taking note of industrial updates, attending relevant seminars or perusing reading materials, magazines and updated information in relation to business and industrial development. The following table sets out a summary of the types of training our Directors received:

Director	Training Category
Executive Directors	
Mr. Ma Hongfu	A, B, C, D
Mr. Wang Guofu	A, B, C, D
Mr. Chen Yuhai	A, B, C, D
Mr. Yan Bin	A, B, C, D
Non-executive Directors	
Mr. Yap Kean Chong	A, B
Mr. Song Xiaopeng	A, B
Independent non-executive Directors	
Ms. Liu Zhijun	A, B
Ms. Xin Shihua	A, B
Mr. Wong Cho Hang Stanley	A, B

A Attending training and/or reading materials relevant to the Directors' duties and responsibilities

B Reading materials relevant to the Listing Rules and other regulations

C Attending industry seminars/or meetings/conferences

D Visiting enterprises in the same industry at the PRC and abroad/or attending meetings

Remuneration and Appraisal Committee

The remuneration and appraisal committee consists of one executive Director, being Mr. Wang Guofu, and two independent non-executive Directors, being Ms. Liu Zhijun and Ms. Xin Shihua. The chairman of the remuneration and appraisal committee is Ms. Liu Zhijun. Details of the terms of reference of the remuneration and appraisal committee are set out on the Company's website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

(1) draft remuneration plan according to the Directors and Senior Management's position scope, duties, significance and remuneration level in other similar companies and similar positions;

(2) remuneration plan includes but not limited to performance evaluation standards, procedures, and major evaluation system and major plan of incentives and punishment;

(3) review performance of the duties of the Directors and Senior Management and undertake annual evaluation;

(4) supervise on implementation of our Company's remuneration plan; and

(5) other issues as authorised by the Board.

The emoluments payable to executive Directors are determined with reference to their experiences and duties with the Company and the fees payable to non-executive Directors are determined with reference to the estimated time spent by them on the Company's matters. The remuneration and appraisal committee makes recommendations to the Board on the remuneration packages of Directors and Senior Management, which are ultimately determined by the Board.

Directors and Senior Management emoluments

For the year ended 31 December 2016, the emoluments of the individuals who are not Directors and who are amongst the five highest paid individuals of the Group are within the following band:

	Year ended 31 December 2016
HK$Nil – HK$1,000,000	4

Pursuant to Appendix 16 of the Listing Rules, the emoluments of the employees who are Directors and who are amongst the five highest paid individuals are set out in Notes 9 and 10 to the Financial Statements.

Strategy Committee

The strategy committee consists of one executive Director, being Mr. Ma Hongfu, one non-executive Director, being Mr. Song Xiaopeng, and one independent non-executive Director, being Ms. Xin Shihua. The chairman of the strategy committee is Mr. Ma Hongfu. The primary duties of the strategy committee include, but are not limited to, the followings:

(1) organise and research on our Company's long-term development strategy and offer advice to the Board;

(2) organise and research on effects of adjustment of the country's macroeconomic policy and structure on our Company;

(3) track actions of major similar companies worldwide;

(4) provide advice on our Company's structure organisation and development strategy according to our needs;

(5) research and provide advice on significant financing plan that needs to be approved by the Board according to our articles of association;

(6) research and provide advice on significant projects of capital operation and asset management that needs to be approved by the Board according to our articles of association;

(7) research and provide advice on other significant issues that may affect the long-term development of our Company;

(8) examine and demonstrate long-term plan, significant projects or strategic suggestions provided by our Company's departments before the Board's meeting to provide advice for formal examination in the Board meeting;

(9) supervise and analyse issues mentioned above and provide advice on adjustments and improvements to the Board; and

(10) other issues as authorised by the Board.

ATTENDANCE RECORDS OF GENERAL MEETING, BOARD MEETING AND BOARD COMMITTEE MEETING HELD DURING THE REPORTING YEAR

Details of the Directors' attendance at the general meeting, Board meeting and Board committee meeting held during the Reporting Year are set out in the following table.

	Number of Meetings Attended/Number of Meetings Held					
Directors	**General Meeting**	**Board Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Remuneration and appraisal Committee Meeting**	**Strategy Committee Meeting**
Executive Directors						
Mr. Ma Hongfu	1/1	13/13	–/–	–/–	–/–	1/1
Mr. Wang Guofu	1/1	13/13	–/–	1/1	1/1	–/–
Mr. Chen Yuhai	1/1	13/13	–/–	–/–	–/–	–/–
Mr. Yan Bin	1/1	13/13	–/–	–/–	–/–	–/–
Non-Executive Directors						
Mr. Yap Kean Chong	1/1	13/13	–/–	–/–	–/–	–/–
Mr. Song Xiaopeng	1/1	13/13	–/–	–/–	–/–	1/1
Independent Non-Executive Directors						
Ms. Liu Zhijun(1)	1/1	8/8	–/–	–/–	–/–	–/–
Ms. Xin Shihua	1/1	13/13	1/1	1/1	1/1	1/1
Mr. Wong Cho Hang Stanley	1/1	13/13	1/1	–/–	–/–	–/–

Note (1) Ms. Liu Zhijun was appointed as Director on 14 June 2016, and her attendance in general meeting and board meeting was recorded since the date of her appointment.

The Board is regularly provided with brief management reports of the Group containing balanced and comprehensive evaluation on the Group's performance, status and prospects to keep it abreast of the Group's affairs and facilitate the Directors' performance of their obligations under the relevant requirements of the Listing Rules.

INDEPENDENCE

The Board has received from each independent non-executive Director a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all independent non-executive Directors are independent pursuant to the requirements as set out in the Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by Directors. Upon specific enquiries made by the Company, all Directors and supervisors of the Company have confirmed that they have complied with the required standards for securities transactions by directors as set out in the Model Code during the Reporting Year and up to the date of this annual report.

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Board, Directors and certain members of the Senior Management against liability for compensation arising from their corporate activities. Purchase of liability insurance can enhance the Company's ability to reduce exposure to risks. The insurance coverage is reviewed by the Company on an annual basis. Save as disclosed, no permitted indemnity provision (whether made by the Company or otherwise) is in force for the benefit of one or more Directors.

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing financial statements that give a true and fair view of the financial position, financial performance and cash flow of the Group.

The Board and the audit committee have reviewed the resources for financial reporting function to ensure the adequacy of resources, qualifications and experience of staff for the Group's accounting and financial reporting function, their training programmes.

The reporting responsibilities of the Directors and the external auditor are further set out in the independent auditor's report in this annual report.

AUDITORS AND THEIR REMUNERATIONS

During the Reporting Year, the fees received/receivable by the Company's auditor, KPMG, for audit services was approximately RMB1,500,000.

JOINT COMPANY SECRETARIES

Mr. Li Siu Bun and Mr. Yan Bin are our joint company secretaries.

The Company has appointed the joint company secretaries who are responsible for providing secretarial services to the Board of the Company and ensuring that the operation of the Company is in compliance with Hong Kong listed companies' regulatory requirements as well as enhancing its corporate governance standards. Minutes of Board meetings and meetings of all specialized committees under the Board are recorded by the company secretaries in sufficient detail on the matters considered by all Directors and decisions reached, including any concerns raised by the Directors or any dissenting views expressed. Draft minutes of Board meetings and meetings of all specialized committees under the Board are provided to relevant Directors for their comments and the final version of the same is given to the relevant Directors for their records within a reasonable time.

During the Reporting Year, the Company has provided Mr. Li Siu Bun and Mr. Yan Bin with sufficient resources to receive not less than 15 hours of relevant professional training for every financial year as required by Rule 3.29 of the Listing Rules.

The biographical details of our joint company secretaries are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

SHAREHOLDERS' COMMUNICATION POLICY AND RIGHTS

Shareholders are provided with information of the Company for their evaluation on the Company's overall results and informed exercise of their rights to proactively establish close relations with the Company.

Relevant information is communicated to Shareholders through the Company's corporate communications including interim and annual reports, press releases, annual general meetings and other general meetings which may be convened. All disclosures of the Company submitted to the Stock Exchange, together its corporate communications and other materials, are available on the Company's website.

Convening extraordinary general meetings

Pursuant to the articles of association of the Company, the Board shall convene an extraordinary general meeting or class meeting within two months where any Shareholder holding, severally or jointly, 10% or more of the Company's issued shares carrying voting rights requests in writing for the convening of an extraordinary general meeting or class meeting. The Shareholders holding, severally or jointly, 10% or more of voting shares at such proposed meeting may request the Board to convene an extraordinary general meeting or class meeting by signing and submitting one or several written requests with the same format and contents and specifying the agenda of the meeting. An extraordinary general meeting or class meeting shall be convened by the Board as soon as practicable upon receipt of the aforesaid written request. The aforesaid shareholding shall be calculated on the basis of the date on which the relevant Shareholders submit the written request. If the Board fails to despatch a notice of convening such meeting within 30 days upon receipt of the aforesaid written request, the Shareholders individually or jointly holding 10% or more of the shares of the Company may convene such a meeting by themselves within four months of the date of the receipt of such request by the Board. The procedures for convening such meeting should follow those for convening a general meeting or class meeting of Shareholders by the Board as closely as practicable. All reasonable expenses incurred by convening and holding the aforesaid meeting by Shareholders due to the failure of the Board to hold such meeting in response to the aforesaid request shall be borne by the Company. Such expenses shall be deducted from the amounts due by the Company to the Director(s) who have defaulted their duties.

Procedures for putting forward proposals at a general meeting

In overseeing and monitoring the business operation of the Company, the Shareholders have the right to put forward proposals and raise inquiries. Shareholders individually or together holding 3% or more of the Company's voting Shares have the right to put up ad hoc proposals in writing to the Company ten days before the holding of the general meeting, and the Company shall include such ad-hoc proposals into the agenda for such general meeting. The contents of the proposals to be raised shall be within the scope of duties of the general meetings and the business scope of the Company. It shall have a clear topic and specific matters to be resolved on, and shall be in compliance with relevant requirements of the laws and administrative regulations of the Company.

Procedures of Making Enquiry to the Board

Shareholders may make direct enquiry to the Company's share registrar as regards their shareholdings. Shareholders and public investors may at any time make enquiry for information of the Company by writing to the head office of the Company in Hong Kong by way of post, facsimile or email at the contact number(s) and email address(es) as provided on the website of the Company, provided that such information is open to public.

The Board undertakes that it listens to and takes note of Shareholders' opinion, and Shareholders are welcome to raise questions or concerns as to the management and governance of the Group. They may at any time send their questions or concerns to the company secretary by post at Room 1225, 12/F, Prince's Building, 10 Chater Road, Central, Hong Kong, which will be forwarded to the Board.

Constitutional Documents of the Company

Save as the amendments to the Articles of Association as detailed in the Company's circular dated 12 August 2016 and as approved by our Shareholders at the extraordinary general meeting held on 30 September 2016, there has been no amendment to the constitutional documents of the Company.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's internal control, assessment and management of risks.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control and particularly the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget.

The Board, through the Audit Committee, is kept regularly appraised of significant risks that may have impact on the Group's performance. The Board considers that the Group's internal control is adequate and effective.

For the handling and dissemination of inside information, an inside information handling policy is in place to enable the Group to handle inside information and, where required, communicate with the Group's stakeholders in a timely manner.

Directors' Report

The Board herein presents to the Shareholders its report for the Reporting Year.

The Directors' Report must contain a business review required under Paragraph 1 of Schedule 5 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) that consists of:

(A) a fair review of the company's business;

(B) a description of the principal risks and uncertainties facing the company;

(C) particulars of important events affecting the company that have occurred since the end of the financial year; and

(D) an indication of likely future development in the company's business.

The Board would present the Business review section according to *the Accounting Bulletin 5 (AB5): Guidance for The Preparation and Presentation of a Business Review under The Hong Kong Companies Ordinance (Cap. 622)*.

(A) FAIR REVIEW OF THE COMPANY'S BUSINESS

Paragraph 31 of AB5 states that in order to satisfy the minimum requirements for a fair review of the reporting entity's business, the review should include as a minimum:

(1) a description of the business and the external environment in which the reporting entity operates, as context for the directors' discussion and analysis;

(2) an analysis of the performance of the reporting entity for the year under review and the financial position of the reporting entity as at the end of that period using financial KPIs which complement or supplement the financial statements;

(3) a discussion of the reporting entity's environmental policies and performance and the reporting entity's compliance with the relevant laws and regulations that have a significant impact on the entity; and

(4) an account of the reporting entity's key relationships with its employees, customers and suppliers and others that have a significant impact on the entity and on which the entity's success depends.

(1) BUSINESS AND THE EXTERNAL ENVIRONMENT (PARAGRAPH 32-35 OF AB5)

Overview

We are one of the leading dairy companies in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We own and operate four dairy farms and collectively operate four dairy farms through cooperation with local dairy farmers. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so that approximately 60% of our raw milk requirements could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products. Founded in 2000, we have gradually transitioned to a well-recognised integrated dairy company through our dedicated efforts. We have been named as one of the National Leading Enterprises for Agricultural Industrialisation (農業產業化國家重點龍頭企業) by Ministry of Agriculture of the PRC (中華人民共和國農業部), National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會), Ministry of Finance of the PRC (中華人民共和國財政部), Ministry of Commerce of the PRC (中華人民共和國商務部) and other government authorities since 2008.

We introduced to the market our Cold Chain Liquid Milk Products since the commencement of our production of dairy products in 2000, and we made a strategic decision in 2012 to enhance our efforts in the development and sales of such products, which we believe will represent the new consumption trend in the near future. Since then, we have been making continuous effort to expand our production capacity and distribution network of our Cold Chain Liquid Milk Products. As a result, we have become a market leader in the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market. Revenue from our Cold Chain Liquid Milk Products was RMB284.3 million and RMB297.8 million for the years ended 31 December 2015 and 2016, respectively, accounting for 48.6% and 47.9% of our total revenue for the relevant years respectively. We enjoy higher gross profit margin for our Cold Chain Liquid Milk Products compared to our other dairy products. The gross profit margin for our Cold Chain Liquid Milk Products was 38.0% and 38.8% for the year ended 31 December 2015 and 2016, respectively. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market in Gansu and Qinghai due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and then further expand into other provinces in the Northwestern China.

While focusing on the Cold Chain Liquid Milk Product market, we also leveraged on our strong brand recognition in the regional market to continue to strengthen the sales of our popular UHT milk and modified milk products, thereby maintaining our diversified product offerings. For example, condensed modified milk using Tetra Prisma and other aseptic carton packaging has become one of our popular products since its launch in 2013 due to the general acceptance of its taste which is catered to the preference of local customers, allowing us to command higher selling price and gross profit margin. Going forward, we intend to continue our efforts in the sales of our UHT milk and modified milk products that are popular among local consumers to maintain our diversified product offerings.

Our business model

Our business consists of dairy farming, manufacturing and sales of dairy products. We began our production of dairy products in Lanzhou since 2000 and further expanded our business into dairy farming operations in Lanzhou since 2009. In 2010, our Company acquired Qinghaihu Dairy, which has been offering Shenghu (聖湖) branded products in Qinghai since 2005. As a result, we expanded our dairy business and dairy farming operation in Qinghai. We currently own two milk production plants, one in Gansu and one in Qinghai. Our dairy farms are strategically located in Gansu, Qinghai and Ningxia, a region that has favourable climate and geographical conditions for dairy cattle raising. Among the eight dairy farms, we own and operate four dairy farms and collectively operate the remaining four dairy farms through cooperation with local dairy farmers. In the self-operated dairy farms, we breed our own cows and are fully responsible for the management of the farms in every aspect. With respect to the collectively-operated dairy farms, we own the dairy farms and facilities and are responsible for the general management of the farms, while local dairy farmers own the cows, attend to the day-to-day caring of the dairy cows following our farm practices and provide raw milk produced in such collectively-operated dairy farms to us exclusively at contracted prices. Under the collectively-operated dairy farm operation model, we are able to utilise the dairy cows owned by local dairy farmers to expand our operation scale of dairy farms without the initial purchase cost of heifers or calves and the respective breeding costs, while maintaining the source of raw milk and its quality through our quality control procedures. Due to this reason, we adopt the collectively-operated dairy farm operation model which is complementary to our self-operated dairy farms.

Our products and brands

We offer a broad range of dairy products tailored to the needs and taste preferences of different consumer groups. Our principal products sold to retail consumers include (i) liquid milk products, which comprise pasteurised milk (i.e. fresh milk), UHT milk, modified milk and yogurt, and (ii) milk beverages. We place strong emphasis on our product development to continuously develop new products that meet the evolving tastes and preference of our consumers, which differentiates us from our competitors in the region.

(2) ANALYSIS OF THE PERFORMANCE AND THE FINANCIAL POSITION (PARAGRAPH 36-43 OF AB5)

Further discussion and analysis of the performance for 2016 and the financial position as at the end of 2016 using financial KPIs which complement or supplement the financial statements can be found in the Financial Overview of the Management Discussion and Analysis section set out on this annual report. This discussion forms part of this Directors' Report.

(3) ENVIRONMENTAL POLICIES AND PERFORMANCE AND COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS (PARAGRAPH 44-45 OF AB5)

Environmental matters

We are subject to extensive PRC national and local environmental laws and regulations concerning, among others, emissions to the air, discharges to land, sewage disposal, solid waste, the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and the remediation of environmental pollution relating to our properties and operations. Such environmental laws and regulations levy fees for the discharge of waste substances above prescribed levels and impose fines for serious violations. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. We have implemented various measures in respect of our production plants and dairy farms to eliminate damage to the environment caused by waste water, waste gas, biowaste, solid wastes and noise from our production. Our PRC legal adviser has confirmed that we have obtained all necessary environmental permits and that our operations are currently conducted in accordance with the PRC environmental protection laws and regulations in all material respects. We had not received any notifications or warnings and had not been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially adversely affected our production.

Health and safety matters

We are also subject to PRC laws and regulations regarding labour, safety and work related incidents. To maintain a safe working environment and increase awareness in occupational health and safety, we have implemented production safety management policies supplemented by a production safety responsibility assessment system, which identifies applicable occupational safety laws and regulations for self-evaluation by different personnel. We complied with all applicable PRC workplace safety regulatory requirements in all material aspects and were not subject to any penalties or disputes relating to health and safety matters that have a material and adverse effect on our financial conditions or business operations.

(4) KEY RELATIONSHIPS WITH STAKEHOLDERS OTHER THAN MEMBERS (PARAGRAPH 46-48 OF AB5)

Relationships with contracted farmers

We source raw milk produced by our self-owned dairy cows in self-operated daily farms and raw milk produced by farmer-owned dairy cows in collectively-operated dairy farms. For raw milk produced in our collectively-operated dairy farms, we enter into purchase agreements with contracted farmers under which we purchase raw milk at a set price, adjustable according to market conditions but subject to a minimum purchase price during the contract periods with a view to maintaining sustainable business relationships with those contracted farmers. Such protective pricing not only enables us to enhance the loyalty of our contracted farmers and reduce the volatility of our purchase price of raw milk, but also allows us to be in a better position to negotiate with our contracted farmers. Our costs of raw milk procured from these collectively-operated dairy farms were relatively stable despite of the fluctuation in raw milk market price during the Reporting Year. As a result, we believe that we will be able to manage our costs of raw milk procured from collectively-operated dairy farms within a reasonable and relatively stable range in light of the expected increase in raw milk price in the next three to five years.

Relationship with third party raw milk suppliers

Raw milk purchased from third party suppliers mainly comes from dairy farms in Gansu and Qinghai, which are two of the six traditional pastoral areas in China with plenty supply of raw milk. We select our suppliers based on their production environment, number of milkable cows, quality as well as price. We generally source raw milk from dairy farms that have more than 250 dairy cows to ensure quality and safety. Before we make our selection, we also engage in verification of the suppliers' information including area of the dairy farms, milk tank capacity, inspection certificate of the fresh raw milk and business licence. We conduct regular inspection on our suppliers' dairy farms and facilities and we regularly monitor the conditions of our suppliers' facilities, hygiene conditions, quality of raw milk and storage and transportation equipment.

Our Company has established long-standing relationships with many dairy farms in Gansu and Qinghai, which allows us to secure steady supply of fresh raw milk at reasonable prices. We had entered into raw milk supply agreements with 12 external raw milk suppliers during the Reporting Year. Under our arrangements with the dairy farms, we do not substantially reduce the purchase prices when raw milk is low in demand and in return, the dairy farms do not substantially raise the purchase prices when raw milk is high in demand, nor do they reduce the amount of their supply. To address potential fluctuations of raw milk price, the purchase price of raw milk is usually set under the terms of the purchase agreements with our suppliers, which can be adjusted as agreed between both parties with regard to the prevailing market conditions. There is no requirement on minimum purchase amount of raw milk in our purchase agreements. We typically settle payments for raw milk with our suppliers monthly, although in some cases we may be required to make prepayments. Our purchase agreements usually have a term of one year.

Relationship with distributors

Our major customers include distributors, sales agents, and direct sales (retail chains, supermarkets and local schools), while distributors contributed the most to our total revenue during the Reporting Year. For our targeted markets outside of Lanzhou and Xining, we generally sell our dairy products through third-party distributors (經銷商). By adopting this distribution model, we are able to expand our business quickly by saving additional management resources and attention, including administrative, selling, and marketing expenses. Moreover, it generally takes less time to explore market opportunities and build local sales and marketing teams in new regions under the distributorship model when compared with the sales agent or direct sales model. We believe that the use of distributors is generally in line with the industry practice in China.

Our distributors are primarily self-employed individuals and trading companies. We select our third party distributors based on a number of criteria, including but not limited to delivery capabilities, distribution network coverage, relationship with sales channels, possession of relevant licences and their resource deployment for target markets. For example, we generally require new distributors to have a stable place of business, a wide network of sales points and more than two years' working relationship with targeted sales channels. We require our distributors to possess qualifications and licences required for their operation under our distribution agreement.

Relationship with employees

According to the PRC Labour Law (中華人民共和國勞動法) and the Labour Contract Law of PRC (中華人民共和國勞動合同法), we are required to enter into labour contracts with individual workers we hired. The wages we paid to our employees and workers cannot be lower than the local minimum wage standards specified by the government from time to time. We are also required to make severance payments to an employee when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the existing contract. To secure the need for production operations and increase management efficiency, we have entered into a labour outsourcing service agreement with a local human resources company.

Furthermore, in accordance with relevant national and local social welfare laws and regulations in the PRC, we are required to pay in respect of our employees in the PRC various social security funds including basic pension insurance, unemployment insurance, occupational injury insurance, medical insurance, maternity insurance and housing provident fund. Our PRC legal adviser has advised us that contributions to these social security funds have been made as required by applicable PRC laws and regulations during the Reporting Year.

In order to advance the skills and knowledge of our employees as well as to explore new potentials from our workforce, we provide regular training to various department heads, design training programmes for our staff and offer targeted training to certain of our key employees. We did not experience any material labour dispute with our employees, received any relevant complaints, notice or orders from relevant government authorities or third parties. We believe that our senior management, labour union and employees will continue to maintain good relationships with each other.

(B) PRINCIPAL RISKS AND UNCERTAINTIES (PARAGRAPH 49-52 OF AB5)

The major risks we face in our business are:

- Actual or perceived contamination in our dairy products could adversely and materially affect our business and reputation

- Our results of operations are subject to biological asset fair value adjustments, which can be highly volatile and are subject to a number of assumptions

- Failure to manage our distribution network may materially and adversely affect our business

- Raw milk supply, quality and price fluctuation may materially and adversely affect our business

- Quality control system failures may materially and adversely affect our business

- Any material disputes between us and local dairy farmers with whom we collectively operate our dairy farms may adversely affect the operations of the relevant dairy farms and, if unresolved, could potentially lead to termination of cooperation with such farmers and as a result adversely affect the operation of our collectively-operated dairy farms

- Our operations could be adversely affected if we no longer benefit from favourable government policies in the dairy industry and policies to promote the economic development in Northwestern China

- Disruption of operations at our dairy farms and production plants could materially and adversely affect our business

- Our business and future expansion depend on the quality and health conditions of our dairy cows, as well as the quality of raw milk and yield of the cows

- The outbreak of any major disease among our cows or at neighbouring farms could materially and adversely affect our business

Further discussion and analysis of the ability of the Company to fund its current and future operations and stated strategies under paragraph 51-52 of AB5 can be found in the Financial Overview – Indebtedness of the Management Discussion and Analysis section set out on this annual report. This discussion forms part of this Directors' Report.

(C) IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF 2016 (PARAGRAPH 53-54 OF AB5)

Subsequent to 31 December 2016, there had been no significant change in our principal business, pricing policy and costs structure, while the market price of raw milk experienced slight fluctuation.

(D) LIKELY FUTURE DEVELOPMENT IN THE COMPANY'S BUSINESS (PARAGRAPH 55-57 OF AB5)

Extensive sales and distribution regional network in Gansu and Qinghai

We utilise multiple sales and distribution channels for our dairy products to maximise our reach to consumers. We have actively responded to market development through the establishment of different sales channels. We have expanded our sales and distribution network by engaging additional distributors, especially in second and third-tier cities in Gansu and Qinghai. Our sales and distribution network covers most of the local markets in Gansu and Qinghai. We have established a distribution network for our Cold Chain Liquid Milk Products in Lanzhou and Xining, through our continuous effort and investments in the past few years.

Strong market-oriented product development

We manufacture, promote, distribute and sell a broad range of dairy products tailored to the needs and preferences of different consumer groups in our principal markets. Our broad product portfolio enables us to meet the different demands and taste preferences of consumers. We are dedicated to introducing new products to further improve our product range and offering so that we can keep up with changes in consumer preference and capture new market trends. Innovative product offerings differentiate us from our competitors.

We constantly evaluate our products and seek to adapt to changing market conditions. Our marketing team performs market research and analysis to identify the latest consumer preferences. Our product development team then follows up by conducting a feasibility analysis and updating our existing products. We have devoted resources to adjust our product portfolio, upgrade our product lines, and add new products or line extensions to respond to market needs and target a wider group of consumers.

Short and longer term funding needs

Through the successful listing on 15 October 2015 as H Share Company in Hong Kong, the Company has adequate cash to fund the liquidity needs of short and medium term. The Company can also raise extra funding through the secondary market after being recognized as listed company when required.

Risk warning in respect of forward-looking statements

The forward-looking statements set out in this annual report such as future plans involve uncertainties and do not constitute the Company's substantial commitment to investors. Investors are advised to be aware of investment risks.

PRINCIPAL ACTIVITIES

The Group principally operates two business segments: (i) dairy farming business, under which we produced and sold raw milk and (ii) dairy products production business, under which we produced and sold dairy products. Details of principal activities of the major subsidiaries of the Company are set out in Note 14 to the Financial Statements.

RESULTS OF THE GROUP

The Group's results for the Reporting Year and the state of affairs of the Company and the Group as at 31 December 2016 are set out in the Financial Statements on pages 66 to 133 of this annual report.

DIVIDEND

The Board recommended a final dividend of RMB7.42 cents per share for the Reporting Year. The total dividend amounted to approximately RMB10.4 million.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Nonresidents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法（試行）〉的通知》(國稅發[2009]124號)), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H Shares in respect of the dividend to be distributed to them. However, the individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled and the tax arrangements between Mainland China and Hong Kong (or Macau). For individual holders of H Shares in general, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H Shares in the distribution of the dividend. However, the tax rates applicable to individual holders of H Shares overseas may vary depending on the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled, and the Company will withhold and pay individual income tax on behalf of the individual holders of H Shares in the distribution of the dividend accordingly.

Subject to Shareholders' approval at the forthcoming annual general meeting ("AGM"), the abovementioned proposed final dividend is expected to be paid to the Shareholders on or before 16 June 2017. Details of the payment of the proposed final dividend will be announced after conclusion of the AGM.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining Shareholders' eligibility to attend and vote at the annual general meeting (the "AGM"), the register of members of the Company will be closed from 17 May 2017 to 16 June 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East Hong Kong for registration no later than 4:30 p.m. on 16 May 2017.

FINANCIAL SUMMARY

A summary of the published financial performance and of the assets and liabilities of the Group for the last four reporting years, as extracted from the audited financial statement and accountant's report in the prospectus of the Company dated 30 September 2015 and reclassified as appropriate, is set out on page 134 of this annual report.

SHARE CAPITAL

As at 31 December 2016, there was a total issued share capital of 140,500,000 Shares which include:

	Number of Shares	Approximate percentages of share capital %
Domestic Shares	105,370,000	75
H Shares	35,130,000	25
Total	140,500,000	100

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

During the year ended 31 December 2016, there was no repurchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of associations and related laws which oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RESERVES

Details of the movements in the reserves of the Company during the Reporting Year are set out in Note 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the aggregate amount of reserves available for distribution to equity Shareholders amounted to approximately RMB246.5 million (31 December 2015: RMB198.2 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the changes in the property, plant and equipment of the Group during the Reporting Year are set out in Note 13 to the Financial Statements.

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, the Company acquired 18% equity interests in Xi'an Dongfang Dairy Co., Ltd. (西安東方乳業有限公司) in 2013. There was no significant influence on the investee during the years ended 31 December 2016 and 2015.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2016, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the largest customer and supplier of the Group accounted for 2.6% and 9.6% of the Group's total revenue and total purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for 9.6% and 34.0% of the Group's total revenue and total purchases, respectively.

None of our Directors or any of their associates or any Shareholders (which to the best knowledge of our Directors owned more than 5% of the Company's issued share capital) had a material interest in our five largest customers and suppliers.

DIRECTORS AND SUPERVISORS

The Directors during the financial year and up to the date of this annual report were:

Executive Directors

Mr. Ma Hongfu

Mr. Wang Guofu

Mr. Chen Yuhai

Mr. Yan Bin

Non-Executive Directors

Mr. Yap Kean Chong

Mr. Song Xiaopeng

Independent Non-Executive Directors

Ms. Liu Zhijun *(appointed on 14 June 2016)*

Mr. Bai Yongzhi *(retired on 14 June 2016)*

Ms. Xin Shihua

Mr. Wong Cho Hang Stanley

The Supervisors during the financial year and up to the date of this annual report were:

Supervisors

Ms. Du Wei

Mr. Pan Jin

Mr. Wei Lin

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

None of the Directors nor the Supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the financial year or at the end of the financial year.

As at 31 December 2016, no contract of significance had been entered into between the Company, or any of its subsidiaries, and the controlling shareholders of 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 were entered into or existed during the Reporting Year and up to the date of this annual report.

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Ma Hongfu, Lanzhou Zhuangyuan Investment Co., Ltd. (蘭州莊園投資有限公司) ("Zhuangyuan Investment") and Gansu Lucky Cow Investment Co., Ltd. (甘肅福牛投資有限公司) ("Lucky Cow") (the Controlling Shareholders) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 23 September 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the period for the year ended 31 December 2016.

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN SECURITIES

The interests in shares of the Company held by the Directors, Supervisors during the year is disclosed in the section headed "DIRECTORS AND SUPERVISORS' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" below. There is at no time during the Reporting Year was the Company or any of its subsidiaries, holding company or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or convertible securities including debentures of, the Company or any other corporations, and none of the Directors or their spouse or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such rights.

EMOLUMENT POLICY

The nomination committee and the remuneration and appraisal committee were set up for, among others, reviewing and making recommendations on remuneration policy and scheme for Directors, Supervisors, Senior Management and employees, taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

SHARE OPTION SCHEME

There is no share option scheme adopted for the Company during the Reporting Year.

DIRECTORS' AND SUPERVISORS' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of Interest	Total Number of Shares	Approximate percentage of total issued Domestic Shares	Approximate percentage in the issued share capital of the Company
Domestic Shares				
Ma Hongfu *(Note 2)*	Beneficial owner	32,197,400 (L)	30.56%	22.92%
	Interested in controlled corporation	45,894,700 (L)	43.56%	32.67%

Notes:

(1) All interests in Shares were long positions.

(2) Mr. Ma Hongfu holds 97.38% equity interests in Zhuangyuan Investment and 39.44% equity interests in Lucky Cow. Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.

Save as disclosed above, as at 31 December 2016, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2016, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of 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 were as follows:

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued Domestic Shares/ H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
Domestic Shares				
Yang Xiuhua *(Note 2)*	Interest of spouse	78,092,100 (L)	74.11%	55.58%
Lanzhou Zhuangyuan Investment Co., Ltd. *(Note 3)*	Beneficial owner	30,894,700 (L)	29.32%	21.99%
Gansu Lucky Cow Investment Co., Ltd. *(Note 3)*	Beneficial owner	15,000,000 (L)	14.24%	10.68%
Chongqing Fukun Venture Investment Centre LLP	Beneficial owner	6,990,000 (L)	6.63%	4.98%
H Shares				
Hu Keliang	Beneficial owner	7,000,000 (L)	19.93%	4.98%
Li Yanling *(Note 4)*	Interests of spouse	7,000,000 (L)	19.93%	4.98%
Wang Wei *(Note 5)*	Beneficial owner	800,000 (L)	2.28%	0.57%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.99%
Li Qi *(Note 5)*	Interests of spouse	3,600,000 (L)	10.25%	2.56%
Venko Limited *(Note 5)*	Beneficial owner	2,800,000 (L)	7.97%	1.99%
Ren Qifeng *(Note 6)*	Interest of controlled corporation	3,523,000 (L)	10.03%	2.51%
Ren Songliu *(Note 6)*	Interests of spouse	3,523,000 (L)	10.03%	2.51%
Technoart Investments Limited *(Note 6)*	Beneficial owner	3,523,000 (L)	10.03%	2.51%
Zhang Chenbin	Beneficial owner	3,040,000 (L)	8.65%	2.16%
Hu Jiawu	Beneficial owner	3,000,000 (L)	8.54%	2.14%
Xi Xin *(Note 7)*	Interests of spouse	3,000,000 (L)	8.54%	2.14%

Notes:

1. All interests in Shares were long positions.

2. Ms. Yang Xiuhua is the spouse of Mr. Ma Hongfu. Therefore, Ms. Yang Xiuhua is deemed to be interested in the Shares in which Mr. Ma Hongfu is interested by virtue of the SFO.

3. Mr. Ma Hongfu holds 97.38% equity interests in Zhuangyuan Investment and 39.44% equity interests in Lucky Cow. Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.

4. Ms. Li Yanling is the spouse of Mr. Hu Keliang. Therefore, Ms. Li Yanling is deemed to be interested in the Shares in which Mr. Hu Keliang is interested by virtue of the SFO.

5. The entire issued share capital of Venko Limited is beneficially owned by Mr. Wang Wei who is deemed to be interested in the Shares held by Venko Limited by virtue of the SFO. Mr. Wang Wei is also beneficially interested in 800,000 H Shares. Ms. Li Qi is the spouse of Mr. Wang Wei. Therefore, Ms. Li Qi is deemed to be interested in the Shares in which Mr. Wang Wei is interested by virtue of the SFO.

6. The entire issued share capital of Technoart Investments Limited is beneficially owned by Mr. Ren Qifeng who is deemed to be interested in the Shares held by Technoart Investments Limited by virtue of the SFO. Ms. Ren Songliu is the spouse of Mr. Ren Qifeng. Therefore, Ms. Ren Songliu is deemed to be interested in the Shares in which Mr. Ren Qifeng is interested by virtue of the SFO.

7. Ms. Xi Xin is the spouse of Mr. Hu Jiawu. Therefore, Ms. Xi Xin is deemed to be interested in the Shares in which Mr. Hu Jiawu is interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any other persons (other than Directors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Supervisors or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of significant related party transactions of the Group (including those which constitute connected transactions and continuing connected transactions under the Listing Rules) are set out in Note 34 to the Financial Statements. No matter is required to be disclosed and no connected transaction is noted pursuant to the requirements under Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float of 25% of the Company's issued share capital as required under the Listing Rules.

ON BEHALF OF THE BOARD

Lanzhou Zhuangyuan Pasture Co., Ltd.
Ma Hongfu
Chairman

Lanzhou, the PRC, 29 March 2017

Supervisory Committee's Report

The Supervisory Committee of Lanzhou Zhuangyuan Pasture Co., Ltd.* 蘭州莊園牧場股份有限公司 (the "Supervisory Committee") has executed its duties earnestly, safeguarded the rights and interests of the Company and the Shareholders, complied with the principle of good faith and carried out its work in a diligent and proactive manner pursuant to the provisions of the Company Law of People's Republic of China, other relevant laws and regulations and the articles of association of the Company.

During the year, the Supervisory Committee reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of the Shareholders.

The Supervisory Committee has reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming AGM. We are of the opinion that the Board, chief executive of the Company and other Senior Management have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the articles of association of the Company. Up till now, none of the Directors, chief executive of the Company nor Senior Management has been found to have been in breach of any laws or regulations or the articles of association of the Company and damaged the interests of the Company or the Shareholders. The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2016 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Supervisory Committee
Wei Lin

Lanzhou, the PRC, 29 March 2017

Environmental, Social and Governance Report

BASIS OF PREPARATION

We have adopted the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide ("ESG Guide") in preparing this report. The Directors considered we have complied with the "comply or explain" provisions set out in the ESG Guide for the year ended 31 December 2016. This is the first annual Environmental, Social and Governance ("ESG") Report of the company. An online copy of this report is available at http://www.lzzhuangyuan.com/.

BUSINESS OPERATION OF THE GROUP

During the year ended 31 December 2016, the Group engaged principally operates two business segments: (i) dairy farming business, under which we produced and sold raw milk; and (ii) dairy products production business, under which we produced and sold dairy products. This report provides general disclosures that cover both dairy farming business and dairy products production business.

OUR ESG MANAGEMENT APPROACH

We believe a thoughtful ESG management is important to our business as well as the livelihood in both short and long run. We take ESG issues into account in our decision-making process throughout the business and strive for sustainable business development.

The Board of Directors endorsed an initiative to pursue a clear and prioritised ESG management approach that is closely aligned to the Company's overall business strategy.

The ESG team is responsible for the formation of policy and guideline, and allocates the budget for ESG activities undertakings for sustainable development.

Our vision is to bring health for people in Gansu and Qinghai and expand the network of our business to the whole PRC.

Our strategy is to make investment in environmental friendly equipment & facilities, and standardising and improving of farming practice in order to achieve sustainable business growth.

PROTECTING OUR ENVIRONMENT

We recognise our environmental responsibilities associated with our business and are committed to minimising the environmental impact of our business operation. Our environmental strategy is to strike a harmonic balance between our business and the environment. Our major environmental policy is as below:

- To comply with all environmental requirements applicable to its operations
- To improve the environmental structure towards the industry best practice
- To integrate environmental considerations in all stage of business operation (e.g. planning, design and manufacturing)
- To enhance environmental awareness via training to our employees
- To support environmental initiatives of the communities where we operate

Water and power are the major resources to keep the operation of our dairy farming business and dairy products production business. We strive to minimise our water and energy consumption through transforming and upgrading our equipment and standardized operation. We also promote the awareness of environmental preservation of our employees by providing training on relevant topics.

We standardised the washing time and frequency of the facilities, reuse the water used in sterilization process and have regular maintenance checks on our drainage to ensure it is unblocked. Where significant waste water is produced, we have our own waste water treatment facilities with online monitoring system to monitor and make sure the outfall and discharge of wastewater are up to standard. The system is interconnected with third party online monitoring platform and achieved real-time data transmission and monitoring.

Our major air and greenhouse gas emissions is cattle methane emission. Our indirect air and greenhouse gas emissions are mainly from purchased electricity. To minimise our emissions, we have used Light Emitting Diodes ("LED") lights and have temperature control in all of our production plants.

Dairy Farming Business

Our major non-hazardous waste is cowpat. We adopts electronic scrapper to clear the cowpat automatically, which provides a clean and comfortable living environment to our cows with minimum water consumption.

In 2016, we have invested about RMB4.3 million to build three biogas digesters to transfer the biogas to gas, which could be used by the staff canteen in the dairy farms, and turned biogas slurry to non-hazardous fertilizer, which would be used by farmers in the neighbourhood. As at 31 December 2016, two biogas digesters are in operation.

Dairy Products Production Business

Our major non-hazardous waste includes metal scrap from aged equipment and packaging materials. To minimize the waste, we adopt waste classification system to ensure all re-usable parts and materials would not be disposed. We do not generate any hazardous waste.

In 2016, we have invested about RMB6 million to improve the energy and water usage efficiencies of facilities and equipment used in production such as the reformation of boiler blow down water and heating system (鍋爐冷凝結水和取暖改造).

Compliance

Major relevant laws and regulations includes but not exclusive to below:

- The Environmental Protection Law of the PRC (中華人民共和國環境保護法)

- The Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法)

- The Prevention and Control of Water Pollution Law of the PRC (中華人民共和國水污染防治法)

- The Law on Prevention of Environmental Pollution Caused by Solid Waste of the PRC (中華人民共和國固體廢物污染環境防治法) (as amended on 24 April 2015)

- The Law on Appraising Environmental Impact of the PRC (中華人民共和國環境影響評價法)

During the reporting period, no other material reported instance of non-compliance to relevant environmental laws and regulations is noted in our operation.

EMPLOYMENT AND LABOUR PRACTICES

We recognise our employees as an important assets. As on 31 December 2016, the Group had 748 employees. We are committed to building an open and inspirational working environment to our employees.

We promote fair competition

All employment related decisions shall be based on objective criteria. Equal opportunities principles are applied in all employment policies, in particular to recruitment, training, career development and promotion of employees. Remuneration packages are determined based on responsibilities and performance. Working time, rest periods and defined contributions are in compliance to relevant labour laws and regulations.

Regulated by the employee handbook, our remuneration scheme consists of basic salary, bonus, social security contribution and statutory holidays. We contributed social security in compliance with local labour law and regulations. Our remuneration scheme is comparable to the peers in the local industry. Working hours and rest periods are in compliance with local labour law and regulations.

We do not tolerate discrimination or harassment

We do not tolerate discrimination or harassment against any employee based on their gender, age, race, or any status protected by law. Complaints about discrimination or harassment would be dealt with confidentiality and impartially. In the reporting period, no reported instances on discrimination or harassment were noted.

We welcome for feedbacks

We encourage our staff to provide feedbacks and address their concerns to the management proactively. Number of channels such as comment boxes and annual employees' satisfaction questionnaire are in place for its employees to express grievances and complaints which will be well-handled according to the predetermined procedures to ensure equality to all employees when related matters are handled.

Where misconduct issues happen, termination of contracts may occur under our dismissal policy, which is regulated by the employee handbook.

We promote occupational safety and health

We commit to providing a safe working environment to employees and to protect them from occupational hazards. Safety guidelines are formulated and communicated to all employees. Relevant trainings are organised regularly to improve our employees' awareness on health and safety. In the reporting period, no significant instances on health and safety were noted.

We promote sustainable learning environment

Apart from training program for new hired to understand the group's value and one's role and responsibility, we also provide regular trainings for various department heads, designs training programmes for our staff and offers targeted training to certain of our key employees to ensure that they are prepared to perform their duties effectively.

The Lanzhou Zhuangyuan Business School Program delivers learning and development options to our high performing employees. Under this program, we organise training programs with universities to enhance management's technical and soft skills. Courses includes strategic planning, management, marketing, finance and human resources management.

Sponsorships are available for our employees to have further studies externally.

Prohibition on child and forced labour

Our employment policy strictly prohibit the employment of child and forced labour. In the reporting period, no reported instances on child labour or forced labour were noted.

SUPPLY CHAIN MANAGEMENT

All our raw milk or feeds were sourced from the Group's list of qualified suppliers. Admission to the list of qualified suppliers must follow strict standards on product quality, stability and quantity. To ensure the stable supply of quality raw milk, all our suppliers are large in scale. We would perform on-site inspection to our major suppliers to entailing a comprehensive assessment of the supplier's quality management level, capability of ensuring a stable supply, safety and environmental management, employee health and social responsibility, corporate culture and business reputation.

Some of our farms are self-operated and some of them are collectively-operated with local dairy farmers. In the self-operated dairy farms, we breed our own cows and are fully responsible for the management of the farms in every aspect. In the collectively-operated dairy farms, we own the dairy farms and facilities and are responsible for the general management of the farms, while local dairy farmers own the cows, attend to the day-to-day caring of the cows following our farm practices and provide raw milk to us exclusively at a contracted price. By this, we are able to maintain the source of raw milk and its quality through our quality control procedures of all farms.

PRODUCT RESPONSIBILITY

As a responsible dairy food manufacturer, we make every effort to ensure our products are safe. We implement stringent quality control and production safety management measures throughout our production process from the procurement of feeds, dairy farming, raw milk sourcing and processing to production, packaging, storage and delivery of our products.

Our quality control system is designed based on the Good Manufacturing Practices (GMPs), the Hazard Analysis and Critical Control Points (HACCPs) and the Sanitation Standard Operating Procedures (SSOPs). As at 31 December 2015, we have obtained Dairy HACCP Certification for our production of liquid milk at our Qinghai production facility and ISO9001:2008 Quality Management System Certificate for our development and production of pasteurised milk, UHT milk, yogurt, other milk beverages and milk powder.

Dairy Farming Business

We believe happiness and healthiness of our dairy cows is one of the factors affecting the quality of raw milk. Therefore, we have standardised the practices of our employees as well as contracted farmers in all of our dairy farms, including the feeding standards, epidemic prevention, disease treatment, pedigree improvement and automated milking, to ensure the high quality of dairy cows bred and raised in our dairy farms.

Feeding is one of the most important aspects which would directly affects the nutrient level of our dairy products through the daily intake of our dairy cows. We adopt Total Mixed Ration ("TMR") feeding method and customise the diet recipe based on the nutrient requirements of various groups of dairy cows based on their age and development stage. We required all our procured feeds are processed in compliance with the Feedstuff Sanitation Standard GB13078-2001 issued by the State Feedstuff Supervision and Quality Inspection Centre (國家飼料質量監督檢驗中心). Inspections of the quality of the feeds are performed upon delivery to our dairy farms.

We applies strict hygiene standards in the milking process to avoid contamination. Our milk parlours are equipped with advanced cooling, cleaning, disinfection, storage and other equipment. We deliver our raw milk to our production plants within 24 hours from milking to ensure its freshness. We clean and sanitise our milk tank after discharging each load of raw milk.

We provide adequate space and facilities to allow our dairy cows stay comfortable. Our workers typically collect and remove manure several times per day to prevent manure accumulations and ensure sanitation of the barns. We use rubber mat for our cattle passage to protect the hooves limb or our dairy cows. We adopt designs that facilitates ventilation in the construction of barns to ensure sufficient air circulation of the barn.

We keep an effort to prevent disease among the dairy cows by regular cleaning and disinfection of our barns and facilities. We also hire veterinarians to perform health checks and monitor the health conditions of our dairy cows. We administer vaccinations to, quarantine and isolate new herd additions until the new herds are confirmed to be healthy.

Dairy Products Production Business

We assessed the quality of raw milk produced at our dairy farms or procured by external dairy farms upon the arrival and before entering into our production plants based on the National Food Safety Standard of Raw Milk (GB19301-2010), the Measures for the Production and Acquisition of Raw Milk and our internal raw milk inspection standards. If any discrepancy noted in the assessment, whole batch of raw milk would be returned.

With respect to raw materials and packaging materials we procured from external suppliers, we follow our internal policies to evaluate the suppliers by examining their relevant licences, permits and certificates to ensure the suppliers are qualified. For major suppliers, we would perform ad-hoc on-site evaluation to ensure their operation are adhere to our quality control protocols.

To ensure our dairy products are compliance to national and internal food safety standards, we perform quality inspections on each batch of our products before delivery. We have formulated an internal guidelines with respect to the management of our cold storage and other facilities for storage and transportation. We engage third-party logistic companies to transport and deliver our dairy products using disinfected and temperature-controlled trucks. We have established an electronic information records system for tracking and identifying the suppliers of raw materials and quality control personnel, and reproducing information recorded from each production phase. To ensure only fresh products are provided to end-customers, our quality inspection team conduct inspections of our products available at retail shops from time to time and may impose fines on our distributors and sales agents if we discover expired products.

To help our customers understand the nutrition details of our products, we provide clear information such as ingredients, nutritional benefits, size and expiry dates on our packages and website. We are committed to providing accurate information on our advertisement and labelling.

We allow product returns if quality defects or spoilage is noted in our products. Returned products were disposed of by us regardless of the reason of the return.

INTELLECTUAL PROPERTY

We had registered trademarks and patents for our dairy products. We have a team to monitor and update the status of our registered trademarks and patents. All our product development personnel have entered into confidentiality and proprietary information agreements with us. Our production line staff as well as business partners have also entered into confidentiality agreements regarding our business operations and technology.

ANTI-CORRUPTION

In order to maintain a fair and efficient business and working environment, we attach great importance to responsibilities of anti-corruption. The Group does not tolerate any form of corruption. Also we make code of conduct regarding in employee handbook to prohibit employees from requiring, charging or accepting any form of interest from people, companies or organizations who do business with the Group. Whistleblowing system is formulated for employees to report any suspect of all forms of illegal practices. In the reporting period, no reported instances on bribery, extortion, fraud and money laundering were noted.

COMMUNITY INVESTMENT

We believe that social responsibility is the foundation for the development of an enterprise. In our opinion, taking part in social welfare activities is an important method for an enterprise to give back to the society, as well as a key way for an enterprise to achieve mutual development and advancement with the society.

Independent Auditor's Report

Independent Auditor's Report To the Shareholders of

Lanzhou Zhuangyuan Pasture Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Lanzhou Zhuangyuan Pasture Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 66 to 133, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

<table>
<tr><th colspan="2">The timing of revenue recognition</th></tr>
<tr><td colspan="2">Refer to note 4 to the consolidated financial statements and the accounting policies on page 86.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group's principal products comprise pasteurised milk, UHT milk, modified milk and yogurt and milk beverages, which are sold through three main sales channels: distributors, sales agents and direct sales.

The contract terms with customers are generally standardised with sales returns and exchanges generally not being permitted except for in the case of product defects or spoilage.

Revenue is generally recognised when the customer has acknowledged acceptance of the goods by signing the goods delivery note which is the point at which the related risks and rewards of ownership of the goods are considered to have been transferred to the customer.

We have identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group, which gives rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.</td><td>Our audit procedures to assess the timing of revenue recognition included the following:

• assessing the design, implementation and operating effectiveness of management's key internal controls relating to the timing of revenue recognition;

• evaluating the Group's timing of recognition of revenue by inspecting, on a sample basis, the key terms and conditions of sales agreements relating to customer acceptance and the transfer of risks and rewards of ownership of the goods with reference to the requirements of the prevailing accounting standards;

• comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with goods delivery notes, which had been signed by customers as acknowledgement of their acceptance of the goods, to determine whether the revenue had been recognised in the appropriate financial period;

• scrutinising all manual journal entries relating to revenue raised during the year and enquiring of management about the reasons therefor and inspecting underlying documentation for journal entries which were considered to be material or met other specific risk-based criteria.</td></tr>
</table>

KEY AUDIT MATTERS *(Continued)*

Valuation of biological assets	
Refer to notes 17 and 32(e) to the consolidated financial statements and the accounting policies on page 82.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's biological assets comprise dairy cattle, which are further categorised into calves, heifers and milkable cows. The balance of the Group's biological assets, which are measured at fair value, was RMB126 million, as at 31 December 2016, with a loss arising from changes in fair value less costs to sell of biological assets for the year ended 31 December 2016 recorded in the consolidated statement of profit or loss of RMB24 million. Management engaged independent external valuers to calculate the fair value of the Group's biological assets as at 31 December 2016. The calculation of the fair value of biological assets involves a significant degree of judgement, particularly in respect of market prices for calves and heifers, estimated culling and birth rates, future average milk production volumes, raw milk market prices, breeding costs and the discount rate applied. We identified the valuation of biological assets as a key audit matter because the valuation is dependent on certain key assumptions, which require the exercise of significant judgement and are subject to an inherent risk of error or potential management bias.	Our audit procedures to assess the valuation of biological assets included the following: • evaluating the external valuers' competence, experience, capabilities, independence and objectivity; • understanding management's process for collecting the information to support the key assumptions and inputs, which included market prices for calves and heifers, estimated culling and birth rates, average milk production volumes, future raw milk market prices, breeding costs and the discount rate applied, adopted in the valuation of biological assets and assessing the information based on our knowledge of the Group and other audit procedures performed; • assessing the methodologies adopted in the valuation of biological assets with reference to the requirements of the prevailing accounting standards; • with the assistance of our internal valuation specialists, discussing with management and the external valuers and assessing the key assumptions, including market prices for calves and heifers, estimated culling and birth rates, future average milk production volumes, raw milk market prices, breeding costs and the discount rate, adopted in the valuations based on historical data and our knowledge of the dairy industry with reference to the relevant available market data, which included market prices for calves and heifers, raw milk market prices and those relating to the discount rate applied; • assessing on a sample basis, the input data used in the valuations of biological assets, including breeding costs, milk production volumes and culling and birth rates, based on available historical data; • considering the disclosures in the consolidated financial statements in respect of the valuation of biological assets with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS *(Continued)*

Valuation of receivables due from third parties

Refer to notes 18, 20 and 21 to the consolidated financial statements and the accounting policies on page 79.

The Key Audit Matter	How the matter was addressed in our audit
The Group had receivable balances of RMB59 million as at 31 December 2016, all of which were due from third parties and which were included within the balance of trade receivables, prepayments and other receivables and other non-current assets in notes 18, 20 and 21 to the consolidated financial statements. The related bad debt reversal for the year ended 31 December 2016 was RMB0.3 million. In addition to the trade receivables and prepayments relating to the Group's sales of dairy products, there were balances due from third party farmers of RMB32 million, included in other receivables and other non-current assets, which represent the balance of loans advanced to farmers for purchasing dairy cattle. Such receivables will be repaid, in accordance with agreed repayment schedules over a period of two to three years, by deducting amounts generated from the farmers' sales of raw milk to the Group. The Group's provisions for doubtful debts are based on management's estimate of the expected credit losses to be incurred, which is estimated by taking into account the credit history of the Group's debtors, current market and debtor-specific conditions and the volatility of market prices for raw milk, all of which involve a significant degree of management judgement. We identified the valuation of receivables due from third parties as a key audit matter because of their significance to the consolidated financial statements and because assessing the recoverable amount of these balances and the bad debt charge for the year involves a significant degree of management judgement.	Our audit procedures to assess the valuation of receivables due from third parties included the following: • assessing the design and implementation of management's key internal controls over the monitoring of receivables and the debt collection process; • assessing whether items were correctly categorised in the trade receivable ageing report by comparing, on a sample basis, individual items in the trade receivable ageing report with sales invoices and other relevant underlying documentation; • obtaining an understanding of the basis of management's judgements about the recoverability of debtors and evaluating the provisions for doubtful debts made by management for individual balances with reference to the debtors' financial condition, any identified disputes with the debtors, the ageing of overdue balances and historical and post year-end payment records; • comparing historical and post year-end payment records, on a sample basis, with agreed repayment schedules and investigating any significant items that had not been settled in accordance with the agreed repayment schedules; • assessing the historical accuracy of the provisions for doubtful debts by examining the utilisation or release of the provisions recorded as at 31 December 2015 and any new bad debts identified in 2016 in respect of balances as at 31 December 2015; • considering the disclosures in the consolidated financial statements relating to the degree of estimation involved in determining the provisions for doubtful debts with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Maggie L.T. Lee.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2017

Consolidated Statement of Profit or Loss

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Revenue	*4, 5*	**621,538**	585,613
Cost of sales	*7(a)*	**(412,729)**	(400,369)
Gross profit		**208,809**	185,244
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	*7(b)*	**8,649**	4,761
Loss arising from changes in fair value less costs to sell of biological assets	*7(c)*	**(23,693)**	(12,494)
Other net income	*6*	**28,934**	24,255
Distribution costs		**(53,099)**	(38,108)
Administrative expenses		**(63,791)**	(54,299)
Profit from operations		**105,809**	109,359
Net finance costs	*7(d)*	**(16,665)**	(23,690)
Profit before taxation	*5, 7*	**89,144**	85,669
Income tax	*8(a)*	**(13,234)**	(12,423)
Profit for the year		**75,910**	73,246
Attributable to:			
Equity shareholders of the Company		**75,910**	73,246
Profit for the year		**75,910**	73,246
Earnings per share			
– Basic and diluted (RMB)	*12*	**0.54**	0.65

The notes on pages 74 to 133 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 31(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

(Expressed in Renminbi)

	2016 RMB'000	2015 RMB'000
Profit for the year	**75,910**	73,246
Total comprehensive income for the year	**75,910**	73,246
Attributable to:		
Equity shareholders of the Company	**75,910**	73,246
Total comprehensive income for the year	**75,910**	73,246

The notes on pages 74 to 133 form part of these financial statements.

Consolidated Statement of Financial Position

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	*13*	**684,354**	651,945
Available-for-sale financial assets	*15*	**33,720**	33,720
Lease prepayments	*16*	**18,832**	20,116
Biological assets	*17*	**126,289**	133,500
Deferred tax assets	*30(b)*	**4,108**	5,222
Other non-current assets	*18*	**90,743**	27,045
		958,046	871,548
Current assets			
Inventories	*19*	**75,056**	86,350
Trade receivables	*20*	**14,036**	28,538
Deposits, prepayments and other receivables	*21*	**17,097**	86,310
Pledged deposit	*22*	**4,000**	36,334
Cash and cash equivalents	*22*	**273,352**	231,702
		383,541	469,234
Current liabilities			
Trade and bills payables	*23*	**84,168**	94,530
Receipts in advance	*24*	**20,290**	20,697
Accrued expenses and other payables	*25*	**54,552**	44,368
Non-current liabilities due within one year	*26*	**6,151**	9,403
Bank loans	*27(a)*	**307,000**	356,000
Current taxation	*30(a)*	**15,133**	15,047
		487,294	540,045
Net current liabilities		**(103,753)**	(70,811)
Total assets less current liabilities		**854,293**	800,737

The notes on pages 74 to 133 form part of these financial statements.

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Bank loans	*27(b)*	**44,500**	59,500
Deferred income	*28*	**46,256**	46,052
Obligations under finance leases	*29*	**3,303**	857
		94,059	106,409
NET ASSETS		**760,234**	694,328
CAPITAL AND RESERVES			
Share capital	*31(c)*	**140,500**	140,500
Reserves	*31(d)*	**619,734**	553,828
Total equity attributable to equity shareholders of the Company		**760,234**	694,328
TOTAL EQUITY		**760,234**	694,328

Approved and authorised for issue by the board of directors on 29 March 2017.

Ma Hongfu
Director

Wang Guofu
Director

The notes on pages 74 to 133 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company				
	Share capital RMB'000 *(Note 31(c))*	Capital reserve RMB'000 *(Note 31(d)(i))*	PRC statutory reserves RMB'000 *(Note 31(d)(ii))*	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2015	105,370	155,590	15,709	218,746	495,415
Changes in equity for 2015					
Profit for the year	–	–	–	73,246	73,246
Total comprehensive income	–	–	–	73,246	73,246
Issuance of shares under initial public offering	35,130	117,189	–	–	152,319
Share issuance expenses	–	(26,652)	–	–	(26,652)
Appropriation to reserves	–	–	6,012	(6,012)	–
Balance at 31 December 2015 and 1 January 2016	140,500	246,127	21,721	285,980	694,328
Changes in equity for 2016					
Profit for the year	**–**	**–**	**–**	**75,910**	**75,910**
Total comprehensive income	**–**	**–**	**–**	**75,910**	**75,910**
Dividends approved in respect of the previous years	**–**	**–**	**–**	**(10,004)**	**(10,004)**
Appropriation to reserves	**–**	**–**	**6,483**	**(6,483)**	**–**
Balance at 31 December 2016	**140,500**	**246,127**	**28,204**	**345,403**	**760,234**

The notes on pages 74 to 133 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		**89,144**	85,669
Adjustments for:			
Depreciation and amortisation	*7(f)*	**40,095**	36,919
Interest income	*7(d)*	**(2,325)**	(813)
Interest expenses	*7(d)*	**20,033**	25,002
Foreign exchange gain	*7(d)*	**(1,043)**	(499)
Government grants recognised and amortised in profit or loss	*6*	**(8,510)**	(15,925)
(Reversal of impairment)/impairment of trade receivables	*20(b)*	**(148)**	12
Reversal of impairment of deposits, prepayments and other receivables	*21*	**(124)**	(599)
Loss arising from the changes in fair value less costs to sell of biological assets	*7(c)*	**23,693**	12,494
Net loss/(gain) on disposal of property, plant and equipment		**158**	(514)
Changes in working capital:			
Decrease in inventories		**11,294**	22,295
Decrease/(increase) in trade receivables		**14,650**	(6,767)
Decrease in deposits, prepayments and other receivables		**5,920**	4,853
Decrease in trade and bills payable		**(5,375)**	(15,529)
Decrease in receipts in advance		**(407)**	(7,410)
(Decrease)/increase in accrued expenses and other payables		**(834)**	777
Cash generated from operations		**186,221**	139,965
PRC income tax paid	*30(a)*	**(12,034)**	(10,630)
Net cash generated from operating activities		**174,187**	129,335

The notes on pages 74 to 133 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

for the year ended 31 December 2016

(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Investing activities			
Payment for purchase of wealth management products from banks		–	(10,000)
Payments for amount lending to a third party		(10,000)	(50,000)
Payments for purchase of property, plant and equipment		(57,610)	(78,929)
Lease prepayments		–	(6,812)
Decrease/(increase) in pledged deposit		32,334	(9,586)
Payments for purchase of biological assets		(75,757)	(24,316)
Payments for breeding cost of calves and heifers (breeding costs of calves and heifers capitalised other than depreciation and amortisation)		(27,296)	(27,257)
Proceeds from receipts of wealth management products from banks		10,000	–
Repayment of amount lending to a third party		60,000	–
Proceeds relating to advances to third parties		5,238	3,964
Proceeds from disposal of property, plant and equipment		422	745
Proceeds from disposal of biological assets		17,944	8,113
Cash received from government grants		7,825	23,545
Interest received		2,325	813
Net cash used in investing activities		(34,575)	(169,720)

The notes on pages 74 to 133 form part of these financial statements.

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Financing activities			
Proceeds from issuance of shares under initial public offering		**–**	152,319
Proceeds from new bank loans		**320,000**	380,000
Repayments of bank loans		**(384,000)**	(414,500)
Interest paid		**(19,763)**	(25,496)
Dividends paid to equity shareholders of the company	*31(b)*	**(9,298)**	–
Payments for initial public offering expenses		**–**	(25,329)
Cash paid relating to other financing activities		**(5,944)**	(10,860)
Net cash (used in)/generated from financing activities		**(99,005)**	56,134
Net increase in cash and cash equivalents		**40,607**	15,749
Cash and cash equivalents at the beginning of the year		**231,702**	215,454
Effect of foreign exchange rate changes		**1,043**	499
Cash and cash equivalents at the end of the year	*22*	**273,352**	231,702

The notes on pages 74 to 133 form part of these financial statements.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1 REPORTING ENTITY

Lanzhou Zhuangyuan Pasture Co., Ltd (the "Company") was incorporated in Gansu, Lanzhou on 25 April 2000. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15 October 2015. The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively referred to as the "Group"). The Group is primarily involved in breeding dairy cows and manufacturing and selling dairy products.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB"), and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except for biological assets and agricultural produce are stated at their fair value as explained in note 2(j) below.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand unless otherwise indicated.

(c) Going concern

The financial statements have been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 December 2016. The directors are of opinion that, based on a detailed review of the working capital forecast of the Group, the Group will have necessary liquid funds to finance its working capital expenditure requirements for a reasonable period of time.

(d) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on the Group's results and financial position for the current or prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)(ii)), unless the investment is classified as held-for-sale (or included in a disposal group that is classified as held for sale).

(f) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in equity securities *(Continued)*

These investments are classified as available-for-sale securities as they do not fall into any other categories. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(i)). Dividend income from equity securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 2(s)(iii).

When the investments are derecognised or impaired (see note 2(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Property, plant and equipment

Property, plant and equipment other than construction in progress, are measured at cost less accumulated depreciation and accumulated impairment losses (see note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Plant and buildings	30 years
Machinery and equipment	5–10 years
Motor vehicles	4 years
Other equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is stated at cost less any impairment losses (see note 2(i)(ii)) and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, for trade and other current receivables, the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the receivable's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these receivables), where the effect of discounting is material. This assessment is made collectively where the receivables share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for receivables which are assessed for impairment collectively are based on historical loss experience for receivables with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the receivable's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of receivables *(Continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of receivables whose recoveries are considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments; and
- investments in subsidiaries in the Company's statement of financial position.

If such indication exists, the asset's recoverable amount is estimated.

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(i)(i) and (ii)).

Impairment loss recognised in an interim period in respect of available-for-sale equity securities is not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Biological assets

Biological assets comprise dairy cows which are divided into three groups of calves, heifers and milkable cows, which are raised or grown by the Group for the purposes of producing raw milk.

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

The feeding costs and other related costs such as staff costs, depreciation and amortisation expenses and utilities cost incurred for raising calves and heifers are capitalised until they begin to produce milk and transfer to the group of milkable cows. Such costs incurred for milkable cows are also capitalised while upon milking, the costs incurred to bring the raw milk are transferred to inventories (see note 2(k) below).

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Agricultural produce harvested from the Group's biological assets are raw milk. Upon harvest, agricultural produce are initially recognised as inventories at their fair values less costs to sell at the point of harvest, which are determined based on their market prices quoted in the local area. Any resultant gain or loss arising on initial recognition of such fair values (i.e. the difference between the fair values less costs to sell of the agricultural produce at the point of harvest and the breeding costs) is recognised in the profit or loss in the period of harvest. Upon subsequent sales, such amount of the inventories initially recognised is charged to the cost of sales in the profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for impairment of doubtful debts (see note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Government grants

Government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grants, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognized as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

In the process of applying the Group's accounting policies, management has made certain accounting judgement. Note 32(e) contains information about the assumptions relating to the fair values of biological assets and agricultural produce at the point of harvest. Other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

The Group's provisions for doubtful debts are based on management's estimate of the expected credit losses to be incurred, which is estimated by taking into account the credit history of the Group's debtors, current market and debtor-specific conditions and the volatility of market prices for raw milk, all of which involve a significant degree of management judgement. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with the accounting policy for impairment of long-lived assets as described in note 2(i)(ii). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in an additional impairment charge or a reversal of impairment in future periods, where applicable.

(c) Depreciation

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

4 REVENUE

The principal activities of the Group are dairy farming, manufacture and sale of liquid milk products and other dairy products.

Revenue mainly represents the sales amount of products supplied to customers. The amount of each significant category of revenue is as follows:

	2016 **RMB'000**	2015 RMB'000
Liquid milk products	**613,936**	574,218
Others *(Note)*	**7,602**	11,395
Total	**621,538**	585,613

Note: Other revenue mainly represents sales from milk beverage, milk tea powder, raw milk and milk powder.

5 SEGMENT REPORTING

The Group manages its business by lines of products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments, which are Dairy Farming and Dairy Products Production. Each reportable segment is a separate business unit which offers different products, and is managed separately because they require different technology and production strategies. The financial statements of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

– Dairy Farming – breeding dairy cows to produce and sell raw milk.

– Dairy Products Production – producing and selling Pasteurised Milk, Ultra High Temperature Milk ("UHT Milk"), Modified Milk, Yogurt and Other Dairy Products.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all assets with the exception of deferred tax assets. Segment liabilities include all current and non-current liabilities.

5 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reportable segment cost of sales does not include "gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest".

The measure used for reportable segment gross profit does not include "gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest".

The measure used for reportable segment profit is "adjusted EBITDA", i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including interest income and interest expenses, and "depreciation and amortisation" is regarded as including the depreciation and amortisation of and the impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' remuneration and the gains and losses arising from the changes in fair value (including the changes arising from biological assets and agricultural produce) as management believes that such adjusted information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition to receiving segment information concerning the above items, management is provided with segment information concerning interest income, interest expenses, depreciation and amortisation expenses and additions to non-current segment assets related to each segment in their operations. There are transfers of the raw milk produced by Dairy Farming segment to Dairy Products Production segments. Inter-segment sales are priced with reference to market price.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below:

5 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

	Year ended 31 December 2016		
	Dairy Farming RMB'000	Dairy Products Production RMB'000	Total RMB'000
Revenue			
Revenue from external customers	113	621,425	621,538
Inter-segment revenue	117,424	–	117,424
Reportable segment revenue	117,537	621,425	738,962
Cost of sales			
Cost of sales related to revenue from external customers	109	412,488	412,597
Inter-segment cost of sales	108,907	–	108,907
Reportable segment cost of sales (cost of sales before biological fair value adjustments)	109,016	412,488	521,504
Reportable segment gross profit (gross profit before biological fair value adjustments)	8,521	208,937	217,458
Reportable segment profit (adjusted EBITDA)	27,305	143,335	170,640
Interest income	984	1,341	2,325
Interest expenses	–	20,033	20,033
Depreciation and amortisation	13,056	27,039	40,095
Reportable segment assets	668,598	1,108,100	1,776,698
Additions to non-current segment assets during the year	62,412	86,969	149,381
Reportable segment liabilities	489,215	531,357	1,020,572

5 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

	Year ended 31 December 2015		
	Dairy Farming RMB'000	Dairy Products Production RMB'000	Total RMB'000
Revenue			
Revenue from external customers	135	585,478	585,613
Inter-segment revenue	92,892	–	92,892
Reportable segment revenue	93,027	585,478	678,505
Cost of sales			
Cost of sales related to revenue from external customers	128	401,618	401,746
Inter-segment cost of sales	86,754	–	86,754
Reportable segment cost of sales (cost of sales before biological fair value adjustments)	86,882	401,618	488,500
Reportable segment gross profit (gross profit before biological fair value adjustments)	6,145	183,860	190,005
Reportable segment profit (adjusted EBITDA)	18,510	140,761	159,271
Interest income	122	691	813
Interest expenses	1,213	23,789	25,002
Depreciation and amortisation	10,804	26,115	36,919
Reportable segment assets	650,908	1,103,775	1,754,683
Additions to non-current segment assets during the year	58,807	39,650	98,457
Reportable segment liabilities	463,064	602,513	1,065,577

5 SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenue, profit, assets and liabilities

	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	**738,962**	678,505
Elimination of inter-segment revenue	**(117,424)**	(92,892)
Consolidated revenue	**621,538**	585,613

	2016 RMB'000	2015 RMB'000
Profit		
Reportable segment profit	**170,640**	159,271
Interest income	**2,325**	813
Interest expenses	**(20,033)**	(25,002)
Depreciation and amortisation	**(40,095)**	(36,919)
Loss arising from the changes in fair value less costs to sell of biological assets	**(23,693)**	(12,494)
Consolidated profit before taxation	**89,144**	85,669

	2016 RMB'000	2015 RMB'000
Assets		
Reportable segment assets	**1,776,698**	1,754,683
Elimination of inter-segment receivables	**(439,219)**	(419,123)
Deferred tax assets	**4,108**	5,222
Consolidated total assets	**1,341,587**	1,340,782
Liabilities		
Reportable segment liabilities	**1,020,572**	1,065,577
Elimination of inter-segment payables	**(439,219)**	(419,123)
Consolidated total liabilities	**581,353**	646,454

5 SEGMENT REPORTING *(Continued)*

(c) Geographic information

Since all the revenue from external customers is derived from the customers located in mainland China and the non-current assets are mainly obtained and all located in mainland China while all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, there is no information separated by different geographical locations within mainland China provided to the Group's management.

6 OTHER NET INCOME

	2016 RMB'000	2015 RMB'000
Government grants	**16,795**	15,925
Net income from sales of materials	**8,194**	4,745
Others	**3,945**	3,585
Total	**28,934**	24,255

7 PROFIT BEFORE TAXATION

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

(a) Cost of sales:

	2016 RMB'000	2015 RMB'000
Breeding costs to produce raw milk *(Note 17(b))**	**75,927**	57,747
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest *(Note 17(b))*	**8,649**	4,761
Production costs incurred for dairy products*	**328,153**	337,861
Cost of inventories sold	**412,729**	400,369

* Breeding costs to produce raw milk and production costs incurred for dairy products include, in aggregate, RMB40,213,000 for the year ended 31 December 2016 (for the year ended 31 December 2015: RMB42,881,000), relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately in notes 7(e) and 7(f) for each of these types of expenses.

7 PROFIT BEFORE TAXATION *(Continued)*

(b) Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest:

	2016 RMB'000	2015 RMB'000
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**8,649**	4,761
Included in:		
– cost of sales *(Note 7(a))*	**8,649**	4,761
Total gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**8,649**	4,761

(c) Loss arising from changes in fair value less costs to sell of biological assets:

	2016 RMB'000	2015 RMB'000
Loss arising from changes in fair value less costs to sell of biological assets *(Note 17(b))*	**(23,693)**	(12,494)

(d) Finance costs:

	2016 RMB'000	2015 RMB'000
Interest income	**(2,325)**	(813)
Interest expenses on bank loans	**19,811**	24,601
Finance charges on obligations under finance leases	**222**	401
Net foreign exchange gain	**(1,043)**	(499)
Total	**16,665**	23,690

7 PROFIT BEFORE TAXATION *(Continued)*

(e) Staff costs:

	2016 RMB'000	2015 RMB'000
Salaries, bonuses and allowances	**42,673**	33,166
Pension insurance *(Note (i))*	**2,911**	2,858
Other social insurances *(Note (ii))*	**2,708**	2,632
Fees charged for hiring workers from labour dispatching companies	**443**	785
Staff welfare	**2,100**	1,274
Total	**50,835**	40,715

Notes:

(i) The employees of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the PRC subsidiaries are required to contribute to the schemes according to the relevant national and local social welfare laws and regulations. Employees of the PRC subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

(ii) Pursuant to the relevant laws and regulations of the PRC, employees of the Group participate in the social insurance system established and managed by local government organisations. The Group make social insurance contributions, including contributions to basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and etc., as well as contributions to housing fund, at the applicable benchmarks and rates stipulated by the local government for the benefit of their employees. The staff working in Hong Kong are required to make contributions to Mandatory Provident Funds under the Hong Kong Mandatory Provident Fund ("MPF") Schemes Ordinance. Such contributions are recognised as an expense in profit or loss as incurred.

(f) Other items:

	2016 RMB'000	2015 RMB'000
Depreciation and amortisation	**40,095**	36,919
Auditors' remuneration	**2,523**	1,500

8 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2016 RMB'000	2015 RMB'000
Current taxation:		
PRC income tax *(Note 30(a))*	12,120	13,869
Deferred taxation:		
Origination and reversal of temporary differences *(Note 30(b))*	1,114	(1,446)
Total	13,234	12,423

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 RMB'000	2015 RMB'000
Profit before taxation	89,144	85,669
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Note (i))*	22,286	21,417
Effect of tax exemption *(Note (iii))*	(2,987)	(2,222)
Reduction in tax rate *(Note (ii))*	(8,914)	(8,567)
Tax effect of non-deductible expenses	381	215
Tax effect of unused tax losses not recognised	2,468	1,580
Income tax	13,234	12,423

Notes:

(i) The Company and its subsidiaries are subject to PRC Enterprise Income Tax statutory rate of 25% for the years ended 31 December 2015 and 2016.

(ii) Pursuant to the Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax Concerning In-depth Implementation of Western Region Development Strategy (《國家稅務總局關於深入實施西部大開發戰略有關企業所得稅問題的公告》) promulgated by the State Administration of Taxation on 6 April 2012 and effective on 1 January 2011, from 1 January 2011 to 31 December 2020, the Company and its subsidiaries established in the Western Region of the PRC are entitled to the preferential income tax rate of 15%.

(iii) According to the PRC Enterprise Income Tax Law and the Implementation Rules, the Group's income arising from certain agricultural activities is exempted from PRC Enterprise Income Tax.

9 DIRECTORS' REMUNERATION

Directors' remuneration during the years ended 31 December 2016 and 2015 is as follows:

	Year ended 31 December 2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Ma Hongfu	–	127	108	11	246
Mr. Wang Guofu	–	85	195	11	291
Mr. Chen Yuhai	–	95	389	11	495
Mr. Yan Bin	–	96	116	11	223
Non-Executive Directors					
Mr. Yap Kean Chong	–	–	–	–	–
Mr. Song Xiaopeng	–	–	–	–	–
Independent Non-Executive Directors					
Ms. Liu Zhijun (appointed on 14 June 2016)	12	–	–	–	12
Mr. Bai Yongzhi (resigned on 14 June 2016)	12	–	–	–	12
Ms. Xin Shihua	20	–	–	–	20
Mr. Wong Cho Hang Stanley	103	–	–	–	103
Supervisors					
Mr. Wei Lin	20	–	–	–	20
Ms. Du Wei	–	52	107	11	170
Mr. Pan Jin	–	–	–	–	–
Total	167	455	915	55	1,592

9 DIRECTORS' REMUNERATION *(Continued)*

	Year ended 31 December 2015				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Ma Hongfu	–	60	220	10	290
Mr. Wang Guofu	–	71	192	10	273
Mr. Chen Yuhai	–	88	142	10	240
Mr. Yan Bin	–	86	122	10	218
Non-Executive Directors					
Mr. Yap Kean Chong	–	–	–	–	–
Mr. Song Xiaopeng (appointed on 2 March 2015)	–	–	–	–	–
Mr. Hu Jiawu (resigned on 2 March 2015)	–	–	–	–	–
Independent Non-Executive Directors					
Mr. Bai Yongzhi	20	–	–	–	20
Ms. Xin Shihua	20	–	–	–	20
Mr. Wong Cho Hang Stanley (appointed on 2 March 2015)	73	–	–	–	73
Mr. Gao Xincai (resigned on 2 March 2015)	–	–	–	–	–
Supervisors					
Mr. Wei Lin (appointed on 2 March 2015)	–	–	–	–	–
Mr. Zhao Qinghua (resigned on 2 March 2015)	–	79	107	10	196
Ms. Du Wei	–	52	81	10	143
Mr. Pan Jin	–	–	–	–	–
Total	113	436	864	60	1,473

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2015: One) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the individuals who are not directors are as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries, allowances and benefits in kind	**850**	686
Discretionary bonuses	**1,156**	959
Retirement scheme contributions	**64**	29
Total	**2,070**	1,674

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2016	2015
HK$Nil – HK$1,000,000	**4**	4

No emoluments were paid or payable to these employees as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 2015.

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company for the year ended 31 December 2016 includes a profit of RMB64,829,000 (2015: RMB60,117,000), which have been dealt with in the financial statements of the Company (see note 31(a)).

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB75,910,000 (2015: RMB73,246,000) and the weighted average of 140,500,000 ordinary shares (2015: 112,877,000 ordinary shares) in issue during the year as calculated in note 12(b).

(b) Weighted average number of ordinary shares

	2016 **'000**	2015 '000
Issued ordinary shares at 1 January	**140,500**	105,370
Effect of H shares issued under initial public offering	**–**	7,507
Weighted average number of ordinary shares at 31 December	**140,500**	112,877

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2015	469,636	238,771	7,253	11,823	29,400	756,883
Additions	17,597	33,717	433	2,456	20,940	75,143
Transfer in/(out)	9,074	6,622	–	–	(15,696)	–
Disposals	–	(1,105)	(964)	–	–	(2,069)
At 31 December 2015	496,307	278,005	6,722	14,279	34,644	829,957
Accumulated depreciation:						
At 1 January 2015	(49,531)	(77,577)	(5,826)	(5,101)	–	(138,035)
Charge for the year	(16,574)	(22,760)	(598)	(1,883)	–	(41,815)
Written back on disposal	–	923	915	–	–	1,838
At 31 December 2015	(66,105)	(99,414)	(5,509)	(6,984)	–	(178,012)
Net book value:						
At 31 December 2015	430,202	178,591	1,213	7,295	34,644	651,945

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2016	**496,307**	**278,005**	**6,722**	**14,279**	**34,644**	**829,957**
Additions	**29,211**	**31,226**	**696**	**495**	**15,955**	**77,583**
Transfer in/(out)	**12,537**	**5,071**	**–**	**–**	**(17,608)**	**–**
Disposals	**–**	**(1,325)**	**(407)**	**(22)**	**–**	**(1,754)**
At 31 December 2016	**538,055**	**312,977**	**7,011**	**14,752**	**32,991**	**905,786**
Accumulated depreciation:						
At 1 January 2016	**(66,105)**	**(99,414)**	**(5,509)**	**(6,984)**	**–**	**(178,012)**
Charge for the year	**(16,657)**	**(25,868)**	**(513)**	**(1,556)**	**–**	**(44,594)**
Written back on disposal	**–**	**766**	**387**	**21**	**–**	**1,174**
At 31 December 2016	**(82,762)**	**(124,516)**	**(5,635)**	**(8,519)**	**–**	**(221,432)**
Net book value:						
At 31 December 2016	**455,293**	**188,461**	**1,376**	**6,233**	**32,991**	**684,354**

14 INVESTMENT IN SUBSIDIARIES

	The Company	
	2016 RMB'000	2015 RMB'000
Unlisted investments, at cost	**233,014**	233,014

The following list contains only the particulars of subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated:

			Proportion of ownership interest		
Name of company	**Place of incorporation and business**	**Particulars of issued and paid up capital RMB'000**	**Group's effective interest**	**Held by the company**	**Principal activities**
Qinghai Qinghaihu Dairy Co., Ltd. 青海青海湖乳業有限責任公司	The PRC	53,014	100%	100%	Dairy products production and sales
Qinghai Shengya Plateau Pasture Co., Ltd. 青海聖亞高原牧場有限公司	The PRC	30,000	100%	100%	Dairy farming
Qinghai Shengyuan Pasture Co., Ltd. 青海聖源牧場有限公司	The PRC	30,000	100%	100%	Dairy farming
Yuzhong Ruifeng Pasture Co., Ltd. 榆中瑞豐牧場有限公司	The PRC	20,000	100%	100%	Dairy farming
Linxia County Ruiyuan Pasture Co., Ltd. 臨夏縣瑞園牧場有限公司	The PRC	30,000	100%	100%	Dairy farming
Linxia County Ruian Pasture Co., Ltd. 臨夏縣瑞安牧場有限公司	The PRC	20,000	100%	100%	Dairy farming
Wuwei Ruida Pasture Co., Ltd. 武威瑞達牧場有限公司	The PRC	20,000	100%	100%	Dairy farming
Ningxia Zhuangyuan Pasture Co., Ltd. 寧夏莊園牧場有限公司	The PRC	20,000	100%	100%	Dairy farming
Lanzhou Ruixing Farming Co., Ltd. 蘭州瑞興牧業有限公司	The PRC	10,000	100%	100%	Dairy farming

* The English translation of the companies' names is for reference only. The official names of these companies are in Chinese.

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
Equity instrument		
– Xi'an Dongfang Dairy Co., Ltd.	**33,676**	33,676
– Gansu Yuzhong Rural Cooperative Bank	**44**	44
Total	**33,720**	33,720

The Company acquired 18% equity interests in Xi'an Dongfang Dairy Co., Ltd. in 2013, and has no significant influence on the investee during the year ended 31 December 2016. The Company accounted for this equity instrument as available-for-sale financial assets.

There is no impairment indicator of the equity investments at 31 December 2016. During the year ended 31 December 2016, the Company did not receive any cash dividends.

16 LEASE PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Cost:		
At 1 January	**24,061**	17,249
Additions	**–**	6,812
At 31 December	**24,061**	24,061
Accumulated amortisation:		
At 1 January	**(3,945)**	(2,873)
Amortisation for the year	**(1,284)**	(1,072)
At 31 December	**(5,229)**	(3,945)
Net book value:		
At 31 December	**18,832**	20,116

Lease prepayments represent the payments made on the acquisitions of the lands held under operating leases for dairy farms and products production.

(Expressed in RMB unless otherwise indicated)

16 LEASE PREPAYMENTS *(Continued)*

At 31 December 2016, the aggregate net book value of the lease prepayments with a lease term within 10 years was RMB1,324,000 (31 December 2015: RMB2,386,000). The lease terms of the remaining lease prepayments are over 10 years but within 50 years.

At 31 December 2016, the Group's lease prepayments with an aggregate net book value of approximately RMB9,438,000 (31 December 2015: RMB7,219,000) were pledged to secure certain bank loans of the Group.

17 BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

Biological assets of the Group are dairy cows held to produce raw milk.

The quantity of the dairy cows owned by the Group as at 31 December 2016 and 2015 was set out below. The Group's dairy cows are milkable cows held for raw milk production and heifers and calves that have not reached the age to produce raw milk.

	2016 Heads	2015 Heads
Milkable cows	**2,560**	2,791
Heifers	**1,534**	2,358
Calves	**1,008**	791
Total	**5,102**	5,940

In general, the heifers are inseminated when they reach approximately 14 months old. After a gestation period of approximately 10 months, a calf is born and the heifers begin to produce raw milk and the lactation periods begin. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 300 days in each lactation period and has as many as 6 lactation periods. The male calves newly born are sold while the female calves are bred for 6 months and then transferred to the group of heifers for preparation of insemination.

17 BIOLOGICAL ASSETS *(Continued)*

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

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in note 32(e), 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 breeding. 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) Value of the Group's biological assets

The amounts of the dairy cows are as below:

	Calves RMB'000	Heifers RMB'000	Milkable cows RMB'000	Total RMB'000
At 1 January 2015	4,381	44,524	54,359	103,264
Add: Purchase costs	688	16,983	2,795	20,466
Breeding costs#	7,690	25,533	57,747	90,970
Transfer between groups:				
– transfer in	–	7,544	38,784	46,328
– transfer out	(7,544)	(38,784)	–	(46,328)
Changes in fair value less costs to sell of biological assets*	5,810	(5,102)	(13,202)	(12,494)
Gain arising on initial recognition of milk at fair value less costs to sell upon milking and harvest	–	–	4,761	4,761
Transfer to inventories upon milking	–	–	(62,508)	(62,508)
Decrease due to disposal	(3,101)	(984)	(6,874)	(10,959)
At 31 December 2015	7,924	49,714	75,862	133,500

17 BIOLOGICAL ASSETS *(Continued)*

(b) Value of the Group's biological assets *(Continued)*

	Calves RMB'000	Heifers RMB'000	Milkable cows RMB'000	Total RMB'000
At 1 January 2016	7,924	49,714	75,862	133,500
Add: Purchase costs	–	8,100	–	8,100
Breeding costs#	6,960	26,119	75,927	109,006
Transfer between groups:				
– transfer in	–	4,418	35,880	40,298
– transfer out	(4,418)	(35,880)	–	(40,298)
Changes in fair value less costs to sell of biological assets*	2,590	(11,042)	(15,241)	(23,693)
Gain arising on initial recognition of milk at fair value less costs to sell upon milking and harvest	–	–	8,649	8,649
Transfer to inventories upon milking	–	–	(84,576)	(84,576)
Decrease due to disposal	(550)	(8,515)	(15,632)	(24,697)
At 31 December 2016	12,506	32,914	80,869	126,289

\# Breeding costs incurred for dairy cows mainly include feeding costs, staff costs, depreciation and amortisation expenses and utilities costs incurred.

* Changes in fair value less costs to sell of biological assets include the changes in the fair value of the dairy cows disposed, i.e. the write-down of the carrying amounts of such dairy cows to their market selling prices upon disposal.

The Group's dairy cows were independently valued by the independent valuers, Jones Lang LaSalle Sallmanns Limited. 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 32(e).

(C) Amount of agricultural produce produced by the Group's biological assets

	2016 Tonne	2015 Tonne
Raw milk produced	19,837	14,879

18 OTHER NON-CURRENT ASSETS

	2016 RMB'000	2015 RMB'000
Advances to third parties *(Note 18(a))*	**21,753**	27,045
Prepayments for purchase of dairy cows *(Note 18(b))*	**62,670**	–
Receivables for disposal of dairy cows *(Note 18(c))*	**6,320**	–
Total	**90,743**	27,045

(a) Advances to third parties

Advances to third parties primarily represent payments made to certain third party farmers for them to purchase dairy cows, from which the raw milk produce will be supplied to the Group.

(b) Prepayments for purchase of dairy cows

The amount represented the prepayments to a third party agent for purchasing dairy cows from overseas, which were under normal business terms. The dairy cows are expected to be received in 2017.

(c) Receivables for disposal of dairy cows

The amount represented the receivables relating to disposal of certain dairy cows to certain third party farmers. The farmers will repay the Group within a three years period based on agreed repayment schedules.

19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 RMB'000	2015 RMB'000
Feeds and other materials to breed dairy cows	**34,355**	41,841
Other materials for producing dairy products	**24,052**	26,371
Finished goods	**16,649**	18,138
Less: Write-down of inventories	**–**	–
Total	**75,056**	86,350

(b) The analysis of the amount of inventories recognised as cost of sales in the consolidated statement of profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold *(Note 7(a))*	**412,729**	400,369

20 TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivable due from third parties	**14,149**	29,206
Less: allowance for impairment of doubtful debts *(Note 20(b))*	**(113)**	(668)
Total	**14,036**	28,538

(a) Aging analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 31 December	
	2016 RMB'000	2015 RMB'000
Less than 3 months	**11,799**	23,391
More than 3 months but less than 6 months	**1,730**	4,244
More than 6 months but less than 12 months	**434**	821
More than 1 year but less than 2 years	**58**	82
More than 2 years but less than 3 years	**15**	–
Total	**14,036**	28,538

Further details on the Group's credit policy are set out in note 32(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. (see note 2(i)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**668**	680
Impairment losses recognised	**170**	287
Impairment losses reversed	**(318)**	(275)
Uncollectible amounts written off	**(407)**	(24)
At 31 December	**113**	668

20 TRADE RECEIVABLES *(Continued)*

(b) Impairment of trade receivables *(Continued)*

At 31 December 2016, the Group's trade receivables of RMB113,000 (2015: RMB668,000) were individually or collectively determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**13,450**	25,892
Past due but not impaired	**586**	2,646
Total	**14,036**	28,538
Less than 3 months	**11,799**	23,391
More than 3 months but less than 6 months	**1,730**	4,244
More than 6 months but less than 12 months	**434**	821
More than 1 year but less than 2 years	**58**	82
More than 2 years but less than 3 years	**15**	–
Total	**14,036**	28,538

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Amount lending to a third party *(Note (i))*	–	50,000
Amount receivable for wealth management products purchased *(Note (ii))*	–	10,000
Prepayments for producing dairy products	6,296	9,137
Receivable for disposal of dairy cows	4,308	3,874
Prepayments for purchase of dairy cows	–	3,850
Advances to staff	1,845	2,636
Deductible value added tax	1,050	2,531
Prepayments for equipments accessories	91	1,724
Deposits with third parties	781	528
Others	4,332	3,896
Total	18,703	88,176
Less: allowance for impairment of doubtful debts	(1,606)	(1,866)
	17,097	86,310

Notes:

(i) This represented the amount lending to a third party with an annual interest rate of 4.35%, of which the principal and related interest were fully settled in February 2016.

(ii) This represented the RMB wealth management product with total principals of RMB10 million by the Group purchased from Bank of China in December 2015. The wealth management product could be redeemed every trading day with annualised return rate of around 2.6%. Given that the amount of return of the wealth management product is determinable, the Group recorded the amount at amortised cost using the effective interest method as other receivables in this account. The wealth management product was fully redeemed in February 2016.

All of the deposits, prepayments and other receivables the Group are expected to be recovered or recognised in the statement of profit or loss or to other items in the statement of financial position within one year.

21 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

The movement in the allowance for doubtful debts is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**1,866**	2,972
Impairment losses recognised	**979**	171
Impairment losses reversed	**(1,103)**	(770)
Uncollectible amounts written off	**(136)**	(507)
At 31 December	**1,606**	1,866

At 31 December 2016, the Group's deposit, prepayments and other receivables of RMB1,606,000 (2015: RMB1,866,000) were individually or collectively determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

For the other balances of deposits, prepayments and other receivables for the Group, the management is of the opinion that the counterparties are with good credit quality and the balances are considered fully recoverable.

22 PLEDGED DEPOSIT, CASH AND CASH EQUIVALENTS

Pledged deposit, cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement comprise:

	2016 RMB'000	2015 RMB'000
Pledged deposit *(Note (i))*	**4,000**	36,334
Cash at bank and on hand	**273,352**	231,702
Total	**277,352**	268,036

Note:

(i) Details of pledged deposits of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Pledged deposits against:		
– Bank loans	**–**	6,114
– Bills payable	**4,000**	30,220
Total	**4,000**	36,334

23 TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payable for purchase of raw milk, packing material and auxiliary material	**60,755**	61,817
Trade payable for purchase of forage and veterinary medicine	**19,413**	14,315
Bills payable	**4,000**	18,398
Total	**84,168**	94,530

All of the trade and bills payables of the Group are expected to be settled within one year.

As of the end of the reporting period, the ageing analysis of trade and bills payable is as follows:

	2016 RMB'000	2015 RMB'000
Less than 3 months	**72,378**	75,877
More than 3 months but less than 6 months	**4,562**	5,850
More than 6 months but less than 12 months	**5,257**	7,815
More than 1 year but less than 2 years	**725**	821
More than 2 years	**1,246**	4,167
Total	**84,168**	94,530

24 RECEIPTS IN ADVANCE

	2016 RMB'000	2015 RMB'000
Receipts in advance for sales of products	**20,290**	20,697

25 ACCRUED EXPENSES AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Payables for acquisition of property, plant and equipment	**22,041**	11,776
Payables for accessories	**3,149**	1,864
Employee benefits payables	**10,692**	8,267
Payables for advertising and promotion expenses	**1,431**	1,689
Payables for interest expenses	**432**	384
Payables for value added tax and other taxes	**3,786**	4,102
Conditional government grants received but not yet recognized *(Note (i))*	**4,332**	6,836
Deposit from third parties	**4,835**	4,059
Others	**3,854**	5,391
Total	**54,552**	44,368

Note (i): In accordance with the relevant guidance of government, these government grants can only be recognised upon the Group complying with the conditions of certain amount of infrastructure investment on and completion of the Group's dairy farms and products production facilities.

Except for conditional government grants afore-mentioned, all of the accrued expenses and other payables of the Group are expected to be settled or recognised in the statement of profit or loss or to other items in the statement of financial position within one year.

26 NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	2016 RMB'000	2015 RMB'000
Deferred income due within 1 year *(Note 28)*	**3,230**	4,120
Obligations under finance leases due within 1 year *(Note 29)*	**2,566**	3,155
Other long-term payables due within 1 year	**355**	2,128
Total	**6,151**	9,403

27 BANK LOANS

(a) The short-term bank loans are analysed as follows:

	2016 RMB'000	2015 RMB'000
Short-term bank loans	**300,000**	350,000
Add: current portion of long-term bank loans	**7,000**	6,000
Total	**307,000**	356,000

At 31 December 2016, the short-term bank loans (excluding the current portion of long-term bank loans) were secured and/or guaranteed as follows:

	2016 RMB'000	2015 RMB'000
Secured by land use rights, property, plant and equipment of the Group *(Note (b)(i))*	**230,000**	210,000
Secured by land use rights, property, plant and (or) equipment of the Group and guaranteed by the intra-group entities	**–**	20,000
Secured by land use rights of third parties	**–**	90,000
Jointly guaranteed by the intra-group entities	**60,000**	30,000
Unsecured bank loans	**10,000**	–
Total	**300,000**	350,000

(b) The long-term bank loans are analysed as follows:

	2016 RMB'000	2015 RMB'000
Long-term bank loans	**51,500**	65,500
Less: current portion of long-term bank loans	**(7,000)**	(6,000)
Total	**44,500**	59,500

27 BANK LOANS *(Continued)*

(b) The long-term bank loans are analysed as follows: *(Continued)*

At 31 December 2016, the long-term bank loans (including the current portion of long-term bank loans) were secured and/or guaranteed as follows:

	2016 RMB'000	2015 RMB'000
Jointly secured by land use rights of the Group and land use rights, property, plant and equipment of third parties and guaranteed by the intra-group entities	**18,000**	26,000
Jointly guaranteed by the intra-group entities and third parties	**33,500**	39,500
Total	**51,500**	65,500

Note:

(i) At 31 December 2016, the aggregate net book value of the pledged land use rights and property, plant and equipment of the Group was RMB661,261,000 (2015: RMB626,524,000).

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

None of the Group's bank loans is subject to the fulfilment of covenants. Details of the Group's management of liquidity risk are set out in note 32(b).

28 DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
Government grants	**49,486**	50,172
Less: portion classified as current liabilities *(Note 26)*	**(3,230)**	(4,120)
Total	**46,256**	46,052

The Group has been awarded government grants during the year ended 31 December 2016, which were conditional upon the construction and acquisition of property, plant and equipment for dairy farm and production facilities. These government grants have been recognised as deferred income and are being amortised to profit or loss as other income over the useful lives of the related assets.

29 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2016, the Group had obligations under finance leases repayable as follows:

	2016		2015	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Amount repayable:				
Within 1 year *(Note 26)*	2,566	3,057	3,155	3,330
After 1 year but within 2 years	1,909	2,180	857	877
After 2 years but within 5 years	1,394	1,453	–	–
	5,869	6,690	4,012	4,207
Less: total future interest expenses		(821)		(195)
Present value of lease obligations		5,869		4,012
Less: Portion classified as current liabilities *(Note 26)*		(2,566)		(3,155)
Non-current portion		3,303		857

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2016 RMB'000	2015 RMB'000
Income tax payable at the beginning of the year	15,047	11,808
Provision for income tax on the estimated taxable profits for the year *(Note 8(a))*	12,120	13,869
Income tax paid during the year	(12,034)	(10,630)
Income tax payable at the end of the year	15,133	15,047

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and movements during the year are as follows:

	Government grants RMB'000	Provisions RMB'000	Depreciation allowance in excess of the related depreciation RMB'000	Accrued expenses and payroll payable RMB'000	Total RMB'000
Deferred tax arising from:					
At 1 January 2015	2,623	181	510	462	3,776
Credited/(charged) to profit or loss *(Note 8(a))*	1,094	20	34	298	1,446
At 31 December 2015	3,717	201	544	760	5,222
Credited/(charged) to profit or loss *(Note 8(a))*	(369)	(36)	17	(726)	(1,114)
At 31 December 2016	3,348	165	561	34	4,108

31 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliations between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000	Capital reserve RMB'000	PRC statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2015	105,370	178,102	15,709	144,065	443,246
Changes in equity for 2015					
Total comprehensive income	–	–	–	60,117	60,117
Appropriation to reserves	–	–	6,012	(6,012)	–
Issuance of shares under initial public offering	35,130	117,189	–	–	152,319
Share issuance expenses	–	(26,652)	–	–	(26,652)
Balance at 31 December 2015 and 1 January 2016	**140,500**	**268,639**	**21,721**	**198,170**	**629,030**
Changes in equity for 2016					
Total comprehensive income	**–**	**–**	**–**	**64,829**	**64,829**
Appropriation to reserves	**–**	**–**	**6,483**	**(6,483)**	**–**
Dividends approved in respect of the previous years	**–**	**–**	**–**	**(10,004)**	**(10,004)**
Balance at 31 December 2016	**140,500**	**268,639**	**28,204**	**246,512**	**683,855**

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2016 RMB'000	2015 RMB'000
Final dividend proposed after the end of the reporting period of RMB7.42 cents per ordinary share (2015: RMB7.12 cents per ordinary share)	**10,425**	10,004
	10,425	10,004

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous year, approved and paid during the year of RMB7.12 cents per ordinary share (2015: Nil)	**9,298**	–
	9,298	–

(c) Share capital

Ordinary shares, issued and fully paid:

	2016 No. of shares '000	2016 RMB'000	2015 No. of shares '000	2015 RMB'000
At 1 January (RMB1 each)	**140,500**	**140,500**	105,370	105,370
Issuance of H shares under initial public offering (RMB1 each)	**–**	**–**	35,130	35,130
At 31 December	**140,500**	**140,500**	140,500	140,500

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves

(i) Capital reserve

Capital reserve mainly includes the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company and contributions from equity shareholders.

(ii) PRC statutory reserves

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

(e) Reserves available for distribution

At 31 December 2016, the aggregate amount of reserves available for distribution to the equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was RMB246,512,000 (2015: RMB198,170,000).

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of total equity. The Group monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group monitors capital using a bank loans to equity ratio, which is total bank loans divided by total equity.

	2016 **RMB'000**	2015 RMB'000
Total bank loans	**351,500**	415,500
Total equity	**760,234**	694,328
Bank loans to equity ratio	**0.46**	0.60

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and the risks related to agricultural activities arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade Receivables are generally due within around 3 months from the date of billing, except for certain customers to which specific credit period or credit limit are granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 0% (2015: 0%) and 0% (2015: 0%) of the total trade receivables were due from the Group's largest customer and from the five largest customers within the dairy farming and dairy products production segments respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 20.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the end of reporting period) and the earliest date the Group can be required to pay:

	2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Trade and bills payable	**84,168**	**–**	**–**	**–**	**84,168**	**84,168**
Accrued expenses and other payables	**54,552**	**–**	**–**	**–**	**54,552**	**54,552**
Bank loans	**317,404**	**26,609**	**15,817**	**5,801**	**365,631**	**351,500**
Obligations under finance leases	**3,057**	**2,180**	**1,453**	**–**	**6,690**	**5,869**
Total	**459,181**	**28,789**	**17,270**	**5,801**	**511,041**	**496,089**

	2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Trade and bills payable	94,530	–	–	–	94,530	94,530
Accrued expenses and other payables	44,368	–	–	–	44,368	44,368
Bank loans	370,290	9,897	47,208	8,925	436,320	415,500
Obligations under finance leases	3,330	877	–	–	4,207	4,012
Total	512,518	10,774	47,208	8,925	579,425	558,410

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowing. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in note (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total interest-bearing borrowings at the end of the reporting period:

	2016		2015	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate bank loans	4.35%–8.00%	300,000	4.35%–8.00%	350,000
Variable rate bank loans	4.90%–5.39%	51,500	4.90%–6.22%	65,500
Total borrowing		351,500		415,500
Fixed rate borrowing as a percentage of total bank loans		85%		84%

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately RMB438,000 (2015: RMB557,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation and retained profits assuming that the change in interest rates had occurred at the end of reporting period and had been applied to re-measure the above variable rate bank loans by the group which expose the Group to cash flow interest rate risk at the end of the reporting period. The impact on the Group's profit after taxation and retained profits is estimated as an annualised impact on the interest expenses of such a change in interest rates. The sensitivity analysis is performed on the same basis as last year.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Risks related to agricultural activities

The Group is exposed in financial risks arising from changes in milk prices. The Group does not anticipate that milk prices will decline significantly in the foreseeable future and therefore, has not entered into any derivative or other contracts to manage the risk of a decline in milk prices. The Group reviews its outlook for milk prices regularly in considering the need for active financial risk management.

(e) Fair values

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

	Fair value at 31 December 2016			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements				
Calves and heifers	–	–	45,420	45,420
Milkable cows	–	–	80,869	80,869
Total biological assets	–	–	126,289	126,289

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair values *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy (Continued)

	Fair value at 31 December 2015			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements				
Calves and heifers	–	–	57,638	57,638
Milkable cows	–	–	75,862	75,862
Total biological assets	–	–	133,500	133,500

The reconciliations from the beginning balances to the ending balances for fair value measurements of the above assets and liabilities are disclosed in note 17.

(ii) 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 unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers	The fair value of 14 months old heifers is determined by referring to the market price of the actively traded market.	Average market price of the heifers of 14 months old: RMB20,000 for the year ended 31 December 2016 (year ended 31 December 2015: RMB20,000).	The estimated fair value increases when the market price increases.

(Expressed in RMB unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair values *(Continued)*

(ii) 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. *(Continued)*

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
	The fair values of the heifers older than 14 months old are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers younger than 14 months old and the fair values of the calves are determined by subtracting the breeding costs required to raise the calves or heifers from the respective specific ages to 14 months old and the margins that would be required by a raiser.	Average breeding costs per head for the breeding period and the estimated margins that would be required by a raiser of the heifers older than 14 months old: RMB8,279 for the year ended 31 December 2016 (year ended 31 December 2015: RMB8,333), while for the calves and the heifers younger than 14 months old: RMB8,990 for the year ended 31 December 2016 (year ended 31 December 2015: RMB9,134).	The estimated fair value of the heifers older than 14 months old increases when the breeding costs and the estimated margins that would be required by a raiser increase. The estimated fair value of the calves and the heifers younger than 14 months old decreases when the breeding costs and the estimated margins that would be required by a raiser increase.
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as of 31 December 2016 and 2015 will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or finish of all lactation periods. Estimated overall culling rate for the year ended 31 December 2016 is ranged from over 4.7% up to 100% along with the increase of the number of the lactation periods (year ended 31 December 2015: from over 5% up to 100%).	The estimated fair value decreases when the estimated culling rates increase.

(Expressed in RMB unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair values *(Continued)*

(ii) 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. *(Continued)*

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
		A milkable cow could have as many as five to six lactation periods. Estimated average raw milk production volume per head for one lactation period is ranged from 5.9 tonnes to 7.7 tonnes depending on the number of the lactation periods and the individual physical condition (year ended 31 December 2015: from 6.0 tonnes to 6.4 tonnes).	The estimated fair value increases when the estimated raw milk production volume increases.
		Estimated future raw milk local market prices per tonne for the year ended 31 December 2016: RMB4,266 (year ended 31 December 2015: RMB4,200).	The estimated fair value increases when the estimated future raw milk local market price increases.
		Discount rate is 12.27% for the year ended 31 December 2016 (year ended 31 December 2015: 12.16%) calculated by using the Capital Asset Pricing Model.	The estimated fair value decreases when discount rate increases.

33 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statement are as follows:

	2016 RMB'000	2015 RMB'000
Contracted for	**25,380**	37,810
Authorised but not contracted for	**–**	11,646
Total	**25,380**	49,456

(b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**1,218**	870
After 1 year but within 5 years	**7,330**	6,293
After 5 years	**23,009**	24,738
Total	**31,557**	31,901

34 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	**3,062**	2,703
Retirement scheme contributions	**107**	87
Total	**3,169**	2,790

	2016 RMB'000	2015 RMB'000
Directors and supervisors *(Note 9)*	**1,592**	1,473
Senior management	**1,577**	1,317
Total	**3,169**	2,790

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2016 RMB'000	2015 RMB'000
Non-current assets		
Property, plant and equipment	**196,577**	177,731
Investments in subsidiaries	**233,014**	233,014
Available-for-sale financial assets	**33,720**	33,720
Lease prepayments	**9,971**	10,125
Deferred tax assets	**3,182**	3,693
Other non-current assets	**70,433**	26,670
	546,897	484,953
Current assets		
Inventories	**25,887**	31,019
Trade receivables	**80,054**	79,000
Deposits, prepayments and other receivables	**374,981**	416,619
Pledged deposit	**–**	6,114
Cash and cash equivalents	**152,659**	124,922
	633,581	657,674
Current liabilities		
Trade and bills payable	**82,845**	117,410
Receipts in advance	**17,481**	13,574
Accrued expenses and other payables	**112,566**	24,854
Non-current liabilities due within one year	**4,019**	4,548
Bank loans	**230,000**	300,000
Current taxation	**13,396**	11,667
	460,307	472,053
Net current assets	**173,274**	185,621
Total assets less current liabilities	**720,171**	670,574

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(Continued)*

		2016 RMB'000	2015 RMB'000
Non-current liabilities			
Bank loans		**18,000**	26,000
Deferred income		**15,013**	14,687
Obligations under finance leases		**3,303**	857
		36,316	41,544
NET ASSETS		**683,855**	629,030
CAPITAL AND RESERVES	*31(a)*		
Share capital		**140,500**	140,500
Reserves		**543,355**	488,530
TOTAL EQUITY		**683,855**	629,030

Approved and authorised for issue by the board of directors on 29 March 2017.

Ma Hongfu	**Wang Guofu**
Director	*Director*

36 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 31(b).

(Expressed in RMB unless otherwise indicated)

37 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors consider ultimate controlling party of the Group to be Mr. Ma Hong Fu.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, Statement of cash flows: *Disclosure initiative*	1 January 2017
Amendments to IAS 12, Income taxes: *Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these new standards and amendments to standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Financial Summary

Financial summary of audited financial statements of the Group for the respective years are set out below.

	Years ended 31 December			
	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**621,538**	585,613	545,239	463,524
Profit for the year	**75,910**	73,246	65,409	34,639
Attributable to equity shareholders of the Company	**75,910**	73,246	65,409	34,639
Earnings per share (RMB)[1]	**0.54**	0.65	0.62	0.33
Proposed dividend per share (RMB)	**7.42 cents**	7.12 cents	–	–
Total assets	**1,341,587**	1,340,782	1,201,489	1,060,998
Total liabilities	**581,353**	646,454	706,074	630,992
Total equity attributable to equity shareholders of the Company	**760,234**	694,328	495,415	430,006

(1) Please refer to Note 12(a) on page 102 for calculation of earnings per share.