



中地乳业
ZhongDi Dairy



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

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

Stock code: 1492

2017
ANNUAL REPORT

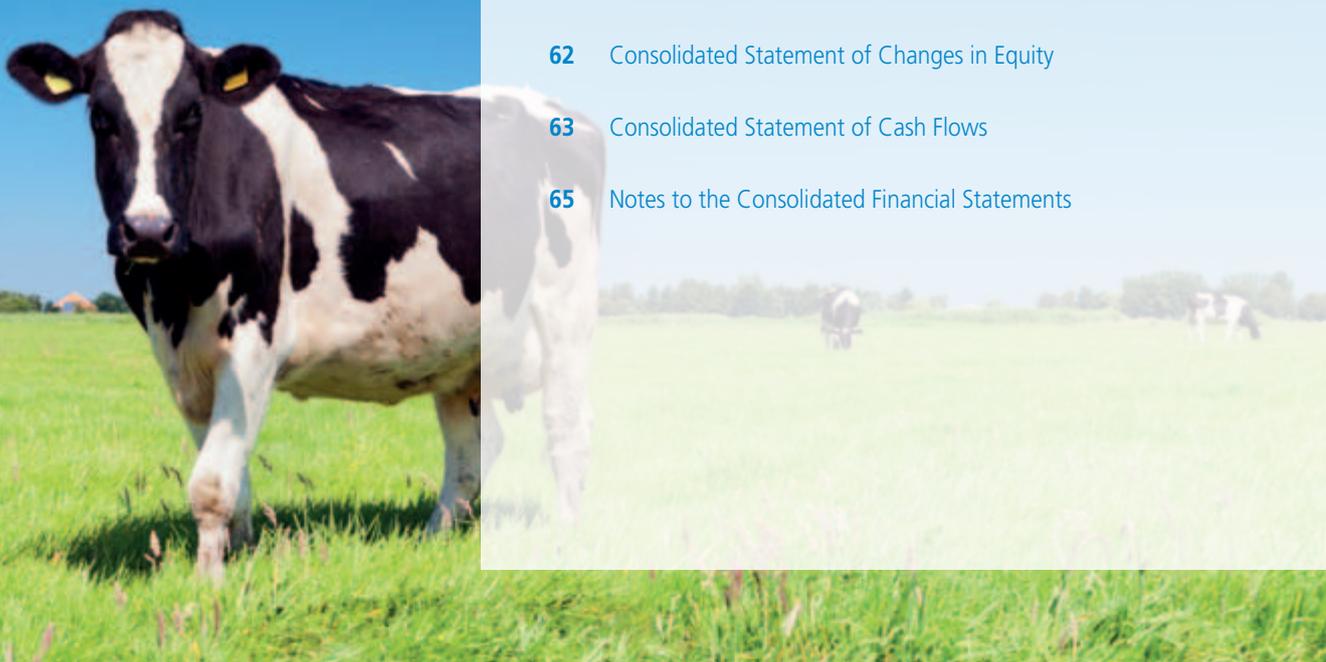
Corporate Profile

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



Contents

- 2 Corporate Information
- 4 Annual Results Highlights
- 6 Chairman's Statement
- 10 Management Discussion and Analysis
- 21 Directors and Senior Management
- 28 Corporate Governance Report
- 39 Directors' Report
- 55 Independent Auditor's Report
- 59 Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 60 Consolidated Statement of Financial Position
- 62 Consolidated Statement of Changes in Equity
- 63 Consolidated Statement of Cash Flows
- 65 Notes to the Consolidated Financial Statements



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jianshe (Chairman and Chief Executive Officer)

Mr. Zhang Kaizhan

Non-Executive Directors

Mr. Liu Dai

Mr. Du Yuchen

Mr. Li Jian

Ms. Yu Tianhua

Independent Non-Executive Directors

Prof. Li Shengli

Dr. Zan Linsen

Mr. Joseph Chow

SENIOR MANAGEMENT

Mr. Song Naishe

Ms. He Shan

Ms. Zhang Xin

STOCK CODE

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

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Corporate Information

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Ms. Zhang Xin

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COMPANY SECRETARY

Ms. Zhang Xin

COMPANY'S WEBSITE

www.zhongdidairy.hk



ANNUAL RESULTS HIGHLIGHTS



Annual Results Highlights

FINANCIAL HIGHLIGHTS

Results

	For the year ended 31 December									
	2017		2016		2015		2014		2013	
	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments
	RMB'000	RMB'000								
Revenue	1,134,282	1,134,282	961,934	961,934	483,058	483,058	721,555	721,555	309,060	309,060
Gross profit margin	35%	4%	34%	2%	39%	3%	26%	2%	30%	3%
Profit for the year attributable to owners of the parent	193,569	13,377	227,982	112,800	79,289	98,139	101,470	148,348	73,197	80,794
Basic and diluted earnings per share (RMB cents)	—	0.6	—	5.2	—	5.4	—	10.5	—	7.3

	For the year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total assets	4,413,850	4,167,366	3,211,145	2,258,504	1,380,984
Total liabilities	2,375,077	2,141,970	1,300,020	804,891	736,475
Total equity	2,038,773	2,025,396	1,911,125	1,453,613	644,509
Of which: Total equity attributable to owners of the parent	2,038,773	2,025,396	1,911,125	1,448,713	644,509



CHAIRMAN'S STATEMENT



Chairman's Statement

Dear Shareholders,

On behalf of the Board (the "Board") of Directors (the "Directors" and, each a "Director") of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (the "Group" or "ZhongDi"), I am pleased to present the audited consolidated annual results of the Group for the year ended 31 December 2017 (the "Reporting Period") to all shareholders of the Company (the "Shareholders").

BUSINESS REVIEW

The Group mainly operates two major businesses, dairy farming business and import trading business. Dairy farming business includes production and sales of premium raw milk and the feeding, breeding and sales of dairy cows, etc. Import trading business mainly includes imports and sales of high quality dairy cows and stud livestock as well as import trading business in alfalfa hay and other animal husbandry related products. For the year ended 31 December 2017, the Group recorded total income of RMB1,134.3 million, representing a year-on-year increase of 17.9%.

Dairy farming remained the pillar business of the Group. As at 31 December 2017, the Group owned seven modern dairy farms in operation in Beijing, Hebei, Shanxi, Inner Mongolia, Ningxia, Liaoning and Tianjin, feeding a total of 64,200 Holstein calves, heifers and milkable dairy cows, representing a year-on-year increase of 16.2%. Total sales of raw milk in 2017 were 278,406 tonnes, representing an increase of 24.2% as compared to 224,094 tonnes in 2016. In 2017, income generated from the dairy farming business amounted to RMB1,033.3 million, accounting for 91.1% of the Group's total revenue and representing an increase of 20.7% as compared to RMB856.2 million in 2016, the soaring increase of which was mainly due to a significant increase in the sales volume of raw milk brought by newly constructed dairy farms and the increase in the yield per unit of dairy cows. Revenue generated from our import and export trading business, being one of the Group's important businesses, amounted to RMB101.0 million, accounting for approximately 8.9% of the Group's total revenue and representing a slight decrease of 4.4% as compared to RMB105.7 million in 2016. The decrease was mainly attributable to a decrease in the sales of imported alfalfa hay.

All farms operated by the Group are distributed over the areas suitable for dairy farming specified in the "Development Plan of Major Dairy Cow Farming Regions (2008-2015)" (《全國奶牛優勢區域佈局規劃(2008-2015年)》) promulgated by the MOA of the PRC in 2009 and are close to raw milk processing plants of leading dairy companies in China, which helps reduce the risks of the dairy farm operation business and facilitates the stable development of the Group. With the ideal geographical locations and climate and environment of the Group's operating farms, the excellent genetic characteristics of dairy herds and excellent breeding technology, balanced and nutritious feed formulation and modern farming method, modern milking system and comprehensive and strict disease control system, raw milk produced by the Group is premium raw milk, the quality of which is much better than the United States standard, EU-standard and the PRC standard and is purchased by outstanding dairy companies in China to be used in the production of high-end premium dairy products. The Group entered into a long-term strategic cooperation agreement for the purchase and sale of raw milk produced by the Group for a term of ten years with each of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) and its subsidiaries (collectively, "Mengniu") and Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司) and its subsidiaries (collectively, "Yili"), in 2014. For the year ended 31 December 2017, Mengniu and Yili were the Group's most important raw milk purchasers.

Chairman's Statement

PROSPECT

With the continuous increase in the per capita disposable income and consumption level of residents and the increasing maturity of consumption attitude in China, consumers are paying more attention to the source of production and nutrient content of raw materials when consuming dairy products. They hope to see transparent and traceable dairy products. This will further increase the demand for high-end quality raw milk produced locally.

In recent years, the dairy industry in China has experienced deep adjustments. A large number of small and medium-sized dairy farms have withdrawn from the market, and large-scale farms have become scarce resources. After the "13th Five-Year Plan" for the development of the dairy industry in China was introduced, the government launched a number of specific measures to support the development of the dairy industry, and in particular, increased support for large-scale farms.

Under this background, the Group, as a leading enterprise in large-scale farm operations, will keep in line with national policies based on its own business characteristics and the trends of industry and market changes, give overall consideration to the existing industry scale and competitive situation, consolidate the Group's traditional industry advantages through precise management and quality and efficiency improvement, and continuously explore the development path of industrial diversification so as to accumulate strength for future development.



Chairman's Statement

ACKNOWLEDGEMENTS

I would like to take this opportunity to express my sincere gratitude to Shareholders, all our colleagues and business partners on behalf of the Board and thank you for your continued support to and trust in the Group. In the face of a difficult and volatile market environment, with the strong support of all Shareholders and the unremitting efforts of the Board and all our colleagues, the Group will continue to go all out, forge ahead and work hard to achieve a new leap in the Company's business.



MANAGEMENT DISCUSSION AND ANALYSIS



Management Discussion and Analysis

MARKET REVIEW

Milk prices in the international market began to recover slowly in June 2016. Till now, the upward momentum is maintained. On supply-side, the global raw milk production volume resumed growth since March 2017, mainly due to the mild climate in New Zealand and Australia during the milk production season and the EU's slight production expansion. On demand-side, with the global economic recovery, the global demand for dairy products gradually increased. In 2017, the average import price of whole milk powder in the PRC was US\$3,282/tonne, 27.3% higher than last year.

Domestic raw milk prices in the PRC were primarily stable in 2017. In respect of supply, reduction in excess production capacity in the dairy farming industry continued and some small farms were forced to withdraw from the market because of the increasing operation pressure. Moreover, many small farms situated in surrounding areas of large cities were closed for stricter environmental policies imposed by the PRC government. On the other hand, there is still huge room for further development in the domestic dairy product market of the PRC. Whole milk powder import for the country amounted to 470,000 tonnes in 2017, which was 12.0% higher than previous year, indicating an insufficient supply. In respect of demand, as the PRC's economy continues to grow steadily and the standard of living keeps on improving, consumption on dairy products is still on a fast growth track. In the future, the consumption on dairy products will continue to maintain a steady growth as a result of further urbanization, consumption upgrade, change in consumption habits on dairy products and the gradual realization of benefits derived from the two-child policy. According to Euromonitor's data, the real compound annual growth rate of dairy products sales in the PRC from 2011 to 2016 was 7.3% and it is expected the growth rate will be about 5.3% between 2016 and 2021. In short, a slow and steady growth will be maintained for a long time.

The PRC's government spared no effort to further and promote the structural reform on supply side of the dairy industry and the thriving of the industry as shown below.

- On 8 February 2017, Ministry of Agriculture held a symposium for the promotion of the dairy industry. At the meeting, it was proposed that China would implement the "five major actions" to modernize the dairy industry: planting good grass by protection of high quality pastures; raising good cows by healthy dairy farming operations; production of high quality milk by commencement of quality control initiatives; creating brands by launching brand-building campaigns in the dairy industry; and creating a good image for the dairy industry by promotion of "Milk Action to Build a Well-off Society in China" (中國小康牛奶行動).
- During the fifth session of the 12th National People's Congress convened at the Great Hall of the People in March 2017, Minister of Agriculture Han Changfu (韓長賦) pointed out that the dairy industry was a concern of the whole society and a well-off society must have its own dairy industry. It was elaborated that a nation of over billion people should not live without their own dairy industry and Ministry of Agriculture regarded the dairy industry as a focus of agricultural structure reform on supply-side.
- On 2 July 2017, Ministry of Agriculture and the Dairy Association of China jointly released the "2017 Quality Report of Dairy Industry in China" (2017中國奶業質量報告). Through authoritative data and informative materials, the report demonstrated the recent development of PRC's dairy industry, especially the improvement of the quality and safety level which strengthened consumer confidence in domestic dairy products and promoted dairy product consumption.

Management Discussion and Analysis

With the continuous development and higher living standard of the economy, the PRC has a dairy product consumer market with the greatest potential in the world. The development in the dairy industry in the PRC can make enormous contribution to this well-off society and the nation's health. The standardized, large-scale and modernized big dairy farms originating from the mainland are the natural choices resulting from dynamics of market demand and fierce competition. Those farms shall embrace a new round of development opportunities as the dairy product market becomes more regulated and the market structure gradually improves.

BUSINESS REVIEW

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

In 2017, the Group adhered to the operation philosophy of "precise management for better quality and higher efficiency" to reinforce delicacy management with emphasis on quality awareness and effectiveness awareness. With an aim to strengthen our core competitiveness and consolidate our leading position in the industry which has a highly competitive market, the Group have implemented scientific breeding, precise feeding and detailed management with a focus on marketing.

On 4 February 2017, Mr. Zhang Kaizhan (張開展), the executive Director of the Group, was awarded the "First-Class Prize of Science and Technology Award in Shaanxi Province" (陝西省科學技術獎一等獎) in recognition of his outstanding contributions to research integration and demonstration application projects of key technologies in gender control of dairy cows. In September 2017, China Entry-Exit Inspection and Quarantine Association awarded a "Trustworthy Quality Import and Export Enterprise Prize" (中國進出口品質誠信企業獎) to Beijing ZhongDi Stud Livestock Co., Ltd. under the Group. This is the only enterprise in the livestock and poultry import and export industry that has gained this recognition.

Dairy Farming Business

In 2017, the Group focused on quality management and standardization management. Taking performance appraisals of our farms as starting points, the Company strived to comprehensively strengthen farm management and improve the operating efficiency of our farms. Although selling prices of raw milk were under pressure, our farm operation maintained its good performance. In 2017, the average unit selling price of the Group's raw milk was approximately RMB3,711 per tonne which was higher than the national average level. In 2017, the Group's sales of raw milk was 278,406 tonnes, revenue generated from the dairy farming business reached RMB1,033.3 million, representing 91.1% of the Group's total revenue, being the core business of the Group. As the Group has reached long-term purchase and sales strategic partnerships with China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) and its subsidiaries (collectively, "Mengniu") and Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司) and its subsidiaries (collectively, "Yili"), the premium raw milk produced by the Group was mainly sold to Mengniu and Yili for processing into high-end liquid milk, for example, Mengniu's Milk Deluxe (特侖蘇) and Yili's Satine (金典). The Group believes the strong demand for high quality and healthy products from domestic consumers will help the Group maintain its strong competitiveness in the supply of premium raw milk.

Management Discussion and Analysis

1. Scale of dairy farms

Focusing on the development status and market demand of various regions in China, the Group strategically planned the location of its dairy farms to cover seven provinces or regions in Northern China. As at 31 December 2017, the Group operated the following seven modern dairy farms: Beijing ZhongDi Farm, Inner Mongolia Zhong Di Dairy, Helan ZhongDi Farm, Kuandian ZhongDi Farm, Langfang ZhongDi Farm, Tianzhen ZhongDi Farm and Tianjin ZhongDi Farm. Among which, Tianjin ZhongDi Farm commenced commercial production of milk in the second quarter of 2017.

Notes:

1. Inner Mongolia Zhong Di Dairy was previously named "Shangdu ZhongDI Farm".

2. Herd size

	31 December 2017 Heads	31 December 2016 Heads
Milkable dairy cows	33,797	26,316
Heifers and calves	30,403	28,947
	64,200	55,263

As at 31 December 2017, the Group's herd size was 64,200 heads which increased by 8,937 heads as compared with the previous year.

3. Milk yield and sales

The Group's dairy cows are of Holstein breed, the breed with the highest milk production. The average annual milk yield of each lactation cow of the Group for 2017 was 11.9 tonnes, which was a substantial increase over the corresponding period of last year.

In 2017, the sales of domestic raw milk and related products still did not improve significantly. Facing a challenging and sophisticated raw milk market, the Company increased its marketing efforts, strived to make breakthroughs in sales, and extended its sales channels. Our raw milk sales volume amounted 278,406 tonnes, representing an increase of 24.2% as compared to last year. We achieved a decent sales performance in an orderly manner at the backdrop of dramatic growth of raw milk production.

4. Raw milk quality

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

Management Discussion and Analysis

Standard	Protein content (Unit: %)	Fat content (Unit: %)	Aerobic plate count (Unit:/ml)	Somatic cell count (Unit:/ml)
The Company ¹	3.38	3.95	30,700	159,200
EU Standard ²	N/A	N/A	<100,000	<400,000
US Standard ³	≥3.2	≥3.5	<100,000	<750,000
PRC Standard ⁴	≥2.8	≥3.1	<2,000,000	N/A

Notes:

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

Import Trading Business

The Group's import trading business mainly involves imports of dairy cows, alfalfa hay and other animal husbandry related products. The import trading business is divided into import principal trading business and import agency business. During 2017, revenue generated from the Group's import trading business amounted to RMB101.0 million, accounting for 8.9% of the Group's total revenue and representing a slight decrease of 4.4% as compared to the corresponding period of last year. Due to the slow recovery of the dairy market, stricter quality requirements, and a higher epidemic risk, the import trading business show a downward trend. In particular, revenue from import principal trading business amounted to RMB99.8 million, accounting for 98.8% of the revenue from the import trading business. Revenue from import agency business amounted to RMB1.2 million, accounting for 1.2% of the revenue from the import trading business.

PROSPECTS

Dairy industry in China has experienced profound adjustments over the past few years. With the government stepping up its efforts in environmental protection, a large number of small and medium sized dairy farms have been withdrawn from the market, large-scale dairy farms are scarce. Subsequent to the promulgation of the PRC's "13th Five-year Plan" on dairy industry development, China has introduced numerous concrete measures to support the development of dairy industry with increased supportive efforts towards large-scale dairy farms. The Group will benefit from its position as a leading large-scale dairy farm operating enterprise.

In 2017, the Group worked on its management and achieved remarkable results. In the year to come, we will continue our commitment to our management concept of "Precise management for better quality and higher efficiency" by stepping up our efforts in breeding of dairy cows and breeding management, improving the quality and genetic characteristics of dairy cows, further promoting the standardized, normalized and meticulous management of dairy farms, placing emphasis on quality control and further improving the production efficiency and operational efficiency of dairy farms.

Management Discussion and Analysis

The Group will step up its effort in further promoting the mode of operation with the integration between agriculture and animal husbandry and the integration between plantation and grazing. Insisting on “using local materials”, it will reclaim land in the surrounding areas of dairy farms for crop plantations, enhance output and efficiency in the crop plantations; return organic fertilizers back to planting fields and develop recycling in agriculture with an aim to create environmentally friendly and green ecological dairy farms which are safe and comfortable, make waste profitable and maximize resources so as to enhance the sustainability of the industry.

Taking into account of its own business characteristics and the trends of industrial and market changes, the Group will, in response to the national policies, give overall consideration to the existing industry scale and competitions so as to further consolidate its existing strengths through steady expansion in size of dairy farms with a vision of future development. Building on the foundation of its 7 existing dairy farms, the Group will explore on constructing new dairy farms in suitable areas in order to provide nearby sources of milk supply for central, eastern and southern China, optimize the geographical coverage of dairy farms and extend its market reach in the southern China market. It will continue to make unremitting efforts in achieving the sustainable development of the Group and maximizing the interests of shareholders.

FINANCIAL OVERVIEW

Revenue

The table below sets forth the revenue of each business segment of the Group for the years ended 31 December 2017 and 2016, respectively:

	For the year ended 31 December					
	2017			2016		
	External Sales	Internal Sales	Total	External Sales	Internal Sales	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Dairy farming business	1,033,286	—	1,033,286	856,216	—	856,216
Import trading business	100,996	46,308	147,304	105,718	102,013	207,731
Total	1,134,282	46,308	1,180,590	961,934	102,013	1,063,947

The Group's revenue for the year ended 31 December 2017 amounted to RMB1,134.3 million as compared to RMB961.9 million for the year ended 31 December 2016, representing a year-on-year increase of 17.9%. The increase was mainly attributed to an increase in the sales volume of raw milk.

Management Discussion and Analysis

Dairy Farming Business

The revenue from the Group's dairy farming business for the year ended 31 December 2017 amounted to RMB1,033.3 million as compared to RMB856.2 million for the year ended 31 December 2016, representing a year-on-year increase of 20.7%. The increase in revenue from the dairy farming business was attributed to the expansion of the scale of the Group's dairy herds and an increase in milk yield of milkable cows.

The Group's revenue, sales volume and unit selling price of raw milk for the periods indicated are detailed in the table below:

	For the year ended 31 December					
	2017			2016		
	Revenue	Sales Volume	Unit Selling Price	Revenue	Sales Volume	Unit Selling Price
	RMB'000	tonne	RMB/tonne	RMB'000	tonne	RMB/tonne
Raw milk	1,033,286	278,406	3,711	856,216	224,094	3,821

In 2017, the sales volume of raw milk increased by 24.2% as compared to that of 2016. Meanwhile, as affected by the market, the unit selling price of raw milk decreased by 2.9% as compared to that of 2016.

Import Trading Business

The revenue from the Group's import principal trading business and import agency business for the periods indicated is detailed in the table below:

	For the year ended 31 December			
	2017		2016	
	Revenue	Percentage	Revenue	Percentage
	RMB'000		RMB'000	
Import principal trading business	99,755	98.8%	101,295	95.8%
Import agency business	1,241	1.2%	4,423	4.2%
Total	100,996	100.0%	105,718	100.0%

The revenue from the Group's import trading business for the year ended 31 December 2017 amounted to RMB101.0 million as compared to RMB105.7 million for the year ended 31 December 2016, representing a year-on-year decrease of 4.4%, which was mainly attributed to a decrease in the sales of imported alfalfa hay.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

The breakdown analysis of gross profit and gross profit margin before fair value adjustments of the Group's two business segments is set out below:

	For the year ended 31 December			
	2017		2016	
	Gross Profit RMB'000	Gross Profit Margin	Gross Profit RMB'000	Gross Profit Margin
Dairy farming business	387,910	37.5%	310,163	36.2%
Import trading business	5,249	5.2%	14,001	13.2%
Total	393,159	34.7%	324,164	33.7%

Gross profit of the dairy farming business for the year ended 31 December 2017 was RMB387.9 million, representing an increase of 25.0% as compared to the year ended 31 December 2016, which was mainly attributed to a sharp increase in sales volume of raw milk. The gross profit of the Group's import trading business for the year ended 31 December 2017 was RMB5.2 million, representing a decrease of 62.9% as compared to that of the year ended 31 December 2016, which was mainly attributed to the impact of a decrease in the sales volume of imported cows.

Gross profit margin of the Group's dairy farming business for the year ended 31 December 2017 was 37.5%, representing an increase of 1.3% as compared to the gross profit margin of 36.2% for the year ended 31 December 2016, which was mainly attributed to a reduction in cost of raw milk in 2017. The gross profit margin of our import trading business for the year ended 31 December 2017 was 5.2%, representing a decrease of 8.0% as compared to the gross profit margin of 13.2% for the year ended 31 December 2016.

Cost of Sales

Cost of sales of the Group's dairy farming business is as follows:

	For the year ended 31 December			
	2017		2016	
	RMB'000	Percentage	RMB'000	Percentage
Feed	500,181	77.5%	420,443	77.0%
Labour costs	36,142	5.6%	38,001	7.0%
Others	109,053	16.9%	87,609	16.0%
Total	645,376	100.0%	546,053	100.0%

During the year ended 31 December 2017, feed costs represented approximately 77.5% of the cost of sales of the Group's dairy farming business (before fair value adjustments).

Management Discussion and Analysis

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

Net losses from changes in the fair value of biological assets less costs to sell for the year ended 31 December 2017 was RMB176.0 million, representing a year-on-year increase of RMB69.8 million as compared to net losses of RMB106.2 million for the year ended 31 December 2016, which was mainly attributed to the regular and systematic culling of milking cows whose milk yield were low in economic efficiency as compared to their feeding costs and a decline in the average selling price of raw milk with market fluctuations.

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

The gains arising from initial recognition of agricultural produce at fair value less costs to sell upon harvest of the Group increased by approximately 18.9% from RMB291.2 million for the year ended 31 December 2016 to RMB346.1 million for the year ended 31 December 2017, primarily reflecting an increase in the sales volume of the Group's raw milk.

Operating Expenses

	For the year ended 31 December		Rate of Change
	2017 RMB'000	2016 RMB'000	
Distribution costs	46,916	25,726	82.4%
Administration expenses	71,473	79,494	-10.1%
Other expenses	394	1,147	-63.6%
Total	118,783	106,367	11.7%

Operating expenses increased by 11.7% from RMB106.4 million for the year ended 31 December 2016 to RMB118.8 million for the year ended 31 December 2017, which was mainly attributable to the increase in the sales volume of milk.

Finance Costs

Finance costs increased by 196.6% from RMB34.9 million for the year ended 31 December 2016 to RMB103.5 million for the year ended 31 December 2017, which was mainly attributable to the increase in borrowings as a result of the expansion of the scale of our farms.

Capital Expenditure

Capital expenditure of the Group for the year ended 31 December 2017 amounted to RMB691.8 million as compared to RMB1,177.9 million for the year ended 31 December 2016, representing a year-on-year decrease of 41.3%. During the Reporting Period, the capital expenditure of the Group mainly consisted of additions to properties, plant and equipment, prepaid land lease payments and the purchase of non-current biological assets.

Management Discussion and Analysis

Liquidity and Sources of Funds

The working capital of the Group mainly derived from cash inflow generated from daily operating activities and borrowings from financial institutions. As at 31 December 2017, the gearing ratio of the Group was approximately 53.8% (as at 31 December 2016: 51.4%). The gearing ratio was calculated by dividing total liabilities by total assets. The bank balances and cash balance were RMB391.5 million (as at 31 December 2016: RMB428.2 million).

Indebtedness

Borrowings of the Group were denominated in RMB and EUR. As at 31 December 2017, the balance of short-term borrowings including long-term borrowings due within one year was RMB1,087.2 million. As at 31 December 2017, the balance of long-term borrowings after deducting the portion due within one year was RMB634.1 million, of which borrowings with fixed interest rates amounted to approximately RMB571.5 million.

Contingent Liabilities

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

Foreign Exchange Risk

As at 31 December 2017, save for the pledged bank deposits and cash and bank balances of RMB187.0 million which were USD-denominated assets and RMB2.4 million which were HKD-denominated assets, and borrowings of RMB11.5 million which were EUR-denominated borrowings, the other assets and liabilities of the Group were settled in RMB. For the year ended 31 December 2017, the Group did not carry out any financial instruments like foreign currency exchange contracts to hedge such risks.

Significant Investments, Acquisitions and Disposals of Assets

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

Pledge of Assets

Save for the amounts disclosed in note 14 to the Consolidated Financial Statements and the amounts recorded in the pledged bank deposits item in the Consolidated Statement of Financial Position, there was no other pledge of assets of the Group.

Human Resources

The Group had approximately 1,310 formal employees in Mainland China and Hong Kong as at 31 December 2017 (as at 31 December 2016: 1,266). During the Reporting Period, total staff costs (excluding independent non-executive Directors' fees) of the Group were approximately RMB105.7 million (for the corresponding period in 2016: approximately RMB108.3 million).

Management Discussion and Analysis

The Group has made ongoing efforts to adjust and improve our existing remuneration policies with an aim to attract, retain and motivate outstanding employees. With the recruitment of professional management personnel through various channels as well as internal placement and promotion of outstanding staff within the Group, a quality and efficient team has been created for improving the Group's management standard and efficiency, so as to ensure that the Group's business goals can be achieved and shareholders' value can be maximized. The Group will regularly adjust its remuneration policies and employee remuneration and benefits package with reference to industry standards and performance of individual employees.

The Group thinks highly of the occupational health and safety of our employees. It also committed to enhancing safety management across its operations. The Group's safety management system helps to identify and mitigate health and safety risks and maintain control all over the operations.

We will also provide specific and differentiated training to all employees of the Group as planned in order to improve their safety awareness, occupational skills and management standard.

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

The Company adopted the Post-IPO Share Option Scheme (as defined in the prospectus of the Company dated 20 November 2015) on 28 October 2015, details of which are set out in the section headed "Statutory and General Information – D. Other Information – 1. Post-IPO Share Option Scheme" in Appendix IV to the prospectus of the Company.



DIRECTORS AND SENIOR MANAGEMENT



Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhang Jianshe (張建設), aged 57, is our Chairman, executive Director and Chief Executive Officer. He is also the Chairman of the Nomination Committee of our Company. Mr. Zhang Jianshe was appointed as an executive Director in April 2014 and is primarily responsible for the overall management of our Company's strategic planning and supervision of its implementation. He joined our Group in October 2002. He has subsequently assumed various roles in our subsidiaries. He took up the position as a deputy manager of Kuandian ZhongDi Farming Co., Ltd. ("**ZhongDi Kuandian**") from October 2002 to February 2003. Mr. Zhang Jianshe is currently a director of all our subsidiaries. Mr. Zhang Jianshe is a director of YeGu Investment Company Limited ("**YeGu Investment**") and Green Farmlands Group, the controlling Shareholders (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")). Prior to joining our Group, Mr. Zhang Jianshe had served as a staff of the Department of Management on Rural Cooperative Economy of the MOA (中華人民共和國農業部農村合作經濟經營管理總站) from July 1984 to December 1988. He had also served as a department director of China Agricultural Supplies Trading Company Limited (中國農業物資供銷總公司) from January 1989 to May 1996 and the general manager of Beijing Construction and Agriculture Wealth Supplies Trading Company (北京建農順物資商貿公司) from May 1996 to December 1999. He had then been committed to the pursuit of development of his personal business from January 2000 to October 2002 through which he accumulated both financial and industrial foundation for founding our Group. Mr. Zhang Jianshe graduated from Northwest Agriculture College (currently known as Northwest Agriculture and Forestry University (西北農林科技大學)) located in Shaanxi Province with a bachelor's degree of science in management of agricultural economics in July 1984. He has been the vice president of China Animal Agriculture Association (中國畜牧業協會) since December 2011. He is a senior economist in agricultural economics credentialed by the MOA.

Mr. Zhang Kaizhan (張開展), aged 53, was appointed as an executive Director in July 2014 and is primarily responsible for assisting the Chairman in the overall management of strategic planning of our Company and overseeing human resources related matters and operation of the import trading business of our Company. He joined our Group in May 2006 and had served as a director of ZhongDi Stud Livestock from October 2011 to August 2014. Mr. Zhang Kaizhan is the sole director of SiYuan Investment Company Limited ("**SiYuan Investment**"), a controlling Shareholder. Prior to joining our Group, Mr. Zhang Kaizhan had been engaged with China Stud Livestock Import and Export Company Limited (中國種畜進出口有限公司) from July 1988 to May 2006, working at various times as a staff, deputy department manager, department manager and deputy general manager. He had also served as the deputy general manager of SinoFarm Genetics & Seeds (Group) Co., Ltd. ("**SinoFarm Group**") from November 2006 to December 2009. Mr. Zhang Kaizhan graduated from Northwest Agriculture College (currently known as Northwest Agriculture and Forestry University (西北農林科技大學)) located in Shaanxi Province with a bachelor's degree in animal husbandry in July 1988. He has been an executive member of China Dairy Association since November 2010 and an executive member of China Animal Agriculture Association since December 2011 and ceased as such in December 2016. From January 2017, he has served as a committee member of China Animal Agriculture Association. He has also served as a vice president of Beijing Dairy Association (北京奶業協會) since April 2016. He is a senior husbandry engineer credentialed by the MOA.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Liu Dai (劉岱), aged 65, was appointed as a non-executive Director in July 2014 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. He had assumed various roles in our subsidiaries since joining our Group in January 2003, including those set out below:

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

Mr. Liu Dai is the sole director of Tai Shing Company Limited (“**Tai Shing**”), a controlling Shareholder. Prior to joining our Group, Mr. Liu Dai had been engaged with Northern China Shuanghui Food Company Limited (華北雙匯食品有限公司) and had been the deputy director of the Economic and Trading Committee of Ulanqab, Inner Mongolia (內蒙古烏蘭察布盟經濟貿易委員會) until December 2002. Mr. Liu Dai served as the general manager of SinoFarm Group from October 2002 to October 2015. He is an intermediate-level engineer credentialed by the Personnel Department of Inner Mongolia Autonomous Region of the PRC in August 2000.

Mr. Du Yuchen (杜雨辰), aged 41, was appointed as a non-executive Director in March 2015 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. He is also a member of the Remuneration Committee of our Company. Prior to joining our Group, Mr. Du Yuchen had been engaged with Beijing Capital Assets Management Co., Ltd. (北京首創資產管理有限公司), an asset management company, from April 2001 to November 2008, working at various times as a project manager, deputy general manager and general manager of the investment management department. He has also been a director of Nanchang Rotary Cultivator Co., Ltd. (南昌旋耕機有限公司), a company principally engaged in the manufacturing of rotary cultivators and combined cultivators, since March 2007 and ceased as such in November 2016. Mr. Du Yuchen has also been engaged with Beijing Agricultural Investment Co., Ltd. (北京市農業投資有限公司), a company principally engaged in the investment activities in the agricultural industry, since December 2008, working at various times as the head of fund preparatory committee, supervisor and deputy general manager. He has been the executive vice president, general manager and appointed representative of executive affairs partner of Beijing Agriculture Investment Fund (Limited Partnership) (北京農業產業投資基金(有限合夥)) since September 2009. Mr. Du Yuchen has also assumed various positions in several entities principally engaged in investment activities, including the legal representative and chairman of the board of Zhuhai Agriculture Industrial Investment Fund Management Corporation (珠海農業產業投資基金管理公司) since January 2014, the legal representative and chairman of the board of Beijing Nong Jin Fu Investment Center (Limited Partnership) (北京農金服投資中心(有限合夥)) since September 2014 and the legal representative and chairman of the board of Beijing Longtou

Directors and Senior Management

Agricultural Commune Co., Ltd. (北京龍頭農業互助公社股份有限公司) since July 2015. Mr. Du Yuchen is a director of Hubei Yinfeng Cotton Co., Ltd. (湖北銀豐棉花股份有限公司), a company listed on Small and Medium Enterprise Share Transfer System (commonly known as New Over the Counter Market (新三板)) (stock code: 831029) since February 2015 and the legal representative and executive director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司) since May 2015. Mr. Du Yuchen graduated from Jilin University (吉林大學) located in Changchun, Jilin Province with a master's degree in technology economics in March 2001 and Cheung Kong Graduate School of Business (長江商學院) with an executive master's degree in business administration in July 2013.

Mr. Li Jian (李儉), aged 55, joined our Group as a non-executive Director in September 2014 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. Prior to joining our Group, Mr. Li Jian has been the deputy general manager of Kaixin Investment Management (Beijing) Co., Ltd. (開信創業投資管理(北京)有限公司), a private equity investment company, since April 2010. He is currently the managing director of CITIC Capital Investment Fund (中信資本創業投資基金), a company which is also principally engaged in private equity investment. Mr. Li Jian graduated from Massachusetts Institute of Technology with a bachelor's degree of science in electrical engineering and a master's degree of science in electrical engineering and computer science.

Ms. Yu Tianhua (于天華), aged 41, was appointed as a non-executive Director in February 2015 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. She is also a member of the Audit Committee of our Company. Prior to joining our Group, Ms. Yu Tianhua has been engaged with Yangzhou Yalian Steel Pipe Co., Ltd. (揚州亞聯鋼管有限公司) since January 2009 and is currently its vice president and representative of its Beijing Branch. She had also been engaged with the Balloch Group (貝祥投資集團) (now known as Canaccord Genuity Asia) until September 2008. Ms. Yu Tianhua graduated from the University of British Columbia located in Vancouver, Canada with a bachelor's degree in commerce in May 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Li Shengli (李勝利), aged 52, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also the Chairman of the Remuneration Committee and member of the Audit Committee of our Company. Prof. Li Shengli joined our Group in September 2012 and had since then served as an independent director of ZhongDi Stud Livestock until August 2014. Prior to joining our Group, Prof. Li Shengli has been, since September 1996, engaged with the College of Animal Science and Technology in China Agricultural University (中國農業大學), working at various times as an assistant professor, professor, doctor tutor and vice-dean of Animal Nutrition and Feed Science Department of College of Animal Science and Technology. Prof. Li Shengli graduated from Shihezi Agricultural College (石河子農學院) (currently known as Shihezi University (石河子大學)) located in Xinjiang Uyghur Autonomous Region with a bachelor's degree in animal husbandry and veterinary science in July 1987 and China Agricultural University located in Beijing with a doctorate's degree in animal nutrition science in July 1996. Over the years, Prof. Li Shengli has received various awards and accolades acknowledging his accomplishments. For example, he was awarded the Second Prize and the Third Prize of the Beijing Science and Technology Award (北京市科學技術獎) in 2000 and 2011, respectively. He was also awarded the Second Prize of National Science and Technology Progress Award (國家科學技術進步獎二等獎) in 2012 and 2014, the First Prize of Science and Technology Progress Award awarded by the Ministry of Education of the PRC (教育部科技進步獎) in 2013 and the First Prize of China Agricultural Science and

Directors and Senior Management

Technology Progress Award (中華農業科技進步一等獎) awarded by the MOA in 2013. Prof. Li Shengli has assumed various positions in many intra-industry associations, such as an executive member of China Dairy Association (中國奶業協會) since January 2004, the executive member of the Cattle Division of China Animal Agriculture Association (中國畜牧業協會牛業分會) since July 2007, an executive member of China Society of Forestry, Animal Husbandry and Fishery Economics (中國林牧漁業經濟學會) since October 2005 and the president of the Cattle Breeding Division of Chinese Association of Animal Science and Veterinary Medicine (中國畜牧獸醫學會養牛分會) since January 2009. Prof. Li Shengli has been an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司), a company listed on China Venture Exchange (stock code: 300106), since July 2009 and an independent non-executive director of China Modern Dairy Holdings Ltd., a company listed on the Stock Exchange (stock code: 1117), since October 2010.

Dr. Zan Linsen (管林森), aged 54 was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also a member of the Remuneration Committee and the Nomination Committee of our Company. Dr. Zan Linsen joined our Group in September 2012 and had since then served as an independent director of ZhongDi Stud Livestock until August 2014. Prior to joining our Group, Dr. Zan Linsen has been, since 1986, engaged with Northwest Agriculture and Forestry University (formerly known as Northwest Agriculture College), working at various times as an assistant researcher, a deputy researcher, a researcher and a professor. He is currently a professor at the College of Animal Science and Technology of Northwest Agriculture and Forestry University. Dr. Zan Linsen graduated from Northwest Agriculture University located in Shaanxi Province with a bachelor's degree in agriculture in July 1986, a master's degree in agricultural science in December 1992 and a doctorate's degree in agricultural science in July 1997. Over the years, Dr. Zan Linsen has received various awards and accolades acknowledging his accomplishments. For example, he was granted with the special governmental allowance by the State Council in February 2007 in recognition of his contribution to national educational business and was awarded the prize of National Outstanding Scientists (全國優秀科技工作者) by China Association for Science and Technology (中國科學技術協會) in February 2012 and the prize of National Outstanding Research Talents (全國農業科研傑出人才) by the MOA in October 2012. Dr. Zan Linsen was also awarded the prize of Advanced Worker of Animal Husbandry Industry in China (中國畜牧行業先進工作者) by China Animal Agriculture Association in May 2014. He has also been a member of Cattle, Horse and Camel Professional Committee of the Second State Animal Genetic Resources Committee (第二屆國家家畜遺傳資源委員會牛馬駝專業委員會) since March 2012 and a member of the expert consultants' team of the Breeding Committee of China Dairy Association since June 2013.

Mr. Joseph Chow, aged 54, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also the Chairman of the Audit Committee and member of the Nomination Committee of our Company. Prior to joining our Group, Mr. Joseph Chow has accumulated ample experience and knowledge in formulating and monitoring investment strategies through his roles as chief financial officer of various companies and his senior managerial roles in various financial institutions' investment related functions. He has served as an independent non-executive director of CAR Inc., a car rental service provider company listed on the Stock Exchange (stock code: 0699) since January 2016 and an independent director of China Biologic Products, Inc., a company listed on NASDAQ (stock code: CBPO) since December 2014. He has also been a director of China Lodging Group Limited, a multi-brand hotel company listed on NASDAQ (stock code: HTHT), since 2010 and ceased as such in March 2016, a chief financial officer of Synutra International, Inc, an infant milk formula company listed on NASDAQ (stock code: SYUT) from 2009 to October 2015 and an independent non-executive director of Intime Retail (Group) Company Limited, a company listed on the Stock Exchange (stock code: 1833), from February 2007 to 23 June 2017. He also served as the chairman of the audit committee of Intime Retail (Group) Company Limited from June 8, 2009 to 23 June 2017. Prior to that, he had successively served as a managing general partner of CJC Partners, a consulting firm,

Directors and Senior Management

a managing director of Moelis & Company, a global investment bank, a managing director of Goldman Sachs & Co., the chief financial officer of China Netcom (Holdings) Company Limited, a vice president of Citi Capital (now part of Citigroup) and a director of the strategic planning division of Bombardier Capital, a financial services company. Before that, Mr. Joseph Chow had also worked in GE Capital. Mr. Joseph Chow graduated from the University of Maryland, College Park with a master's degree of business administration in May 1993.

SENIOR MANAGEMENT

Mr. Song Naishe (宋乃社), aged 52, was appointed as the deputy general manager of our Company in September 2014 and is primarily responsible for the management of the operation of our dairy farms. He has assumed various roles in our subsidiaries since joining our Group in August 2007, including those set out below:

Name of subsidiary	Position	Tenure
ZhongDi Stud Livestock	supervisor	August 2007 to April 2010
	deputy general manager	January 2010 to November 2017
	general manager	November 2017 to present
ZhongDi Shangdu	supervisor	November 2007 to September 2008
ZhongDi Kuandian	supervisor	November 2007 to September 2008
Beijing ZhongDi Breeding Dairy Cows Research Co., Ltd.	manager	December 2012 to present

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

Directors and Senior Management

Ms. He Shan (何珊), aged 36, was appointed as the chief financial officer of our Company in November 2015 and is primarily responsible for overseeing the overall financial and accounting related matters of our Group. Ms. He Shan joined our Group in January 2010 as the chief accountant responsible for accounting and audit, preparation of financial statements, tax filings and assisting in the preparation of loan facilities. She had worked as the deputy manager of the financial department of ZhongDi Stud Livestock since March 2010 and the manager of the financial department since July 2013 responsible for financial audit, bank financing, financial analysis, budgeting, communication with external accountants and preparation of financial statements. Ms. He Shan had worked as the manager of the finance management center of ZhongDi Stud Livestock responsible for overall management of daily financials, budgeting, financial personnel, debt financing of ZhongDi Stud Livestock and its subsidiaries. Prior to joining our Group, Ms. He Shan had been engaged with SinoFarm Group from August 2005 to December 2009, working at various times as a staff of the import and export department, staff of the trade management department and treasurer and accountant of the financial department. Ms. He Shan graduated from Central University of Finance and Economics (中央財經大學) with a bachelor's degree in finance in July 2004. Ms. He Shan was awarded the certificate of accounting professional by Beijing Finance Bureau (北京市財政局) in June 2008.

Ms. Zhang Xin (張昕) (appointed on 28 July 2017), aged 43, is our company secretary. She joined our Group in June 2017, was appointed as the joint company secretary on 28 July 2017, and was appointed as our company secretary on 27 October 2017. Ms. Zhang Xin is a member of both the Hong Kong Institute of Certified Public Accountants and the Chinese Institute of Certified Public Accountants. Ms. Zhang obtained her Master degree in Business Administration and Bachelor 's degree in Economics from Renmin University of China and has over 20 years' experience in accounting, corporate finance and investment.

Mr. Lian Enchen (廉恩臣) (resigned as the deputy general manager and joint company secretary on 28 July 2017), aged 47, was appointed as the deputy general manager and the joint company secretary of our Company in September 2014 and is primarily responsible for company secretarial matters and legal affairs of our Company. Mr. Lian Enchen joined our Group in January 2012 and has served as deputy general manager and the secretary of the board of ZhongDi Stud Livestock since August 2012.

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

Ms. Ng Sin Yee, Clare (吳倩儀) (resigned on 27 October 2017), aged 56, was appointed as the other joint company secretary of our Company on 19 September 2014. Ms. Ng is a fellow of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a holder of the Practitioner's Endorsement from Hong Kong Institute of Chartered Secretaries. Ms. Ng is currently a director of the Corporate Services Department of Tricor Services Limited. Before joining the Tricor Group, Ms. Ng worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng has more than 25 years of experience in the company secretarial field and has been providing corporate services to both multi-national companies and listed companies in Hong Kong.



CORPORATE GOVERNANCE REPORT



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance within the Group, and the Board considers that effective corporate governance marks an important contribution to corporate success and to enhancing shareholders value.

The Company adopted the code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules and has applied the principles in the CG Code throughout the year ended 31 December 2017.

The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

In the opinion of the Directors, throughout the year ended 31 December 2017, the Company has complied with all code provisions as set out in the CG Code, except for code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, details of which are set out in the section headed “Chairman and Chief Executive Officer”.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has devised its own code of conduct for securities transactions (the “**Company’s Securities Dealings Code**”) regarding Directors’ and Restricted Persons’ (as defined in the Company’s Securities Dealings Code) dealings in the Company’s securities on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company’s Securities Dealings Code throughout the year ended 31 December 2017.

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

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises nine members as follows:

Executive Directors:

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

Mr. Zhang Kaizhan

Non-executive Directors:

Mr. Liu Dai

Mr. Du Yuchen (*Member of the Remuneration Committee*)

Mr. Li Jian

Ms. Yu Tianhua (*Member of the Audit Committee*)

Independent Non-executive Directors:

Prof. Li Shengli (*Chairman of the Remuneration Committee and Member of the Audit Committee*)

Dr. Zan Linsen (*Member of the Remuneration Committee and the Nomination Committee*)

Mr. Joseph Chow (*Chairman of the Audit Committee and Member of the Nomination Committee*)

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 21 to 27 of this annual report. None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Zhang Jianshe is the Chairman and Chief Executive Officer of the Company. He is also the founder of the Group. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Zhang would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. Furthermore, in view of Mr. Zhang's extensive industrial experience and significant role in the historical development of the Group, the Board believes that it is beneficial to the business prospects of the Group that Mr. Zhang continues to act as both Chairman and Chief Executive Officer, and the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors, non-executive Directors and independent non-executive Directors.

Corporate Governance Report

Independent Non-executive Directors

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

Each of the executive Directors is appointed under a services contract and each of the non-executive Directors (including independent non-executive Directors) is appointed under a letter of appointment for an initial term of three years commencing from 2 December 2015, when the Shares were listed on the Main Board of the Stock Exchange, subject to renewal after the expiry of the current term.

Under the articles of association of the Company, at each annual general meeting, one-third or not less than one-third (if their number is not a multiple of three) of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

According to the current corporate governance practices of the Company, any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by the Shareholders at the first general meeting after appointment.

Responsibilities of the Board

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

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

Corporate Governance Report

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

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

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2017, the Company had organized a training session of the Disclosure of Interests Online System and all Directors has joined such training. The training includes disclosure of interests required to be conducted by substantial shareholders, directors and chief executives, time for disclosure of interests disclosure, operation procedures etc..

BOARD COMMITTEES

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

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

Corporate Governance Report

Audit Committee

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code.

The main duties of the Audit Committee include:-

- reviewing the financial information and reporting process of the Company;
- reviewing the internal control and risk management systems and effectiveness of the internal audit function of the Company;
- reviewing and monitoring the audit plan, relationship with and appointment of external auditor; and
- reviewing the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings to review, in respect of the year ended 31 December 2017, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, scope of works and appointment of external auditors and engagement of non-audit services and connected transactions.

The Audit Committee also met with the external auditor twice without the presence of the executive Directors.

Remuneration Committee

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code.

The primary functions of the Remuneration Committee include:-

- reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- reviewing and making recommendations to the Board on the remuneration policy and structure for all Directors and senior management; and
- establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy of the Directors and senior management.

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

Corporate Governance Report

Nomination Committee

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include:-

- reviewing the structure, size and composition of the Board;
- developing and formulating relevant procedures for the nomination and appointment of Directors;
- making recommendations to the Board on the appointment and succession planning of Directors; and
- assessing the independence of independent non-executive Directors.

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

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

The Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring directors standing for re-election at the forthcoming annual general meeting.

Corporate Governance Functions

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

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

Corporate Governance Report

ATTENDANCE RECORD OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2017 is set out in the table below:

Name of Director	Board		Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Extraordinary General Meeting
	Attendance by		Attendance/	Attendance/	Attendance/	Attendance/	Attendance/
	Person/Number of Meetings	Alternate/ Number of Meetings	Number of Meetings	Number of Meetings	Number of Meetings	Number of Meetings	Number of Meetings
Executive Director:							
Mr. Zhang Jianshe	6/6	N/A	N/A	N/A	1/1	1/1	N/A
Mr. Zhang Kaizhan	5/6	1/6	N/A	N/A	N/A	1/1	N/A
Non-executive Director:							
Mr. Liu Dai	6/6	N/A	N/A	N/A	N/A	1/1	N/A
Mr. Du Yuchen	5/6	N/A	N/A	1/1	N/A	—/1	N/A
Mr. Li Jian	5/6	1/6	N/A	N/A	N/A	1/1	N/A
Ms. Yu Tianhua	6/6	N/A	2/2	N/A	N/A	1/1	N/A
Independent Non-executive Director:							
Prof. Li Shengli	6/6	N/A	2/2	1/1	N/A	1/1	N/A
Dr. Zan Linsen	6/6	N/A	N/A	1/1	1/1	1/1	N/A
Mr. Joseph Chow	6/6	N/A	2/2	N/A	1/1	1/1	N/A

Apart from regular Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of the executive Directors during the year.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

Corporate Governance Report

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The Internal Audit Department is responsible for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2017.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems of the Company, including the financial, operational and compliance controls, for the year ended 31 December 2017, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 55 to 58 of this annual report.

Corporate Governance Report

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company in respect of audit services for the year ended 31 December 2017 amounted to RMB2,350,000 and no non-audit services fee was paid to the auditors.

COMPANY SECRETARY

Mr. Lian Enchen has resigned as the joint company secretary of the Company on 28 July 2017 and Ms. Zhang Xin replaced Mr. Lian Enchen for the role of joint company secretary. Ng Sin Yee resigned as the joint company secretary of the Company on 27 October 2017. Therefore Ms. Zhang Xin is the only company secretary appointed after the resignation of Ms. Ng Sin Yee.

During the year ended 31 December 2017, the company secretary has complied with the professional training requirement of taking no less than 15 hours of relevant professional training as set out in Rule 3.29 of the Listing Rules.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels and a Shareholders' Communication Policy is in place to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

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

Convening an Extraordinary General Meeting

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

Corporate Governance Report

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: China ZhongDi Dairy Holdings Company Limited
20/F, 238 Des Voeux Road Central
No. 238 Des Voeux Road Central
Hong Kong
PRC
(For the attention of Ms. Zhang Xin, company secretary)
Fax: +852-23418988
Email: ir@zhongdidairy.hk

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

During the Review Period, the Company has not made any changes to its articles of association. An up to date version of the Company's articles of association is available on the Company's website and HKEx's website.



DIRECTORS' REPORT



Directors' Report

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

PRINCIPAL OPERATIONS

The Group mainly operates two major businesses: dairy farming business and livestock import trading business. Dairy farming business includes production and sales of premium raw milk and the feeding, breeding and sales of dairy cows, etc. Import trading business mainly includes imports and sales of high quality dairy cows and breeding of livestock as well as import trading business in alfalfa hay and other animal husbandry related products. In particular, production and sales of raw milk are our main sources of income. The details of the principal operations of major subsidiaries of the Company are set out in note 1 to the Consolidated Financial Statements.

GROUP RESULTS

The results of the Group for the Reporting Period and the financial position of the Company and the Group as at 31 December 2017 are set out on pages 59 to 140 of the Consolidated Financial Statements.

ISSUED SHARES

As at 31 December 2017, the Company had an aggregate of 2,174,078,000 Shares in issue.

BUSINESS REVIEW

The business review of the Group for the Reporting Period and the discussion on and the analysis of the important factors relating to the performance and results and financial position of the Group are set out in the Chairman's Statement on pages 6 to 9 of this annual report and the Management Discussion and Analysis on pages 10 to 20 of this annual report. The discussion on the future business development of the Group is set out in the section headed "PROSPECT" in the Chairman's Statement and the section headed "PROSPECT" in the Management Discussion and Analysis of this annual report. The explanations of the relationship of the Company with its employees, customers, suppliers and parties who have a significant influence on the Group are set out in the section headed "HUMAN RESOURCES" in the Management Discussion and Analysis and the section headed "MAJOR CUSTOMERS AND SUPPLIERS" in the Directors' Report of this annual report, respectively.

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

Directors' Report

MAJOR RISKS AND UNCERTAINTIES

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

1. *Product Safety and Quality Risk*

Real or perceived incidents of product contamination could materially and adversely affect our reputation, results of operations and financial position, and subject us to regulatory actions and contractual liabilities. During the Reporting Period and up to the date of this annual report, the raw milk sold by us has not been found to have contaminants or reported to be associated with any contamination incidents, and we have not been subject to any product liability claims. However, there can be no assurance that contamination will not happen during the production and transportation of our products.

2. *Disease Risk*

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

3. *Customer Reliance Risk*

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

Directors' Report

4. *Foreign Competition Risk*

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

5. *Feed Price Risk*

Our dairy farming operations require a substantial amount of feeds. Our feed costs represented approximately 77.5% of the cost of sales for raw milk before biological fair value adjustments. Therefore, fluctuations in feed prices and disruptions of our feed supply could materially and adversely affect our business and results of operations.

6. *Industry Risk*

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

7. *Other Risks*

- 1) During the transition period in which we expand our operating dairy farms, or in the event of any failure in our quality control system, we may not be able to guarantee the production volume and quality of our raw milk, which could materially and adversely affect our business;
- 2) The market prices of raw milk are driven by external supply and demand factors. In the event that the applicable price is lower than our expected level, our business, results of operations and financial position could be materially and adversely affected;
- 3) Our results of operations are subject to fair value adjustments in relation to biological assets and agricultural produce at the point of harvest, which can be volatile and are subject to a number of assumptions;
- 4) Disruptions of operations at our facilities could materially and adversely affect our business;
- 5) Natural disasters, acts of war and other factors beyond control may materially and adversely affect our business, results of operations and financial position;
- 6) We may not have full control over third-party contractors or service providers;
- 7) We may face challenges and incur additional costs if we expand into the downstream dairy products market in the future; and
- 8) Other risks relating to the industry and conducting business in the PRC.

Directors' Report

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

To the best knowledge of the Board, for the year ended 31 December 2017, the Group has not been involved in any litigation or arbitration of material importance and there is no legal proceeding or claim of material importance pending or threatened by or against the Group.

Directors' Report

DIVIDENDS

Based on the funding requirement of the Group's business expansion, the Board did not recommend the payment of a final dividend for the year ended 31 December 2017.

SHARE CAPITAL

As at 31 December 2017 was US\$21,740.78, divided into 2,174,078,000 Shares of US\$0.00001 each. Details of the movements in the share capital of the Company during the Reporting Period are set out in note 23 to the Consolidated Financial Statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2017, none of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Reporting Period are set out in note 32 to the Consolidated Financial Statements and Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution to the Shareholders, comprising retained profits, if any, and share premium, amounted to approximately RMB947.4 million (31 December 2016: RMB962.1 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the changes in the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the Consolidated Financial Statements.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the largest customer and supplier of the Group accounted for 49.6% and 22.6% of the Group's total revenue and total purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for 97.3% and 39.8% of the Group's total revenue and total purchases, respectively. None of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the issued Shares) had a material interest in our five largest suppliers or customers. For further details, please refer to the section headed "3. Customer Reliance Risk" of this report.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

Pursuant to article 16.18 of the articles of association of the Company, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. As such, each of Mr. Zhang Kaizhan, executive Director, Mr. Li Jian, non-executive Director, and Mr. Li Shengli, independent non-executive Director, shall retire at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election as Directors thereat.

Directors' Report

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as set out in note 28 to the Consolidated Financial Statements, no transaction, arrangement or contract of significance in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during the Reporting Period or at the end of the Reporting Period. Save as set out in note 28 to the Consolidated Financial Statements, during the Reporting Period, no contract of significance had been entered into between the Company or any of its subsidiaries, and the controlling Shareholders or any of its subsidiaries, nor had any contract of significance been entered into for the provision of service by the controlling Shareholders or any of its subsidiaries to the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

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

DIRECTORS' INTERESTS IN SUBSCRIPTION OF SHARES AND DEBENTURES

At no time during the Reporting Period was the Company or any of its subsidiaries, the holding company or its fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or convertible securities including debentures of, the Company or any other corporations.

Directors' Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the Directors are subject to the recommendations of the remuneration committee of the Company and the Board's approval. Other remuneration, including discretionary bonuses (if any), are determined by the Board with reference to, among other things, the performance of the Group and the Directors' abilities and performance.

The details of the remuneration of the Directors and chief executive of the Company are set out in note 9 to the Consolidated Financial Statements. The remuneration of other senior management members of the Company is within the following scope:

	2017 (Person)	2016 (Person)
RMB0.8 million and below	—	0
RMB0.8 million to RMB1 million	3	2
RMB1 million to RMB1.2 million	—	1
Total	3	3

SERVICE CONTRACTS OF DIRECTORS

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

PERMITTED INDEMNITY PROVISIONS

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

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

SHARE OPTION SCHEME

The Company adopted the Post-IPO Share Option Scheme (the "**Share Option Scheme**") on 28 October 2015 (effective on 2 December 2015 (the "**Listing Date**")), a type of equity-linked agreement, with a view to enabling the Company to grant share options to selected participants and providing the Company with a flexible means to retain, motivate, incentivize, reward, remunerate, compensate and/or provide benefits to selected participants.

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

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

Directors' Report

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

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

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

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

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

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

Directors' Report

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

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

For the year ended 31 December 2017, no share options were granted by the Company or remained outstanding under the Share Option Scheme and no relevant expenses were recognized for 2016.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code contained in Appendix 10 to the Listing Rules were as follows:

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

Name of Director	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2017
Zhang Jianshe ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%
Zhang Kaizhan ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%
Liu Dai ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%

Directors' Report

Notes:

- (1) As at 31 December 2017, Mr. Zhang Jianshe was the sole shareholder of YeGu Investment which directly held 350,778,000 Shares and indirectly held, through its shareholding in Green Farmlands Group, 315,790,000 Shares. Accordingly, under the SFO, Mr. Zhang Jianshe was deemed to be interested in the 666,568,000 Shares held directly and indirectly by YeGu Investment. In addition, as at 31 December 2017, Mr. Zhang Kaizhan and Mr. Liu Dai, through their respective holding companies (namely SiYuan Investment and Tai Shing, indirectly held 61,460,000 Shares and 147,040,000 Shares, respectively.

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

As such, as at 31 December 2017, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai would, through their respective holding companies, together hold 875,068,000 Shares, representing approximately 40.25% of the issued share capital of the Company as of 31 December 2017. Under the SFO, because of the Concert Parties Arrangement, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai were each deemed to be interested in 40.25% of the issued share capital of the Company as at 31 December 2017.

Save as disclosed above, as at 31 December 2017, so far as was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (as defined in Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code.

Directors' Report

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

As at 31 December 2017, so far as was known to the Directors or chief executive of the Company and as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under section 336 of the SFO, the interests or short positions of persons other than the Directors and chief executive of the Company in the Shares and underlying Shares were as follows:

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

Name of Substantial Shareholder	Nature of Interest	Number of Shares	Approximate
			Percentage of Total Issued Share Capital of the Company as at 31 December 2017
Li Jingtao ⁽¹⁾	Interest of spouse	875,068,000(L)	40.25%
YeGu Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Zhang Fanghong ⁽²⁾	Interest of spouse	875,068,000(L)	40.25%
SiYuan Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Yang Shulan ⁽³⁾	Interest of spouse	875,068,000(L)	40.25%
Tai Shing	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Green Farmlands Group	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%

Directors' Report

Name of Substantial Shareholders	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2016
New Energy Investment GP Ltd ⁽⁴⁾	Beneficial owner	315,790,000(L)	14.53%
New Energy Investment Limited Partnership ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	14.53%
VTD705HL HongKong Ltd. ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	14.53%
Shanghai Jingmu Investment Center ("Shanghai Jingmu") ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	12.78%
Goldstone Agri-Investment Funds Management Center (Limited Partnership) ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	12.78%
Beijing Agriculture Investment Fund (Limited Partnership) ("Agriculture Investment Fund") ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	12.78%
Beijing Jianye Fengde Investment Consulting Co., Ltd. ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	12.78%
Agriculture Investment Company Limited ⁽⁵⁾ ("Agriculture Investment")	Beneficial owner	172,500,000(L)	7.93%
CITIC Capital Holdings Limited ⁽⁶⁾	Interest of controlled corporation	174,100,000(L)	8.01%

Directors' Report

Notes:

- (1) Ms. Li Jingtao is the spouse of Mr. Zhang Jianshe and is therefore deemed to be interested in the same number of Shares in which Mr. Zhang Jianshe is interested under the SFO.
- (2) Ms. Zhang Fanghong is the spouse of Mr. Zhang Kaizhan and is therefore deemed to be interested in the same number of Shares in which Mr. Zhang Kaizhan is interested under the SFO.
- (3) Ms. Yang Shulan is the spouse of Mr. Liu Dai and is therefore deemed to be interested in the same number of Shares in which Mr. Liu Dai is interested under the SFO.
- (4) VTD705HL Hong Kong Ltd. is wholly owned by New Energy Investment Limited Partnership and New Energy Investment Limited Partnership is wholly owned by New Energy Investment GP Ltd. Each of New Energy Investment Limited Partnership and New Energy Investment GP Ltd. is deemed to be interested in the same number of Shares in which VTD705HL Hong Kong Ltd. is interested under the SFO.
- (5) Shanghai Jingmu is the sole shareholder of both Agriculture Investment and Jingmu Investment Company Limited and is therefore deemed to be interested in the same number of Shares held by them (being 277,760,000 Shares in total). Agriculture Investment Fund is the limited partner of Shanghai Jingmu holding approximately 75.05% of its registered capital, while Goldstone Agri-Investment Funds Management Center (Limited Partnership) is the general partner of Shanghai Jingmu holding approximately 0.11% of its registered capital. Accordingly, each of Agriculture Investment Fund and Goldstone Agri-Investment Funds Management Center (Limited Partnership) is deemed to be interested in the 277,760,000 Shares held by Agriculture Investment and Jingmu Investment Company Limited under the SFO. Furthermore, Beijing Jianye Fengde Investment Consulting Co., Ltd., the general partner of Goldstone Agri-Investment Funds Management Center (Limited Partnership), is also deemed to be interested in the 277,760,000 Shares referenced above under the SFO.
- (6) CITIC Capital Holdings Limited held 174,100,000 Shares through a number of wholly-owned subsidiaries.

Save as disclosed above, as at 31 December 2017, the Directors had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Report

The details of the related party transactions conducted by the Group in the usual course of business during the Reporting Period are set out in note 28 to the Consolidated Financial Statements. None of the related party transactions as set out in note 28 to the Consolidated Financial Statements are connected transactions or continuing connected transactions that are required to be disclosed under the Listing Rules. The Company confirms that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

So far, there are no significant events after the Reporting Period which are required to be disclosed.

DONATIONS

During the Reporting Period, the Group made charitable and other donations amounting to RMB241,004 (31 December 2016: RMB41,004).

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2017 has been audited by Ernst & Young, the auditors of the Company. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhang Jianshe

Chairman

27 March 2018

Independent Auditor's Report



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To the shareholders of China ZhongDi Dairy Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 140, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2017, 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 ("IASB") 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 ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("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"), and we have fulfilled our other ethical responsibilities in accordance with 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key audit matter

How our audit addressed the key audit matter

Valuation of biological assets

Biological assets of the Group, which represented dairy cows, amounted to RMB1,602,110,000 as of 31 December 2017 and are measured at fair value less costs to sell. Dairy cows included cows held for sale, milkable cows and heifers and calves, which are for the purpose of selling and producing raw milk. Management's assessment on the fair value of biological assets is important to our audit since (i) the carrying values of biological assets accounted for approximately 36% of the total assets of the Group; and (ii) significant estimates were involved in the assessment.

The accounting policies, significant estimation and fair value disclosures of biological assets are included in notes 2.5, 3 and 16 to the consolidated financial statements.

Management has engaged an external valuer to perform valuation of the biological assets as at 31 December 2017. We assessed the objectivity, independence and competence of the external valuer, and benchmarked the parameters used in the valuation model to the external data. We involved our internal valuation specialists to assist in evaluating the valuation technique and the underlying assumptions of estimated local selling price of 14 months old heifers, local market price of heifers held for sale and discount rates. We also evaluated other key assumptions, such as feed costs per kilogram of raw milk, daily milk yield at each lactation cycle, and local future market prices for raw milk. In addition, we reviewed the adequacy and appropriateness of the disclosures relating to the fair value measurement of biological assets.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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.

Independent Auditor's Report

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our report is made solely to you, as a body, 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.

Independent Auditor's Report

- 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.
- 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 to 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 TONG KA YAN AUGUSTINE.

Ernst & Young

Certified Public Accountants

Hong Kong

27 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2017

	Notes	2017			2016		
		Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000	Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
REVENUE	5	1,134,282	—	1,134,282	961,934	—	961,934
Cost of sales	6	(741,123)	(350,303)	(1,091,426)	(637,770)	(300,144)	(937,914)
Gross profit		393,159	(350,303)	42,856	324,164	(300,144)	24,020
Losses arising from changes in fair value less costs to sell of biological assets		—	(176,016)	(176,016)	—	(106,207)	(106,207)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		—	346,127	346,127	—	291,169	291,169
Other income	5	34,975	—	34,975	32,547	—	32,547
Other gains and losses	5	(12,300)	—	(12,300)	12,488	—	12,488
Distribution costs		(46,916)	—	(46,916)	(25,726)	—	(25,726)
Administrative expenses		(71,473)	—	(71,473)	(79,494)	—	(79,494)
Other expenses	7	(394)	—	(394)	(1,147)	—	(1,147)
Finance costs	8	(103,482)	—	(103,482)	(34,850)	—	(34,850)
PROFIT BEFORE TAX	6	193,569	(180,192)	13,377	227,982	(115,182)	112,800
Income tax expenses	11	—	—	—	—	—	—
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		193,569	(180,192)	13,377	227,982	(115,182)	112,800
Profit and total comprehensive income attributable to owners of the parent		193,569	(180,192)	13,377	227,982	(115,182)	112,800
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:							
– Basic and diluted (RMB cents)	13			0.6			5.2

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,810,887	1,760,031
Prepayments		26,048	6,762
Pledged deposits	29	14,646	—
Prepaid land lease payments	15	87,600	91,373
Biological assets	16	1,601,330	1,413,400
Total non-current assets		3,540,511	3,271,566
CURRENT ASSETS			
Inventories	17	320,299	286,628
Trade and other receivables	18	148,413	111,480
Prepaid land lease payments	15	3,787	3,984
Biological assets	16	780	45,480
Pledged bank deposits	19	8,552	20,030
Cash and bank balances	19	391,508	428,198
Total current assets		873,339	895,800
CURRENT LIABILITIES			
Trade and other payables	20	622,459	722,306
Interest-bearing bank and other borrowings	21	1,087,158	930,025
Total current liabilities		1,709,617	1,652,331
NET CURRENT LIABILITIES		(836,278)	(756,531)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,704,233	2,515,035
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	21	634,084	460,250
Deferred income	22	31,376	29,389
Total non-current liabilities		665,460	489,639
Net assets		2,038,773	2,025,396

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	23	135	135
Share premium and reserves	24	2,038,638	2,025,261
Total equity		2,038,773	2,025,396

Zhang Jianshe

Director

Zhang Kaizhan

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the parent					Total equity RMB'000
	Share capital RMB'000 note 23	Share premium RMB'000	Capital reserve RMB'000 note 24	Statutory surplus reserve RMB'000 note 24	Retained profits RMB'000	
At 1 January 2016	135	1,017,681*	398,541*	30,312*	464,456*	1,911,125
Profit and total comprehensive income for the year	—	—	—	—	112,800	112,800
Issue of shares (note 23 (a))	—	1,471	—	—	—	1,471
Transfer from retained profits	—	—	—	12,488	(12,488)	—
At 31 December 2016 and at 1 January 2017	135	1,019,152*	398,541*	42,800*	564,768*	2,025,396
Profit and total comprehensive income for the year	—	—	—	—	13,377	13,377
Transfer from retained profits	—	—	—	10,840	(10,840)	—
At 31 December 2017	135	1,019,152*	398,541*	53,640*	567,305*	2,038,773

* These reserve accounts comprise the consolidated reserves of RMB2,038,638,000(2016: RMB2,025,261,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		13,377	112,800
Adjustments for:			
Losses arising from changes in fair value less costs to sell of biological assets		189,669	115,182
Depreciation of items of property, plant and equipment	6	47,542	32,949
Recognition of prepaid land lease payments	6	19,026	16,145
Government grants for assets	5	(2,674)	(15,794)
Finance costs	8	103,482	34,850
Interest income	5	(6,371)	(707)
Loss on disposal of items of property, plant and equipment	5	48	206
Foreign exchange differences, net	5	11,385	(10,554)
		375,484	285,077
Decrease in inventories		3,208	58,343
Increase in trade and other receivables		(18,894)	(45,767)
Decrease in cows held for sale		44,700	4,163
Increase/(decrease) in trade and other payables		(6,419)	208,594
Cash generated from operations		398,079	510,410
Interest received		3,571	707
Net cash flows from operating activities		401,650	511,117

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows from operating activities		401,650	511,117
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(300,490)	(458,646)
Additions to biological assets		(407,269)	(372,274)
Additions to prepaid land lease payments		(67,370)	(66,109)
Proceeds from disposal of items of property, plant and equipment		—	1,248
Proceeds from disposal of biological assets		88,997	69,973
Placement of pledged bank deposits		(28,089)	(30,988)
Withdrawals of pledged bank deposits		39,567	49,247
Net proceeds from acquisition of subsidiaries		388	—
Prepayment for acquisition of non-current assets		(10,000)	—
Purchase of time deposits with original maturity of more than three months		—	(153,181)
Receipt of government grants for assets		4,661	18,142
Net cash flows used in investing activities		(679,605)	(942,588)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	23	—	1,471
New borrowings raised		1,343,127	1,325,619
Repayment of borrowings		(1,012,160)	(897,693)
Interest and guarantee fees paid		(61,916)	(32,878)
Pledged deposits placed for other borrowings		(16,400)	—
Net cash flows from financing activities		252,651	396,519
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		267,953	296,380
Effect of foreign exchange rate changes, net		(2,081)	6,525
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Represented by cash and bank balances:			
Cash and bank balances as stated in the consolidated statement of financial position		391,508	428,198
Less: Time deposits with original maturity of more than three months		(150,940)	(160,245)
		240,568	267,953

Notes to Consolidated Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Paid-in capital	Percentage of equity attributable to the Company		Principal Activities
			Direct	Indirect	
中地牧業科技集團有限公司 ZhongDi Farm Technology Corporation# ("ZhongDi Farm ¹ ")	Beijing, PRC	RMB 904,709,000	—	100	Import goods and technology
北京中地種畜有限公司 Beijing ZhongDi Stud Livestock Co., Ltd.# ("ZhongDi Stud Livestock")	Beijing, PRC	RMB 904,709,000	—	100	Import and sales of cows
賀蘭中地生態牧場有限公司 Helan ZhongDi Farming Co., Ltd.# ("Helan ZhongDi")	Ningxia, PRC	RMB 800,000,000	—	100	Dairy farming operation
廊坊中地生態牧場有限公司 Langfang ZhongDi Farming Co., Ltd. # ("Langfang ZhongDi")	Hebei, PRC	RMB 400,000,000	—	100	Dairy farming operation
北京中地畜牧科技有限公司 Beijing ZhongDi Livestock Technology Co., Ltd.# ("Beijing ZhongDi")	Beijing, PRC	RMB 31,000,000	—	100	Dairy farming operation
內蒙古中地乳業有限公司 Inner Mongolia ZhongDi Dairy Co., Ltd.# ("Inner Mongolia ZhongDi ² ")	Inner Mongolia, PRC	RMB 800,000,000	—	100	Dairy farming operation
天鎮中地生態牧場有限公司 Tianzhen ZhongDi Farming Co., Ltd.# ("Tianzhen ZhongDi")	Shanxi, PRC	RMB 400,000,000	—	100	Dairy farming operation
天津中地畜牧科技有限公司 Tianjin ZhongDi Livestock Co., Ltd.# ("Tianjin ZhongDi")	Tianjin, PRC	RMB 178,141,000	—	100	Dairy farming operation

Notes to Consolidated Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries (continued)

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

Notes:

1. ZhongDi Farm was previously named ZhongDi Dairy Group Co., Ltd.
2. Inner Mongolia ZhongDi was previously named Shangdu ZhongDi Farming Co., Ltd.
3. The type of legal entity registered of the above subsidiaries is limited liability company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PRESENTATION

The Group had net current liabilities of RMB836,278,000 as at 31 December 2017. In view of the net current liabilities position, the board of directors (the "Directors") have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities available as at 31 December 2017 and cash flow projections for the year ended 31 December 2018, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

Notes to Consolidated Financial Statements

31 December 2017

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (“IASB”), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for biological assets and agricultural produce upon harvest which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to Consolidated Financial Statements

31 December 2017

2.2 BASIS OF PREPARATION *(continued)*

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of disclosure requirements in IFRS 12</i>

Other than as explained below regarding the impact of amendments to IAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 25 to the financial statements.

Notes to Consolidated Financial Statements

31 December 2017

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts¹</i>
IFRS 9	<i>Financial Instruments¹</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation²</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
IFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers¹</i>
IFRS 16	<i>Leases²</i>
Amendments to IAS 19	<i>Employee Benefits²</i>
Amendments to IAS 28	<i>Investments in Associates and Joint Ventures²</i>
Amendments to IAS 40	<i>Transfers of Investment Property¹</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments²</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to IFRS 1 and IAS 28¹</i>
<i>Annual Improvements 2015-2017 Cycle</i>	<i>Amendments to IFRS 3, IFRS 11, IAS 12, and IAS 23²</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below: Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and is not expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of this standard, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

Notes to Consolidated Financial Statements

31 December 2017

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

(continued)

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that there will be no provision for impairment upon the initial adoption of the standard.

IFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 from 1 January 2018 and plans to adopt the full retrospective approach. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

Notes to Consolidated Financial Statements

31 December 2017

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

(continued)

The Group's principal activities consist of operations of dairy farms to produce raw milk and importing and selling cows. The expected impacts arising from the adoption of IFRS 15 are not significant.

IFRS 16, issued in January 2016, replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 27 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB599,987,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Business combinations and goodwill

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (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); and
 - (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 parent of the Group.

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Biological assets

Biological assets comprise dairy cows, including cows held for sale, milkable cows, and heifers and calves.

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

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

Agricultural produce

Agricultural produce represents raw milk produced. Upon harvest, agricultural produce is recognised at its fair value less costs to sell, which is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of the agricultural produce, mainly transportation costs, excluding finance costs and income tax. A gain or loss arising from agricultural produce at the point of harvest measured at fair value less costs to sell is included in profit or loss for the period which it arises.

Non-current assets and disposal groups held for sale

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

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

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products.

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

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

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (continued)

Available-for-sale financial investments

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (continued)

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (continued)

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax (continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

Grants relating to biological assets

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants (continued)

Other grants

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

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

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Pension scheme

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Notes to Consolidated Financial Statements

31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Valuation of biological assets

The Group's biological assets are valued at fair value less costs to sell at the end of each reporting period. The determination of the fair value involves the use of assumptions and estimates. Any changes in the estimates may affect the fair value of the Group's biological assets significantly. The independent qualified professional valuer and management of the Group review the assumptions and estimates periodically to identify any significant change in fair value of the Group's biological assets. The carrying amount of the Group's biological assets as at 31 December 2017 was RMB1,602,110,000 (2016: RMB1,458,880,000). Further details are given in note 16 to the financial statements.

4. SEGMENT INFORMATION

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

4. SEGMENT INFORMATION (continued)

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

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

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

Year ended 31 December 2017	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,033,286	100,996	1,134,282
Intersegment sales	—	46,308	46,308
	1,033,286	147,304	1,180,590
<i>Reconciliation:</i>			
Elimination of intersegment sales			(46,308)
Revenue			1,134,282
Segment results	157,134	773	157,907
<i>Reconciliation:</i>			
Fair value adjustments of biological assets			1,110
Elimination of intersegment results			(2,790)
Finance costs			(103,482)
Corporate and other unallocated expenses			(39,368)
Profit before tax			13,377
Segment assets	4,386,382	275,224	4,661,606
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(517,585)	(41,486)	(559,071)
	3,868,797	233,738	4,102,535
Fair value adjustments of biological assets			220,394
Corporate and other unallocated assets			90,921
Total assets			4,413,850

Notes to Consolidated Financial Statements

31 December 2017

4. SEGMENT INFORMATION (continued)

Year ended 31 December 2017	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Segment liabilities	689,615	498,667	1,188,282
<i>Reconciliation:</i>			
Elimination of intersegment payables	(59,470)	(480,713)	(540,183)
	630,145	17,954	648,099
Borrowings			1,721,242
Corporate and other unallocated liabilities			5,736
Total liabilities			2,375,077
Other segment information			
Amounts included in the measure of segment profit or segment assets:			
Loss on disposal of items of property, plant and equipment	48	—	48
Depreciation	101,870	2,675	104,545
Other unallocated depreciation			7
			104,552
Recognition of land lease prepayments	57,292	160	57,452
Other unallocated recognition of land lease prepayments			357
			57,809
Bank interest income	347	5,929	6,276
Other unallocated bank interest income			95
			6,371
Capital expenditure*	691,651	110	691,761

Notes to Consolidated Financial Statements

31 December 2017

4. SEGMENT INFORMATION (continued)

Year ended 31 December 2016	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	856,216	105,718	961,934
Intersegment sales	—	102,013	102,013
	856,216	207,731	1,063,947
<i>Reconciliation:</i>			
Elimination of intersegment sales			(102,013)
Revenue			961,934
Segment results			
	122,431	27,455	149,886
<i>Reconciliation:</i>			
Fair value adjustments of biological assets			41,850
Elimination of intersegment results			(18,927)
Finance costs			(34,850)
Corporate and other unallocated expenses			(25,159)
Profit before tax			112,800
Segment assets			
	3,996,294	735,138	4,731,432
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(554,126)	(315,066)	(869,192)
	3,442,168	420,072	3,862,240
Fair value adjustments of biological assets			232,284
Corporate and other unallocated assets			72,842
Total assets			4,167,366

Notes to Consolidated Financial Statements

31 December 2017

4. SEGMENT INFORMATION (continued)

Year ended 31 December 2016	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Segment liabilities	935,651	679,319	1,614,970
<i>Reconciliation:</i>			
Elimination of intersegment payables	(315,066)	(554,126)	(869,192)
	620,585	125,193	745,778
Borrowings			1,390,275
Corporate and other unallocated liabilities			5,917
Total liabilities			2,141,970
Other segment information			
Amounts included in the measure of segment profit or segment assets:			
Loss on disposal of items of property, plant and equipment	145	61	206
Depreciation	57,890	5,376	63,266
Recognition of land lease prepayments	50,806	116	50,922
Other unallocated recognition of land lease prepayments			208
			51,130
Bank interest income	171	536	707
Capital expenditure*	1,169,229	8,647	1,177,876

* Capital expenditure consists of additions to property, plant and equipment, additions to prepaid land lease payments and additions to non-current biological assets.

Notes to Consolidated Financial Statements

31 December 2017

4. SEGMENT INFORMATION *(continued)*

Geographical information

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

Information about major customers

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

	2017	2016
	RMB'000	RMB'000
Revenue from dairy farming business		
Customer A	439,618	319,659
Customer B	562,936	536,319
	1,002,554	855,978

Notes to Consolidated Financial Statements

31 December 2017

5. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

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

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

	2017 RMB'000	2016 RMB'000
Revenue from sales of		
– Raw milk	1,033,286	856,216
– Cows held for sale	99,755	84,524
– Alfalfa	—	16,771
Revenue from rendering of services		
– Import agency services	1,241	4,423
	1,134,282	961,934
Other income		
Government grants related to		
– Biological assets (note i)	—	13,491
– Other assets (note ii)	2,674	2,303
	2,674	15,794
– Income (note iii)	24,688	13,262
	27,362	29,056
Interest income	6,371	707
Others	1,242	2,784
	34,975	32,547
Other gains and losses		
– Loss on disposal of items of property, plant and equipment	(48)	(206)
– Exchange (loss)/gain, net	(11,385)	12,777
– Others	(867)	(83)
	(12,300)	12,488

Notes:

- i. These government grants are government subsidies received by the Group from relevant government bodies for the purpose of supporting the Group for the procurement of dairy cows. The Group recognises the government grants when the conditions attaching to the grants have been met.
- ii. These government grants are released from deferred income.
- iii. These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

Notes to Consolidated Financial Statements

31 December 2017

6. PROFIT BEFORE TAX

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

	2017 RMB'000	2016 RMB'000
Cost of sales		
Feeds and other related costs for raw milk production	645,376	546,053
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	346,127	291,169
Cost of sales of raw milk	991,503	837,222
Purchase, feeds and other related costs for cows held for sale	95,579	75,548
Gains arising from changes in fair value less costs to sell of biological assets	4,176	8,976
Cost of sales of cows held for sale	99,755	84,524
Costs related to the trading of alfalfa and others	168	16,168
	1,091,426	937,914
Staff costs (including the directors' emoluments)		
Salaries, bonuses and allowances	97,653	101,414
Contributions to a retirement benefit scheme	8,874	7,366
Total employee benefits	106,527	108,780
Less: Capitalised in biological assets	(40,236)	(32,893)
Employee benefits charged in profit	66,291	75,887
Depreciation and recognition of lease expenses		
Depreciation of items of property, plant and equipment	104,552	63,266
Less: Capitalised in biological assets	(57,010)	(30,317)
Depreciation charged to profit	47,542	32,949
Recognition of prepaid land lease payments	57,809	51,130
Less: Capitalised in inventories	(38,783)	(34,985)
Prepaid land lease payments charged to profit	19,026	16,145
Office rental expenses	3,391	3,391
Other items		
Auditors' remuneration	2,350	2,300

Notes to Consolidated Financial Statements

31 December 2017

7. OTHER EXPENSES

	2017	2016
	RMB'000	RMB'000
Bank transaction fees	(380)	(784)
Others	(14)	(363)
	(394)	(1,147)

8. FINANCE COSTS

	2017	2016
	RMB'000	RMB'000
Interest on borrowings	104,472	57,751
Less: Interest capitalised	(990)	(22,901)
	103,482	34,850

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying the capitalisation rate of 5.39% per annum during the year ended 31 December 2017 (2016: 3.51% to 6.04%), respectively, to expenditures on construction in progress.

Notes to Consolidated Financial Statements

31 December 2017

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017	2016
	RMB'000	RMB'000
Fees	1,472	1,227
Other emoluments:		
Salaries, allowances and benefits in kind	3,204	2,416
Performance related bonus	387	611
Pension scheme contributions	30	28
	5,093	4,282

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017	2016
	RMB'000	RMB'000
Prof. Li Shenli	260	173
Dr. Zan Linsen	260	173
Mr. Joseph Chow	260	173
	780	519

Notes to Consolidated Financial Statements

31 December 2017

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonus RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors:					
Mr. Zhang Jianshe	—	1,751	207	15	1,973
Mr. Zhang Kaizhan	—	1,453	180	15	1,648
	—	3,204	387	30	3,621
Non-executive directors:					
Mr. Liu Dai	173	—	—	—	173
Mr. Du Yuchen	173	—	—	—	173
Mr. Li Jian	173	—	—	—	173
Ms. Yu Tianhua	173	—	—	—	173
	692	—	—	—	692
	692	3,204	387	30	4,313
2016					
Executive directors:					
Mr. Zhang Jianshe	103	1,342	337	14	1,796
Mr. Zhang Kaizhan	85	1,074	274	14	1,447
	188	2,416	611	28	3,243
Non-executive directors:					
Mr. Liu Dai	130	—	—	—	130
Mr. Du Yuchen	130	—	—	—	130
Mr. Li Jian	130	—	—	—	130
Ms. Yu Tianhua	130	—	—	—	130
	520	—	—	—	520
	708	2,416	611	28	3,763

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Consolidated Financial Statements

31 December 2017

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2016: two), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2016: three) highest paid employees who are not a director of the Company are as follows:

	2017	2016
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	2,550	2,428
Performance related bonus	326	604
Pension scheme contributions	40	42
	2,916	3,074

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

	Number of employees	
	2017	2016
Nil to HK\$1,000,000	1	—
HK\$1,000,001 to HK\$1,500,000	2	3
	3	3

Notes to Consolidated Financial Statements

31 December 2017

11. INCOME TAX EXPENSES

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

	2017		2016	
	RMB'000	%	RMB'000	%
Profit before tax	13,377		112,800	
Tax at corporate income tax rate of 25%	3,344	25.0	28,200	25.0
Effect of items that are not deductible in determining taxable profit	45,679	341.5	28,820	25.5
Effect of losses incurred for agricultural business	10,067	75.3	1,655	1.5
Tax losses not recognised	3,129	23.4	1,328	1.2
Effect of tax exemption granted to agricultural operations	(62,219)	(465.2)	(60,003)	(53.2)
Income tax expenses	—	0.0	—	0.0

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

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

Under the relevant PRC Corporate Income Tax Law and respective regulations, except for preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group were subject to corporate income tax at the statutory rate of 25%.

Notes to Consolidated Financial Statements

31 December 2017

11. INCOME TAX EXPENSES (continued)

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

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB635,786,000 at 31 December 2017 (2016: RMB549,722,000).

12. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 31 December 2017 (2016: Nil).

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

The calculations of basic and diluted earnings per share are based on:

	2017	2016
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	13,377	112,800
Number of shares		
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year	2,174,078,000	2,174,065,000

Notes to Consolidated Financial Statements

31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017					
At 31 December 2016 and at 1 January 2017					
Cost	1,569,468	33,116	284,624	35,289	1,922,497
Accumulated depreciation	(101,900)	(8,121)	(52,445)	—	(162,466)
Net carrying amount	1,467,568	24,995	232,179	35,289	1,760,031
At 1 January 2017, net of accumulated depreciation					
	1,467,568	24,995	232,179	35,289	1,760,031
Additions	1,887	1,312	16,067	149,888	169,154
Transfers	1,047	—	—	(1,047)	—
Acquisition of a subsidiary (note 28(e))	—	—	310	—	310
Disposals	(14,025)	—	(31)	—	(14,056)
Depreciation provided during the year	(73,086)	(2,034)	(29,432)	—	(104,552)
At 31 December 2017, net of accumulated depreciation	1,383,391	24,273	219,093	184,130	1,810,887
At 31 December 2017					
Cost	1,558,377	34,428	300,970	184,130	2,077,905
Accumulated depreciation	(174,986)	(10,155)	(81,877)	—	(267,018)
Net carrying amount	1,383,391	24,273	219,093	184,130	1,810,887

Notes to Consolidated Financial Statements

31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Motor vehicles RMB'000	Plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016					
At 31 December 2015 and at 1 January 2016					
Cost	796,675	30,566	180,401	221,625	1,229,267
Accumulated depreciation	(61,565)	(5,209)	(32,426)	—	(99,200)
Net carrying amount	735,110	25,357	147,975	221,625	1,130,067
At 1 January 2016, net of accumulated depreciation	735,110	25,357	147,975	221,625	1,130,067
Additions	—	2,188	32,401	660,095	694,684
Transfers	772,795	574	73,062	(846,431)	—
Disposals	(2)	(212)	(1,240)	—	(1,454)
Depreciation provided during the year	(40,335)	(2,912)	(20,019)	—	(63,266)
At 31 December 2016, net of accumulated depreciation	1,467,568	24,995	232,179	35,289	1,760,031
At 31 December 2016					
Cost	1,569,468	33,116	284,624	35,289	1,922,497
Accumulated depreciation	(101,900)	(8,121)	(52,445)	—	(162,466)
Net carrying amount	1,467,568	24,995	232,179	35,289	1,760,031

As at 31 December 2017, certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB347,151,000 (2016: Nil) were pledged to secure interest-bearing bank and other borrowings to the Group (note 21).

Notes to Consolidated Financial Statements

31 December 2017

15. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	95,357	80,378
Additions	53,839	66,109
Recognised during the year	(57,809)	(51,130)
Carrying amount at 31 December	91,387	95,357
Current portion	(3,787)	(3,984)
Non-current portion	87,600	91,373

Prepaid land lease payments represent the lease prepayments made for farm lands under operating leases with remaining lease terms from 1 to 50 years for alfalfa and other feed crops plantation fields and dairy farms or other operating purposes.

	2017 RMB'000	2016 RMB'000
Carrying amount at end of the year:		
Remaining lease terms of less than 10 years	654	793
Remaining lease terms between 10 and 50 years	90,733	94,564
	91,387	95,357

At 31 December 2017, certain of the Group's prepaid land lease payments with an aggregate carrying amount of RMB7,622,000 (2016: RMB7,983,000) have been pledged as security for interest-bearing bank and other borrowings of the Group (note 21).

Notes to Consolidated Financial Statements

31 December 2017

16. BIOLOGICAL ASSETS

A - Nature of activities

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

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

	2017	2016
	Heads	Heads
Cows held for sale	52	3,445
Milkable cows	33,797	26,316
Heifers and calves	30,403	28,947
	64,252	58,708

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

16. BIOLOGICAL ASSETS *(continued)*

A - Nature of activities *(continued)*

The Group is exposed to a number of risks related to its biological assets as follows:

i. Regulatory and environmental risks

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

ii. Climate, disease and other natural risks

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

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

	2017	2016
	Tonnes	Tonnes
Raw milk	278,406	224,094

Notes to Consolidated Financial Statements

31 December 2017

16. BIOLOGICAL ASSETS (continued)

C - Value of biological assets

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

	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Total RMB'000
At 1 January 2017	555,600	857,800	45,480	1,458,880
Purchase cost	484	—	28,925	29,409
Feeding cost	465,809	—	12,477	478,286
Transfer	(451,330)	451,330	—	—
Decrease due to disposal/death	(31,751)	(56,943)	—	(88,694)
Gains/(losses) arising from changes in fair value less costs to sell of biological assets	(11,922)	(177,747)	13,653	(176,016)
Transfer out upon selling	—	—	(99,755)	(99,755)
At 31 December 2017	526,890	1,074,440	780	1,602,110
Represented by:				
Current portion	—	—	780	780
Non-current portion	526,890	1,074,440	—	1,601,330
Total	526,890	1,074,440	780	1,602,110

Notes to Consolidated Financial Statements

31 December 2017

16. BIOLOGICAL ASSETS (continued)

C - Value of biological assets (continued)

	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Total RMB'000
At 1 January 2016	502,700	682,840	45,586	1,231,126
Purchase cost	56,003	—	59,544	115,547
Feeding cost	361,080	—	11,841	372,921
Transfer	(416,334)	416,334	—	—
Decrease due to disposal/death	(25,920)	(44,063)	—	(69,983)
Gains/(losses) arising from changes in fair value less costs to sell of biological assets	78,071	(197,311)	13,033	(106,207)
Transfer out upon selling	—	—	(84,524)	(84,524)
At 31 December 2016	555,600	857,800	45,480	1,458,880
Represented by:				
Current portion	—	—	45,480	45,480
Non-current portion	555,600	857,800	—	1,413,400
Total	555,600	857,800	45,480	1,458,880

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

As at 31 December 2017, the Group pledged its dairy cows of approximately RMB73,500,000 (2016: RMB173,500,000) to a bank and approximately RMB586,989,000 (2016: RMB166,983,000) to third parties to secure certain of the Group's borrowings (note 21).

The gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest are analysed as follows:

	2017 RMB'000	2016 RMB'000
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	346,127	291,169

Notes to Consolidated Financial Statements

31 December 2017

16. BIOLOGICAL ASSETS (continued)

D - Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's biological assets:

Recurring fair value measurement for:	As at 31 December 2017			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Cows held for sale	—	—	780	780
Heifers and calves	—	—	526,890	526,890
Milkable cows	—	—	1,074,440	1,074,440
Total biological assets	—	—	1,602,110	1,602,110

Recurring fair value measurement for:	As at 31 December 2016			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Cows held for sale	—	—	45,480	45,480
Heifers and calves	—	—	555,600	555,600
Milkable cows	—	—	857,800	857,800
Total biological assets	—	—	1,458,880	1,458,880

Notes to Consolidated Financial Statements

31 December 2017

16. BIOLOGICAL ASSETS (continued)

E - Valuation techniques used in fair value measurements

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

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Heifers and calves	The fair value of 14 months old heifers is determined by reference to the local market selling price.	Average local market selling prices of the heifers of 14 months old were estimated at RMB19,500 per head at 31 December 2017 (2016: RMB20,000 per head).	An increase in the estimated local market selling price used would result in an increase in the fair value measurement of the heifers and calves, and vice versa.
	The fair values of heifers and calves at age group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.	Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old were RMB14,777 at 31 December 2017 (2016: RMB14,737). Average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old were RMB13,280 at 31 December 2017 (2016: RMB11,288).	An increase in the estimated feeding costs plus the margin that would normally be required by a raiser would result in an increase in the fair value measurement of the heifers and calves older than 14 months old and a decrease in the fair value measurement of the heifers and calves younger than 14 months old, and vice versa.

Notes to Consolidated Financial Statements

31 December 2017

16. BIOLOGICAL ASSETS (continued)

E - Valuation techniques used in fair value measurements (continued)

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is a method of estimating the economic benefits of such milkable cows over multiple time periods by identifying the cash flows associated with such milkable cows and deducting a periodic charge reflecting a fair return for such milkable cows.	<p>The estimated feed costs per kilogram of raw milk used in the valuation process were RMB1.91 for the year ended 31 December 2017 (2016: RMB2.01), based on the historical average feed costs per kilogram of raw milk after taking into consideration of inflation.</p> <p>A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle ranged from 27.50kg to 29.00kg for the year ended 31 December 2017 (2016: from 24kg to 25.50kg), depending on the number of the lactation cycles and the individual physical condition.</p> <p>The estimated local future market price for raw milk was RMB3,900 per tonne at 31 December 2017 (2016: RMB3,980).</p> <p>The discount rate for estimated future cash flows used was 14.0% at 31 December 2017 (2016: 14.0%).</p>	<p>An increase in the estimated feed costs per kilogram of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated average selling price of raw milk used would result in an increase in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p>

Notes to Consolidated Financial Statements

31 December 2017

16. BIOLOGICAL ASSETS (continued)

E - Valuation techniques used in fair value measurements (continued)

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Cows held for sale	The fair value for cows held for sale is mainly determined based on the estimated local market selling prices.	The estimated local market selling price per head of the heifers was RMB17,927 at 31 December 2017 (2016: RMB14,235).	An increase in the estimated local market selling price used would result in an increase in the fair value measurement of the cows held for sale, and vice versa.

17. INVENTORIES

	2017 RMB'000	2016 RMB'000
Feeds	303,494	272,859
Others	16,805	13,769
	320,299	286,628

Notes to Consolidated Financial Statements

31 December 2017

18. TRADE AND OTHER RECEIVABLES

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

	2017 RMB'000	2016 RMB'000
Trade receivables:		
– 0 to 30 days	18,093	75,528
– 31 to 90 days	89,297	2,401
– 91 to 180 days	—	—
– Over 181 days	—	45
	107,390	77,974
Other receivables:		
– Advances to suppliers	20,277	30,108
– Others	20,746	3,398
	41,023	33,506
	148,413	111,480

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	107,390	75,528
Less than 60 days past due	—	2,401
Over 61 days past due	—	45
	107,390	77,974

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

Notes to Consolidated Financial Statements

31 December 2017

18. TRADE AND OTHER RECEIVABLES (continued)

Receivables that were past due but not impaired relate to customers that have a good repayment history with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 31 December 2017, the Group pledged certain of its trade receivables with an aggregate carrying amount of RMB8,387,000 (2016: Nil) to a third party to secure certain of the Group's borrowings (note 21).

19. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	240,568	267,953
Time deposits with original maturity of more than three months	150,940	160,245
Cash and bank balances	391,508	428,198
Pledged bank deposits	8,552	20,030
	400,060	448,228

Pledged bank deposits of the Group represent deposits pledged for letters of credit and bills payable. The Group's pledged bank deposits carried interest at a prevailing interest rate of 0.35% (2016: 0.35%) per annum at 31 December 2017.

Cash and bank balances of the Group comprise cash, short-term bank deposits with an original maturity of three months or less and time deposits with original maturity of more than three months. The Group's bank balances carried interest at prevailing interest rates ranging from 0.05% to 2.1% (2016: 0.05% to 1.30%) per annum at 31 December 2017.

Pledged bank deposits and cash and bank balances were denominated in RMB, United States dollars ("USD") and HKD as at 31 December 2017. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to Consolidated Financial Statements

31 December 2017

19. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES (continued)

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

	2017 RMB'000	2016 RMB'000
RMB	210,616	232,258
USD	187,024	209,239
HKD	2,420	6,731
	400,060	448,228

20. TRADE AND OTHER PAYABLES

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

	2017 RMB'000	2016 RMB'000
Trade and bills payables:		
– 0 to 90 days	328,845	230,077
– 91 to 180 days	69,126	25,652
– Over 181 days	21,015	10,871
	418,986	266,600
Payable for acquisition of items of property, plant and equipment and office rental		
– related party suppliers	—	258,900
– independent third party suppliers	160,208	25,454
Advances from customers	8,172	110,237
Advances from agency customers	1,057	8,563
Accrued staff costs	15,611	19,153
Land lease payables	3,324	16,855
Interest payables	2,754	3,027
Deposits	7,812	8,676
Others	4,535	4,841
	203,473	455,706
	622,459	722,306

Notes to Consolidated Financial Statements

31 December 2017

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

		2017		2016	
	Notes	Maturity	RMB'000	Maturity	RMB'000
Current					
Unsecured bank borrowings		2018	881,469	2017	837,263
Guaranteed and unsecured					
bank borrowings	(i) (a)	2018	—	2017	304
Secured bank borrowings	(i) (b)	2018	47,000	2017	42,000
Secured other borrowings	(i) (c)	2018	140,821	2017	458
Guaranteed and secured					
bank borrowings	(i) (d)	2018	496	2017	50,000
Guaranteed and secured					
other borrowings	(i) (e)	2018	17,372	2017	—
			1,087,158		930,025
Non-current					
Unsecured bank borrowings		2019-2021	90,000	2018-2021	337,000
Secured bank borrowings	(i) (b)	2019	15,000	2019	27,000
Secured other borrowings	(i) (c)	2019	292,628	2019	96,250
Guaranteed and secured					
bank borrowings	(i) (d)	2019-2025	199,504		—
Guaranteed and secured					
other borrowings	(i) (e)	2019-2020	36,952		—
			634,084		460,250
			1,721,242		1,390,275
Analysed into:					
Bank and other borrowings repayable:					
Within one year			1,087,158		930,025
In the second year			295,182		283,063
In the third to fifth years, inclusive			252,924		177,187
Over five years			85,978		—
			1,721,242		1,390,275
Bank and other borrowings comprise:					
Fixed-rate bank and other borrowings			571,470		859,007
Variable-rate bank borrowings			1,149,772		531,268
			1,721,242		1,390,275

Notes to Consolidated Financial Statements

31 December 2017

21. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

- (i) (a) As at 31 December 2017, no bank borrowing (2016: RMB304,000) was guaranteed by Beijing Agriculture Guaranty Co., Ltd., an independent third party.
- (b) As at 31 December 2017, bank borrowings of RMB62,000,000 (2016: RMB69,458,000) were secured by prepaid land lease payments of RMB7,622,000 (2016: RMB4,791,000) and dairy cows of RMB73,500,000 (2016: RMB73,500,000).
- (c) As at 31 December 2017, other borrowings of RMB433,449,000 (2016: RMB96,250,000) were secured by dairy cows of RMB586,989,000 (2016: RMB166,983,000), trade receivables of the Group with an aggregate carrying amount of RMB8,387,000 (2016: Nil) and pledge of certain of the Group's deposits amounting to approximately RMB 11,000,000, with present value of RMB9,942,000 (2016: Nil).
- (d) As at 31 December 2017, bank borrowings of RMB200,000,000 (2016: RMB50,000,000) were guaranteed by China United SME Guarantee Corporation Company, an independent third party and secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB199,882,000. In January 2017, the Group repaid the bank loan of RMB50,000,000 outstanding as at 31 December 2016 which was guaranteed by ZhongDi Genetics & Seeds Co., Ltd. ("ZhongDi Seeds"), a related party and secured by dairy cows of the Group of RMB100,000,000.
- (e) As at 31 December 2017, other borrowings of RMB54,324,000 (2016: Nil) was secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB147,269,000 (2016: Nil), prepayment for non-current assets of the Group of RMB2,603,000 and pledge of certain of the Group's deposits amounting to approximately RMB5,400,000, with present value of RMB4,704,000 (2016: Nil), and guaranteed by Mr. Zhang Jianshe.
- (ii) As at 31 December 2017, the contracted interest rates of the above bank and other borrowings ranged from 4.05% to 8.50% (2016: 2.09% to 8.50%).
- (iii) The Group's bank and other borrowings were denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
EUR	11,470	—
USD	—	42,853
RMB	1,709,772	1,347,422
	1,721,242	1,390,275

Notes to Consolidated Financial Statements

31 December 2017

22. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year:	29,389	27,041
– Deferred income in respect of government grants	4,661	4,651
– Released to income	(2,674)	(2,303)
Balance at end of the year	31,376	29,389

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

23. SHARE CAPITAL

Shares

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

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2016	2,172,536,000	135
Issue of shares (Note (a))	1,542,000	—
At 31 December 2016, 1 January 2017 and 31 December 2017	2,174,078,000	135

Note:

- (a) On 4 January 2016, the Company issued an additional 1,542,000 ordinary shares with par value of USD0.00001 each at the price of HKD1.20 per share by means of partial exercise of the over-allotment options in connection with the Company's initial public offering, at a net cash consideration of approximately HKD1,752,974, resulting in an addition of HKD1,752,854 (equivalent to RMB1,471,000) to share premium.

Notes to Consolidated Financial Statements

31 December 2017

23. SHARE CAPITAL (continued)

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including non-executive directors and independent non-executive directors, employees of the Group, any advisers, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of the Group. The Scheme became effective on 2 December 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the proposed grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of the grant of an option may be accepted within five business days from the date of offer, upon payment of a nominal consideration of HK\$1 of the grant of an option by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a day after the date upon which the offer for the grant of options is made and ends on a date which is not later than ten years from the date of grant of the share options or early termination under the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of the Company's shares on the date of offer of the share options, which must be a business day; and (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share on the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted under the Scheme during the year ended 31 December 2017 (2016: Nil).

Notes to Consolidated Financial Statements

31 December 2017

24. RESERVES

(i) Movements in components of equity

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(ii) Capital reserve

The balance of share premium represented the aggregate capital reserve arising from the capital injection to ZhongDi Stud Livestock by its shareholders in addition to registered capital prior to 1 January 2014.

(iii) Statutory surplus reserve

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

25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other borrowings RMB'000
At 1 January 2017	1,390,275
Changes from financing cash flows	330,967
At 31 December 2017	1,721,242

Notes to Consolidated Financial Statements

31 December 2017

26. CAPITAL COMMITMENTS

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

	2017 RMB'000	2016 RMB'000
Contracted but not provided for:		
Land and buildings	—	7,500
Plant and machinery	1,446	14,567
	1,446	22,067

As at 31 December 2017, the Group had no commitments to make future capital payments to a related party (2016: RMB7,500,000) in respect of construction services rendered by the related party.

27. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2017 RMB'000	2016 RMB'000
Within one year	70,941	53,337
In second to fifth years, inclusive	238,975	218,105
Over five years	290,071	324,509
	599,987	595,951

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

The minimum lease payments under operating leases recognised as expenses during the year ended 31 December 2017 were approximately RMB61,200,000 (2016: RMB54,521,000).

Notes to Consolidated Financial Statements

31 December 2017

28. RELATED PARTY TRANSACTIONS

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

	Note	2017 RMB'000	2016 RMB'000
Purchases of goods from:			
– ZhongDi Seeds	(i)	—	56
Lease prepayments made to:			
– Ulanqab ZhongDi Farming Co., Ltd. (“Ulanqab ZhongDi”)	(i) (ii)	450	772
Construction services by:			
– Beijing Urban Construction Engineering Co., Ltd. (“Urban Construction”)	(i) (iii)	—	567,295
Rental charges by:			
– ZhongDi Seeds	(i)	3,278	3,278

Notes:

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

The related party transactions in respect of items (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Consolidated Financial Statements

31 December 2017

28. RELATED PARTY TRANSACTIONS (continued)

(b) Guarantees provided by related parties

	Note	2017 RMB'000	2016 RMB'000
Mr. Zhang Jianshe	(i)	54,324	50,000
ZhongDi Seeds	(i)	—	50,000

Note:

- (i) As at 31 December 2017, a bank loan of RMB54,324,000 was guaranteed by Mr. Zhang Jianshe and secured by certain property, plant and equipment of the Group as stated in note 21. During January 2017, the Group repaid the bank loan of RMB50,000,000 guaranteed by ZhongDi Seeds and Mr. Zhang Jianshe and secured by certain dairy cows of the Group as stated in note 21 to the Consolidated Financial Statements.

(c) Operating lease commitments

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

	2017 RMB'000	2016 RMB'000
Within one year	3,278	4,050
In the second to fifth years, inclusive	—	3,088
	3,278	7,138

(d) Compensation to key management personnel

	2017 RMB'000	2016 RMB'000
Salaries, bonuses and other benefits	6,467	6,248
Retirement benefit scheme contributions	70	69
	6,537	6,317

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

Notes to Consolidated Financial Statements

31 December 2017

28. RELATED PARTY TRANSACTIONS *(continued)*

(e) Acquisition of 100% interest in Ulanqab ZhongDi

During the year, Inner Mongolia ZhongDi, a subsidiary of the Group, acquired a 100% equity interest in Ulanqab ZhongDi from ZhongDi Seeds. Ulanqab ZhongDi is engaged in the lease of farm land and agricultural equipment. The acquisition also constitutes a connected transaction as defined in the Listing Rules.

The acquisition was completed on 31 July 2017. The purchase consideration in form of cash amounting to RMB843,000 has not been paid as at 31 December 2017. The carrying amount of the net assets of Ulanqab ZhongDi as at the acquisition date was RMB843,000, including property, plant and equipment of RMB420,000, cash and cash balances of RMB388,000 and other receivables of RMB35,000, which approximated to their fair values.

(f) Balances with related parties:

	Note	2017 RMB'000	2016 RMB'000
Other payables to:			
– Urban Construction	28 (a) (iii)	—	258,844
– ZhongDi Seeds		—	56
		—	258,900

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

29. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets	2017 RMB'000	2016 RMB'000
Loans and receivables:		
Pledged deposits	14,646	—
Trade receivables	107,390	77,974
Financial assets included in other receivables	20,746	3,397
Pledged bank deposits	8,552	20,030
Cash and bank balances	391,508	428,198
	542,842	529,599

Notes to Consolidated Financial Statements

31 December 2017

29. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	2017 RMB'000	2016 RMB'000
Financial liabilities at amortised cost:		
Trade and bills payables	418,986	266,600
Financial liabilities included in other payables	177,986	317,387
Interest-bearing bank and other borrowings	1,721,242	1,390,275
	2,318,214	1,974,262

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	1,721,242	1,390,275	1,775,640	1,415,148

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

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

Notes to Consolidated Financial Statements

31 December 2017

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

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

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

The Group did not have any financial assets or liabilities measured at fair value for the year ended 31 December 2017 (2016: Nil).

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2017 RMB'000	2016 RMB'000
Interest-bearing bank and other borrowings	1,775,640	1,415,148

Notes to Consolidated Financial Statements

31 December 2017

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax RMB'000	Increase/ (decrease) in profit after tax RMB'000
2017			
RMB	50	(1,563)	(1,563)
RMB	(50)	1,563	1,563
2016			
RMB	50	(2,300)	(2,300)
RMB	(50)	2,300	2,300

Notes to Consolidated Financial Statements

31 December 2017

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group undertakes certain purchases of cows from overseas transactions and has bank balances in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge its exposure to currency risk. The management of the Group manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

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

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit after tax RMB'000
2017		
If RMB strengthens against USD	5	(9,342)
If RMB weakens against USD	(5)	9,342
If RMB strengthens against HKD	5	(128)
If RMB weakens against HKD	(5)	128
If RMB strengthens against EUR	5	568
If RMB weakens against EUR	(5)	(568)
2016		
If RMB strengthens against USD	5	(8,302)
If RMB weakens against USD	(5)	8,302
If RMB strengthens against HKD	5	(336)
If RMB weakens against HKD	(5)	336

Notes to Consolidated Financial Statements

31 December 2017

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

As at 31 December 2017, 99.75% (2016: 99.94%) of the Group's trade receivables were from the sales of raw milk. The Group only transacted with a limited number of customers for sales of raw milk. Therefore, there is concentration of credit risk arising from the Group's trade receivables from raw milk customers. The management of the Group considers the risk is low because the Group only transacts with creditworthy customers and there is no history of default of these customers.

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

Notes to Consolidated Financial Statements

31 December 2017

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2017					
Trade and bills payables and financial liabilities included in other payables	596,972	—	—	—	596,972
Interest-bearing bank and other borrowings	—	1,115,551	676,183	132,839	1,924,573
	596,972	1,115,551	676,183	132,839	2,521,545
2016					
Trade payables and financial liabilities included in other payables	583,987	—	—	—	583,987
Interest-bearing bank and other borrowings	—	958,615	528,758	—	1,487,373
	583,987	958,615	528,758	—	2,071,360

Notes to Consolidated Financial Statements

31 December 2017

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

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

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2017.

The Group monitors capital using a gearing ratio, which is total liabilities divided by the total assets. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios at the end of the reporting periods were as follows:

	2017	2016
	RMB'000	RMB'000
Total liabilities	2,375,077	2,141,970
Total assets	4,413,850	4,167,366
Gearing ratio	53.8%	51.4%

Notes to Consolidated Financial Statements

31 December 2017

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	914,440	914,440
Total non-current assets	914,440	914,440
CURRENT ASSETS		
Other receivables	221	94
Cash and bank balances	35,800	50,680
Total current assets	36,021	50,774
CURRENT LIABILITIES		
Other payables	2,284	2,376
Amounts due to subsidiaries	608	638
Total current liabilities	2,892	3,014
NET CURRENT ASSETS	33,129	47,760
TOTAL ASSETS LESS CURRENT LIABILITIES	947,569	962,200
Net assets	947,569	962,200
EQUITY		
Share capital	135	135
Share premium and reserves (note)	947,434	962,065
	947,569	962,200

Notes to Consolidated Financial Statements

31 December 2017

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's share premium and reserves is as follows:

	Notes	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016		1,017,681	(69)	(50,467)	967,145
Loss and total comprehensive loss for the year		—	—	(6,551)	(6,551)
Issue of shares	23	1,471	—	—	1,471
Balance at 31 December 2016		1,019,152	(69)	(57,018)	962,065
Balance at 1 January 2017		1,019,152	(69)	(57,018)	962,065
Loss and total comprehensive loss for the year		—	—	(14,631)	(14,631)
Balance at 31 December 2017		1,019,152	(69)	(71,649)	947,434

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2018.