YST Dairy Farm Limited
原生态牧业

YuanShengTai Dairy Farm Limited
原生態牧業有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 1431

2017
Annual Report

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Hongliang (趙洪亮) *(Chairman)*
Mr. Wang Shaogang (王紹崗) *(Vice-chairman)*
Mr. Fu Wenguo (付文國) *(Chief Executive Officer)*
Mr. Chen Xiangqing (陳祥慶) *(Chief Financial Officer)*

Non-executive Directors

Mr. Lau Ho Fung (劉浩峰)
Mr. Sun Wei (孫瑋) *(resigned with effect from 23 January 2017)*

Independent Non-executive Directors

Mr. Wu Chi Keung (胡志強)
Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)

JOINT COMPANY SECRETARIES

Mr. Liu Gang (劉剛)
Mr. Kwok Siu Man (郭兆文)
(resigned with effect from 5 April 2017)

AUTHORISED REPRESENTATIVES

Mr. Chen Xiangqing (陳祥慶)
Mr. Liu Gang (劉剛)

AUDIT COMMITTEE

Mr. Wu Chi Keung (胡志強) *(Chairman)*
Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)

REMUNERATION COMMITTEE

Mr. Zhang Yuezhou (張月周) *(Chairman)*
Mr. Zhu Zhanbo (朱戰波)
Mr. Wu Chi Keung (胡志強)
Mr. Zhao Hongliang (趙洪亮)

NOMINATION COMMITTEE

Mr. Zhu Zhanbo (朱戰波) *(Chairman)*
Mr. Wu Chi Keung (胡志強)
Mr. Zhang Yuezhou (張月周)
Mr. Fu Wenguo (付文國)

INDEPENDENT AUDITOR

Ernst & Young

PRINCIPLE BANKERS

Agricultural Development Bank of China
Agricultural Bank of China
China Construction Bank

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS

As to Hong Kong Laws

Loeb & Loeb LLP

STOCK CODE

1431

BOARD LOTS

1,000

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

Chairman's Statement

TO OUR SHAREHOLDERS,

I wish to present the annual results of YuanShengTai Dairy Farm Limited ("**YuanShengTai**" or the "**Company**") and its subsidiaries (the "**Group**") for the year ended 31 December 2017 (the "**Year**") to our shareholders.

The global macro-economy started to rebound in 2017, while the People's Republic of China's (the "**PRC**") economic growth saw the end of six consecutive years of decline. China' annual gross domestic product grew by 6.9% in 2017, turning around the downturn trend over the years. Amidst a steady and positive macro-economy, domestic consumption maintained strong growth. Nonetheless, the dairy product industry still faced challenges as a whole. Due to the withdrawal of the European Union dairy produce quota system in 2015 and the influence of free trade agreements between China, New Zealand and Australia, China's import of dairy products increased significantly. This dampened the PRC dairy industry and impacted the price of domestic raw milk, creating a difficult business environment for mid-and-small size dairy farms and speeding up industrial integration.

Leveraging on our leading position in the PRC dairy farming industry, the Group consistently implemented large-scale and intensive development strategy. It seized the opportunities in industrial integration timely and effectively during the Year to expand the sales channels and further consolidate the market share, which laid a sound foundation for future business growth through the substantial development of the PRC dairy product industry.

The PRC dairy farming sector was still at the early stage of consolidation during the Year. Coupled with growing import of dairy products, this led to the polarized development of the raw milk market and the dairy products retail market. The price of domestic raw milk remained stable or only increased slightly year-on-year. On the contrary, the dairy products retail market continued to improve, thanks to the favorable macro-economic growth. Nevertheless, global demand for raw milk expanded due to recovering global economy and rising consumption of dairy products. Accelerating industrial integration and slowdown in the growth of imported dairy products are expected to support and drive the PRC raw milk market in 2018.

During the Year, in order to further increase market share and business growth, the Group entered into New Feihe Master Agreement with China Feihe Limited ("**China Feihe**"), a member of Feihe Dairy Group on 12 May 2017, which confirmed the priority arrangement of the Group's supply of raw milk to Feihe Dairy Group for a term ending on 31 December 2019. It is expected that the long-term and continuing supply of raw milk products to Feihe Dairy Group will further strengthen the stability of the Group's customer base and secure future demand for the Group's raw milk products.

Since the commencement of the PRC's "13th Five Year Plan", the PRC dairy product industry has been focusing on the supply-side structural reform and safeguarding the quality and safety of dairy products. It aims at accelerating the change of dairy cow farming methods and upgrading dairy processing to develop the modern dairy industry. At the same time, the PRC government issued the "Administrative Measures for the Registration of Recipes of Infant Formula Milk Powder Products" to strengthen safety regulation on infant formula milk powder products and facilitate healthy competition. The consistent implementation of the PRC's "Two-Child Policy" will provide the driving force for the substantial and steady development of the dairy product industry as a whole.

The Group follows the national policy direction and centres on safeguarding the quality and safety of dairy products. According to the "Quality Report of China Dairy Industry (2017)", the quality and safety of Chinese dairy products were greatly enhanced and dairy product enterprises improved stably in terms of competitiveness during the Year, marking a new step forward to the full recovery of the PRC dairy industry. Since its establishment, the Group has built and maintained a long-term relationship with China's leading dairy manufacturers. In 2017, the top three customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group. Supported by persistent demand for raw milk from major customers, the Group's sales of raw milk during the Year steadily increased to approximately 263,000 tons, representing a year-on-year growth of approximately 1.5%.

Chairman's Statement

Despite the slight decline in overall milk price during the Year, the Group's loss for the Year decreased by 23.4% from approximately RMB88.6 million for 2016 to approximately RMB67.9 million due to higher sales of raw milk during the Year.

Looking forward, the launch of the "National Dairy Industry Development Plan (2016-2020)" published by the Ministry of Agriculture with other ministries of the PRC will deliver more comprehensive and substantive results in the supply-side structural reform of the PRC dairy product industry by 2020, which will be crucial to promoting the PRC dairy industry. At the same time, the rising disposable income, the advancing process of urbanization and the full implementation of the "Two-Child Policy" in China will boost the demand for Chinese dairy products. As the price of foreign raw milk steadily increases, PRC dairy product enterprises will enjoy great growth potential.

The Group is committed to consolidating its leading position in the PRC dairy farming industry. Apart from providing high-quality raw milk to Chinese consumers, it will adjust the operating model to maximize the input and output through optimizing the feeding formula. Furthermore, the Group is actively expanding sales channels and securing new customers for additional growth momentum of income and profits. The Group will continue to adopt advanced farm management models and expand herd size to lower production cost and enhance overall profitably, thereby delivering outstanding returns to shareholders of the Company.

On behalf of the board of directors of the Company, I would like to thank all our shareholders for their ever-persistent trust in and support for the Group. I also express my heartfelt gratitude to the board, the management team and our staff for their diligent efforts and valuable contribution in the past year. In the coming year, the Group will strive for steadfast progress and produce the best quality raw milk for consumers, so as to bring more handsome returns for our shareholders.

Zhao Hongliang
Chairman
Hong Kong, 27 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

MARKET REVIEW

The People's Republic of China (the "**PRC**") dairy industry continued to recover in 2017. Given the rising household income and health awareness in China, consumers of dairy products demanded higher quality. The PRC dairy industry underwent further integration and became increasingly concentrated, while the focus of competition shifted from quantity to quality. According to the International Farm Comparison Network (IFCN), global raw milk price bottomed out in 2016. Nonetheless, the price gap between domestic and foreign milk remained substantial. As a result, domestic milk sources suffered from the impact of imported milk sources, creating a challenging environment for local enterprises.

As a leading dairy farming company in the PRC, YuanShengTai Dairy Farm Limited (the "**Company**" or "**YuanShengTai**") and its subsidiaries (collectively, the "**Group**") adhered to the large-scale and intensive development strategy and enhanced operation management during the year ended 31 December 2017 (the "**Year**"). The Group adjusted the herd mix and improved the feeding formula to lower production cost, mitigate pressure on sales and maintain profitability.

BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. As of 31 December 2017, supported by increasing production volume of raw milk, the total sales of raw milk of the Group grew by 1.5% from 258,675 tons in 2016 to 262,543 tons. Due to the subdued price level of raw milk, the total revenue of the Group for the Year amounted to RMB1,014 million, representing a slight drop of 1.5% year-on-year (2016: RMB1,029 million). During the Year, the loss of the Group for the Year amounted to RMB67.9 million (2016: approximately RMB88.6 million), representing a decrease of 23.4%, which was attributable to the combined effect of the following factors: 1) loss arising from change in fair value less costs to sell of biological assets decreased; 2) one-time expenses such as transportation cost of cow dung and non-current assets disposal losses increased, which partially offset the effect of the decrease of loss arising from change in fair value less costs to sell of biological assets. The gross profit for the Year dropped by 25.4% from RMB339.5 million in 2016 to RMB253.3 million.

Since its establishment, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2017, the top three major customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group and they accounted for approximately 95% of the Group's revenue during the Year.

Feihe Dairy Group is one of the major customers of the Group. In order to further strengthen the customer base and secure future demand for raw milk, the Group entered into the 2017 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group on 12 May 2017, which confirmed the priority arrangement of the Group's supply of raw milk to Feihe Dairy Group for a term ending on 31 December 2019.

Construction of Farms

As of 31 December 2017, we had six farms in Heilongjiang Province and one farm in Jilin Province. Each farm had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 square metres. We achieved satisfying progress in farm construction. As of 31 December 2017, we were close to finishing the construction of Baiquan Ruixincheng Farm and completed two-thirds of the Keshan Farm. Both of the farms have commenced operation after bringing in cows.

	Actual Designed Capacity *(Number of Cows/Head)*	**Actual Inventory Number**	**Area** *(m^2)*
Gannan Oumei Farm	12,000	9,836	986,333
Kedong Oumei Farm	6,000	6,237	384,000
Kedong YST Farm	18,000	11,544	784,000
Zhenlai Farm Phase I	15,000	13,642	1,066,667
Kedong Yongjin Farm	12,000	7,506	714,000
Baiquan Ruixincheng Farm	15,000	3,591	994,000
Keshan Farm	12,000	8,851	980,000
Total	90,000	61,207	5,909,000

Milk Yield

During the Year, the average annual milk yield per cow was 9.8 tons, representing a decrease of 2.0% as compared to 10 tons in 2016. The Group expects that the average milk yield per cow will increase with the more maturing operation of farms, a gradually balanced age structure of herds and further optimization of herd structure.

The Group adjusted the cattle mix and improved the feeding formula, thereby optimizing the management and improving profitability.

Size of Our Herds

Driven by the advanced management model of our farms, the number of dairy cows of the Group's seven dairy farms increased from 54,749 as of 31 December 2016 to 61,207 as of 31 December 2017. The total number of our matured milkable cows increased from 26,689 as of 31 December 2016 to 28,244 as of 31 December 2017. The increase in number of our matured milkable cows resulted in the steady growth of raw milk production.

	As of 31 December	
	2017	2016
Number of matured milkable cows	**28,244**	26,689
Number of heifers and calves	**32,963**	28,060
Total number of dairy cows	**61,207**	54,749

Management Discussion and Analysis

Price of Raw Milk

The price of domestic raw milk remained at low levels due to increasing import of milk powder and over-supply of raw milk in the upstream market. The average selling price of our raw milk was RMB3,863 per ton for the Year, representing a decrease of approximately 2.9% as compared to that for the year ended 31 December 2016.

OUTLOOK

The year 2017 saw the end of the global dairy crisis, which lasted for four years. Milk price is expected to embark on a journey of steady growth. Currently, the per-capita dairy consumption of the PRC is only one-third of the world's average level and half of the average level of developing countries, hence there is room for growth in the dairy industry. The "National Dairy Industry Development Plan (2016-2020)" expressly points out that the dairy industry is an integral part of modern agriculture and food industry and is essential to a healthy China. It is expected that the total national demand for dairy products would increase at an annual growth rate of 3.1% to 58 million tons by 2020. China is a major producer and consumer of dairy products. It is expected that China's demand for dairy products, which is one of the important indicators of people's living standards, will rise and the market will have stricter quality requirements for raw milk as the industry undergoes continuous transformation and upgrade. Favorable policy and market demand will provide excellent opportunities for the growth of the Group.

Looking forward, the Group is endeavored to strengthen its leading position in the PRC dairy farming industry. Apart from providing high-quality raw milk supply to Chinese consumers, it will increase the inventory of milkable cows and optimize the feeding formula so as to promote the overall profitability of the Group. Furthermore, it will continue to expand sales channels and explore new customers with the view to capturing a larger market share and delivering significant returns to shareholders of the Company.

Our Revenue

During the Year, our total sales of milk produced decreased by 1.5% from RMB1,029.2 million for the year ended 31 December 2016 to RMB1,014.1 million. The sales volume reached 262,543 tons in 2017, representing an increase of 3,868 tons or 1.5% as compared with 258,675 tons in 2016. The growth was primarily attributable to the increases in herd size. Our average selling price of raw milk decreased from RMB3,979 per ton in 2016 to RMB3,863 per ton in 2017. The decrease in selling price was mainly attributable to the continuous drop in the market price of domestic raw milk in 2017.

Cost of Sales

Our cost of sales for the Year was RMB760.9 million. The table below summarizes the components of our cost of sales by nature:

	2017	2016
	RMB'000	*RMB'000*
Cost of sales		
Feed	**544,442**	512,438
Salary, welfare and social insurance	**48,973**	43,945
Depreciation	**71,875**	44,680
Veterinary cost	**35,245**	28,333
Utility	**25,102**	22,860
Other costs	**35,230**	37,475
Cost of sales, total	**760,867**	689,731

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB544.4 million and RMB512.4 million for the years ended 31 December 2017 and 2016, respectively, representing 71.6% and 74.3% of the cost of sales for the respective financial years ended 31 December 2017 and 2016. The increase in our feed costs was attributable to the increase in feed consumption in 2017 as the number of our milkable cows grew.

Gross Profit

Given the above factors, the gross profit decreased to RMB253.3 million for the Year (2016: RMB339.5 million), representing a decrease of 25.4% as compared to that for 2016. Our gross profit margin also decreased from 33.0% in 2016 to 25.0% in 2017.

Other income for the Year amounted to RMB43.0 million (2016: RMB72.2 million), representing a decrease of 40.4%. The decrease was primarily attributable to a substantial decrease of government subsidies recognised during the Year.

Selling and Distribution Expenses

All of our selling and distribution expenses were transportation expenses of our raw milk. Our selling and distribution costs were RMB19.9 million for the Year (2016: RMB18.3 million).

Administrative Expenses

We incurred administrative expenses of RMB82.7 million for the Year (2016: RMB74.9 million) representing an increase of approximately 10.4% as compared to 2016. The increase was attributable to the combined effect of the increase in the impairment for other current assets, exchange loss and the decrease in share option expenses.

Other Expenses

Other expenses for the Year amounted to RMB33.0 million (2016: Nil). The increase was primarily attributable to the increase in the one-off expense of transportation costs of cow dung and non-current assets disposal losses.

Changes in Fair Value Less Costs to Sell of Biological Assets

Changes in fair value less costs to sell of biological assets was a loss of RMB228.7 million for the Year as compared to a loss of RMB407.1 million for 2016. The decrease in the loss was principally due to the slight fluctuation in the price of domestic raw milk, which is one of the key parameters for the computation of the fair value of biological assets.

Loss for the Year of the Group

Taking into account all of the above factors, the Group's net loss was RMB67.9 million for the Year. This represents a decrease of 23.4% from a net loss of RMB88.6 million for the year ended 31 December 2016. Basic loss per share was approximately RMB1.46 cents for the Year (2016: RMB2.27 cents).

FINAL DIVIDEND

The board of directors of the Company (the "**Directors**" and the "**Board**", respectively) does not recommend the payment of a final dividend for the Year (2016: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB431.4 million, as compared to RMB327.9 million in 2016.

The Group had no bank borrowing during the Year.

CAPITAL STRUCTURE

As at 31 December 2017, the Company's issued share capital was HK$46,904,964 divided into 4,690,496,400 shares of HK$0.01 each (2016: HK$39,087,470 divided into 3,908,747,000 shares).

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the Year, the principal capital expenditures of the Group were related to construction of new farms and major maintenance and acquisition of additional equipment and cows for its existing dairy farms.

As part of the future strategy of the Group, the Group's planned capital expenditures for its business operations will primarily be related to the construction and commencement of operations of its new dairy farms. The Group anticipates that its capital expenditures will be financed by cash generated from its operations, debt financing or bank loans, the net proceeds from the placing of new shares under Shareholders' annual general mandate and the unutilised net proceeds from the issue of new shares under the global offering as set out in the prospectus of the Company dated 14 November 2013 (the "**Prospectus**").

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2017 nor were there other plans for material investments on capital assets as at the date of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE "IPO") AND PLACING OF NEW SHARES

The Company's shares (the "**Shares**") first became listed on the main board of the Stock Exchange of Hong Kong Limited on 26 November 2013. Gross proceeds raised from the global offering in such connection amounted to approximately HK$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company) amounted to approximately HK$2,564 million. Up to 31 December 2017, approximately HK$2,205.9 million of such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which as to HK$1,912.7 million on construction of new farms, as to HK$256.4 million on working capital and general corporate purpose, and as to HK$36.8 million on developing upstream operations purpose. The Directors will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market condition to better deploy resources and proceeds of the IPO. Announcement will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The Company issued 781,749,400 new Shares at a price of HK$0.5 per Share pursuant to a placing of Shares completed on 13 January 2017 (the "**Placing**"). The net proceeds from the Placing (after deducting the placing commission payable to the Placing Agent and other expenses incurred in the Placing) were approximately HK$385.0 million, which were intended to be used for importing heifers and calves from Australia and New Zealand and general working capital. As at 31 December 2017, about HK$27.0 million of such net proceeds were used on importing heifers from New Zealand. The entire amount of the remaining net proceeds, being approximately HK$358.0 million, remained unutilised and is expected to be used as intended.

The remaining balance of such net proceeds was kept in banks and approved financial institutions in Hong Kong, Macau and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the Year, the Group did not have any material acquisitions and disposals of subsidiaries.

PLEDGE OF ASSETS

As at 31 December 2017, no assets of the Group were pledged as security for bank borrowings.

FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as the United States dollars and Hong Kong dollars. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2017 and 2016 were RMB93.6 million and RMB104.7 million, respectively, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2017 (2016: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had approximately 1,378 employees (2016: 1,380 employees), all of whom are located in the PRC.

The salaries of the Group's employees largely depend on their type and level of work as well as length of service with the Group. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Company participates in the social insurance schemes operated by the relevant local government authorities, which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013.

The Directors and senior management of the Company receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Company or executing their functions in relation to its operations. The Company regularly reviews and determines the remuneration and compensation packages of the Directors and senior management.

A share option scheme was adopted by the Company on 7 November 2013 for the purpose of providing incentives or rewards to selected participants for their contributions to the Group.

Further, the remuneration committee of the Company reviews and recommends to the Board for consideration and approval of the remuneration and compensation packages of the Directors and senior management by reference to their time commitment and responsibilities, the salaries paid by comparable companies and the performance of the Group.

EVENT AFTER REPORTING PERIOD

The Group did not have any material subsequent event after the Year and up to the date of this report.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS (THE "EDs")

Mr. Zhao Hongliang (趙洪亮)

Mr. Zhao, aged 51, is an ED and the chairman of the Group. He is primarily responsible for the overall strategic development of the Group. He is also a member of the remuneration committee of the board of directors of the Company (the "**Board**" and the "**Remuneration Committee**", respectively). Mr. Zhao completed his high school education in the People's Republic of China (the "**PRC**") in July 1983.

Mr. Zhao is the founder of the Group. He has past experience in raising dairy cows and cattle management in Heilongjiang Province, the PRC. In 1995, he started to invest in various sectors in the PRC including real properties, trading of construction materials and mining. Simultaneously, he had been all along paying close attention to the dairy farming industry in the PRC. In 2008, he was awarded as one of the "Outstanding Private Entrepreneurs" * (優秀民營企業家), and in the following year, he was awarded as one of "Top Ten Outstanding Young Entrepreneurs of the Farming District of Heilongjiang" (黑龍江墾區十大傑出青年企業家). Mr. Zhao has accumulated substantial experience in making investments in the PRC and has maintained a sound financial capability.

In 2008, Mr. Zhao invested in the dairy farming industry in the PRC and as a result, the Company's first operating entity, namely Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.* (黑龍江克東瑞信達原生態牧業股份有限公司) ("**YST Heilongjiang**"), was established in September 2008.

Mr. Zhao is a director and the sole shareholder of a controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")) of the Company. Mr. Zhao is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Royal Dairy Farm Limited ("**Royal Dairy Farm**") and Natural Dairy Farm Limited ("**Natural Dairy Farm**").

Mr. Wang Shaogang (王紹崗)

Mr. Wang, aged 55, is an ED and the vice chairman of the Group. Mr. Wang is a director of each of the following subsidiaries of our Company: Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (黑龍江克東和平原生態牧業有限公司), Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd.* (鎮賚瑞信達原生態牧業有限公司), Qiqihar Ruixinda ShengTai Dairy Farming Co., Ltd.* (齊齊哈爾瑞信達生態養殖有限公司), Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for the overall corporate and business policies of the Group. Mr. Wang graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute of Technology* (上海應用技術學院)) in 1989, majoring in food engineering.

Mr. Wang joined the Group since its establishment in September 2008 as the general manager thereof and was then in charge of the supervision of the daily business management of the Group (including the operation of the Group's farms). In June 2012, he was appointed as the vice chairman of the Group. He is also a member of the senior management of the Group. Mr. Wang has over 24 years of experience in the dairy farming industry.

Biographical Details of Directors and Senior Management

Mr. Fu Wenguo (付文國)

Mr. Fu, aged 50, is an ED, the chief executive officer and the general manager of the Group. Mr. Fu is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for overseeing the overall operations of the Group. He is also a member of the nomination committee of the Board (the "**Nomination Committee**"). Mr. Fu graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute Technology* (上海應用技術學院)) in 1989.

Mr. Fu joined the Group in December 2011 and was then in charge of overseeing the overall operations of the Group. Since January 2012, Mr. Fu has been assuming the office of general manager of the Group. He is also a member of the senior management of the Group. Mr. Fu has over 24 years of experience in the dairy farming industry.

Mr. Chen Xiangqing (陳祥慶)

Mr. Chen, aged 45, was appointed as an ED and the chief financial officer of the Group on 10 September 2015. Mr. Chen was employed by Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司) from April 2003 to June 2012, and had assumed various offices including the accounts manager, finance manager and internal control manager, respectively.

Mr. Chen graduated from Heilongjiang Bayi Agricultural University (黑龍江八一農墾大學) in July 1996, majoring in agricultural economy management. He is a holder of the certificate of accounting professional in the PRC. He has been accredited as a certified internal auditor by The Institute of Internal Auditors since November 2010.

Mr. Chen joined the Group in December 2012 as the head of finance department of the Group, in which he was responsible for overseeing the financial and auditing matters of the Group. Mr. Chen has more than 15 years' working experience in the domestic raw milk industry of the PRC.

NON-EXECUTIVE DIRECTOR (THE "NED")

Mr. Lau Ho Fung (劉浩峰)

Mr. Lau, aged 36, was appointed as a NED on 30 April 2013. Mr. Lau is a director of Royal Dairy Farm and Natural Dairy Farm. Mr. Lau is a Vice President – Private Equities of VMS Investment Group where he is mainly engaged in deal screening, due diligence and execution of private equities transactions in the greater China region. He has been a Chartered Financial Analyst charter-holder since 2009 and received a bachelor's degree in information system and software engineering from the University of Hong Kong in 2005. Mr. Lau has around ten years of experience in the private equities and asset management industries. Prior to joining VMS Investment Group, he worked as a research analyst trainee at Phoenix Capital Asia Limited during October 2005 and October 2006 and received training on a broad range of fundamental analysis. From November 2006 to May 2010, Mr. Lau worked at Tempus Investment Group where he joined as an assistant analyst and was later promoted to a research analyst. During that period, Mr. Lau's responsibilities included conducting industry and company analyses in Hong Kong and China markets and recommending investments.

INDEPENDENT NON-EXECUTIVE DIRECTORS (THE "INEDs")

Mr. Wu Chi Keung (胡志強)

Mr. Wu, aged 61, was appointed as an INED on 7 November 2013. He is the chairman of the audit committee of the Board (the "**Audit Committee**") and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. He was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently the managing director of a family-owned private company engaging in property and other investment activities.

Mr. Wu is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants in the United Kingdom. He graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1980 with a high diploma in accountancy.

Currently, Mr. Wu is an independent non-executive director of Zhou Hei Ya International Holdings Company Limited (stock code: 1458), Huajin International Holdings Limited (stock code: 2738), Huabao International Holdings Limited (stock code: 336), Jinchuan Group International Resources Co., Ltd. (stock code: 2362), Zhong Fa Zhan Holdings Limited (stock code: 475) and China Medical System Holdings Limited (stock code: 867), the shares of which are all listed on the Stock Exchange. In the last three years from the date of this report, he was an independent non-executive director of COFCO Meat Holdings Limited (stock code: 1610), the shares of which are listed on the Stock Exchange.

Mr. Zhang Yuezhou (張月周)

Mr. Zhang, aged 54, was appointed as an INED on 7 November 2013. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Currently, Mr. Zhang is engaged in the provision of dairy farm management consultancy services in the PRC. He was awarded a bachelor's degree in animal husbandry in July 1987 and a master's degree in agricultural extension in 2006 by the Nanjing Agricultural University (南京農業大學). Mr. Zhang obtained the qualification of an animal husbandry expert in the PRC in May 1995. Mr. Zhang has over 20 years of experience in the dairy products industry and since March 2010, he has been the general manager of Shanghai Yuanfan Farming Technology Co. Ltd.* (上海源凡牧業科技有限公司), responsible for overseeing its overall operations.

Mr. Zhu Zhanbo (朱戰波)

Mr. Zhu, aged 48, was appointed as an INED with effect from 7 November 2013. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Mr. Zhu has 20 years' experience in teaching and scientific research. He graduated from the Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學) in veterinary science in July 1993, and obtained a master's degree from the Department of Animal Science and Technology of the same university in July 2004. He further obtained a doctorate from the Jilin University (吉林大學) in July 2012.

By profession, he is a university professor. Mr. Zhu started his full-time work in July 1993. Since then, he has served as a working staff at Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學).

SENIOR MANAGEMENT

In addition to Mr. Zhao Hongliang, Mr. Wang Shaogang, Mr. Fu Wenguo and Mr. Chen Xiangqing, all being EDs, the following individuals are also members of the senior management of the Group:

Mr. Wang Yongxin (王永信)

Mr. Wang, aged 40, is the deputy general manager of the Group. Currently, he is primarily responsible for the health care of cattle of the Company's farms and production and operations management of the Group. He graduated from the Southwest Agricultural University* (西南農業大學) in veterinarian science in 2001. He also obtained a certificate of middle-level veterinary in 2006.

Mr. Wang joined the Group in December 2009 and was then in charge of the supervision and overall management of the Company's Kedong YST Farm. Mr. Wang has over 12 years of experience in the dairy farming industry. During his employment with the Group, Mr. Wang has assumed the following offices and has been in charge of the functions mentioned below:

Period of Time	Office	Principal functions
December 2009 to March 2012	Head of farm	Supervision and overall management of Kedong YST Farm
From March 2012 onwards	Deputy general manager	Monitoring the health of cattle and production and operations management of the operating subsidiaries of the Company

COMPANY SECRETARY

Mr. Liu Gang (劉剛)

Mr. Liu, aged 44, was appointed as one of the Company's joint company secretaries on 7 November 2013. According to the Company's announcement dated 5 April 2017, Mr. Liu would act as the sole company secretary of the Company with effect from 5 April 2017 as the Stock Exchange had confirmed that Mr. Liu was qualified to act as the company secretary under Rule 3.28 of the Listing Rules (the "**Confirmation**"), and Mr. Kwok Siu Man had resigned as a joint company secretary of the Company with effect from the same date.

Mr. Liu was awarded a bachelor's degree in automation, majoring in measuring and control technology and instrumentations, by the Yanshan University* (燕山大學) in July 1999. Mr. Liu joined the Group in January 2012 and has been mainly responsible for providing assistance to the chairman of the Group. Prior to joining our Group, Mr. Liu had accumulated about 8 years of experience in the investment sector.

* Denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes

Corporate Governance Report

The Company is committed to fulfilling its responsibilities to the Company's shareholders (the "**Shareholders**") and protecting and enhancing shareholder value through good corporate governance.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "**Directors**" and the "**Board**", respectively) and its management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the businesses of the Company and its subsidiaries (the "**Group**") in a transparent and responsible manner and following good corporate governance practices serve the long-term interests of the Group and those of the Shareholders. The Board considers that the Company complied with all the code provisions of the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Rules**", respectively) during the year ended 31 December 2017 (the "**Year**").

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. In response to a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code during the Year.

BOARD OF DIRECTORS

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to formulating the Group's business plans and strategies, reviewing the Company's financial results and performance and approving its interim and annual results; approving the appointment, removal or reappointment of the Board members upon the recommendation of the nomination committee of the Board (the "**Nomination Committee**"); approving the remuneration package of the Directors and senior management of the Company upon the recommendation of the remuneration committee established by the Board (the "**Remuneration Committee**"), deciding all significant financial (including major capital expenditure) and operational issues, developing, monitoring and reviewing the Group's corporate governance, risk management and internal control, and all other functions reserved to the Board under the Company's bye-laws (the "**Bye-Laws**"). The Board may from time to time delegate certain functions to the senior management of the Group if and when considered appropriate. The senior management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time.

The Directors who were in office during the Year and up to the date of this report are named as follows:

Executive Directors

Mr. Zhao Hongliang *(Chairman)*
Mr. Wang Shaogang *(Vice-chairman)*
Mr. Fu Wenguo *(Chief Executive Officer)*
Mr. Chen Xiangqing *(Chief Financial Officer)*

Non-executive Directors

Mr. Lau Ho Fung
Mr. Sun Wei *(Note)*

Independent non-executive Directors (the "INEDs")

Mr. Wu Chi Keung
Mr. Zhang Yuezhou
Mr. Zhu Zhanbo

Note: Mr. Sun Wei, a former non-executive Director, resigned from his office with effect from 23 January 2017. For further information, please refer to the announcements of the Company dated 23 January 2017 and 24 January 2017, respectively.

The biographical details of each of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. There was no financial, business, family or other material relationship among the Directors.

The four executive Directors are responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances and are collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The non-executive Directors participate in Board meetings to bring in an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts and scrutinize the Company's performance in achieving agreed corporate goals and objectives.

The three INEDs are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as providing a balance in the Board in order to effectively exercise independent judgment on the corporate actions of the Company so as to protect Shareholders' interests and the overall interests of the Group.

Throughout the Year, the Company had three INEDs and at all times met the requirement of the Listing Rules that the number of INEDs must represent at least one-third of the Board members and at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise.

Each of the INEDs has made an annual written confirmation of independence by reference to Rule 3.13 of the Listing Rules and the Board is satisfied that all the INEDs were independent and met the independence guide lines set out in the above Rule 3.13.

Directors' Induction and Continuing Professional Development

Each newly appointed Director received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure a proper understanding of the Company's operations and business and full awareness of the Director's responsibilities under the statues and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

The Company has from time to time provided briefings to all Directors to develop and refresh the Directors' duties and responsibilities. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors have been required to provide the Company with their training records.

During the Year, all Directors attended briefings by certain professional advisers and/or participated in continuous professional development courses organized by professional bodies/firms on corporate governance or updates on laws, rules and regulations relating to the roles, functions and duties of a Director to develop and refresh their knowledge and skills.

The individual record of each Director who received training for the Year is summarised as follows:

Directors	Type of CPD
Executive Directors	
Mr. Zhao Hongliang	B
Mr. Wang Shaogang	A & B
Mr. Fu Wenguo	A & B
Mr. Chen Xiangqing	A & B
Non-executive Directors	
Mr. Lau Ho Fung	B
Mr. Sun Wei (resigned with effect from 23 January 2017)	B
INEDs	
Mr. Wu Chi Keung	A & B
Mr. Zhang Yuezhou	B
Mr. Zhu Zhanbo	B

Notes:

A: attending seminars/forums/workshops/conferences relevant to the Group's business or directors' duties

B: reading seminars materials and studying regulatory updates on laws, rules and regulations relating to directors' roles and functions

Meetings of Board and Board Committees and Directors' Attendance Records

The Board is scheduled to meet four times a year at approximately quarterly intervals with notice given to the Board members at least 14 days in advance. For additional Board meetings which require discussion and resolution of significant issues arising during the operation of the Company, notice is given in a reasonable time in advance. Before each Board meeting, a draft agenda is sent out to all Directors at least three days or such other period as agreed in advance in order to allow the Directors to include any other matters in the agenda that is required for discussion and resolution in the meeting. To enable the Directors to make informed decisions, Board papers together with all appropriate and relevant information in relation to the matters of the meeting are sent to all Directors three days or such other period as agreed before each Board meeting. The company secretary of the Company (the "**Company Secretary**") is responsible for keeping all Board meetings minutes. Draft minutes are normally circulated to the Directors for comments within a reasonable time after each meeting and the final version thereof is open for the Directors' inspection. According to the Listing Rules, any Directors and their close associates (as defined under the Listing Rules) with a material interest in the transactions to be discussed in the Board meetings will abstain from voting on the resolutions approving such transactions and will not be counted in the quorum for the meetings.

Directors' Competing Business

Each of Mr. Zhao Hongliang, (being the chairman of the Board (the "**Chairman**") and an executive Director), Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited (collectively, the "**Controlling Shareholders**") executed a deed of non-compete and other undertakings (the "**Non-compete Undertakings**") in favour of the Company (for itself and for the benefit of its subsidiaries) on 7 November 2013, pursuant to which each of the Controlling Shareholders has undertaken not to engage in, or be interested in any business which, directly or indirectly, competes or may compete with the Group's business. In order to properly manage any potential or actual conflict of interests between the Company and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertakings, the Company has adopted the following measures:

(a) all INEDs will review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-Compete Undertakings by the Controlling Shareholders;

(b) the Company will disclose any decisions on matters reviewed by the INEDs relating to the compliance with and enforcement of the Non-Compete Undertakings by the Controlling Shareholders either through the annual report or by way of announcement;

(c) the Company will disclose in the corporate governance report of its annual report on how the terms of the Non-Compete Undertakings have been complied with and enforced; and

(d) in the event that any of the Directors and/or their respective associates has a material interest in any matter to be deliberated by the Board in relation to the compliance with and enforcement of the Non-Compete Undertakings, he may not vote on the resolutions of the Board approving the matter and will not be counted in the quorum for the voting pursuant to the applicable provisions of the Bye-laws.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders.

During the Year, 4 Board meetings, 1 annual general meeting (the "**AGM**") and 1 special general meeting (the "**SGM**") were held. Details of the attendance of the Directors are as follows:

	Attendance of		
Directors	**Board meetings**	**AGM**	**SGM**
Executive Directors			
Mr. Zhao Hongliang	3/4	1/1	1/1*
Mr. Wang Shaogang	4/4	1/1	1/1
Mr. Fu Wenguo	3/4	1/1	1/1*
Mr. Chen Xiangqing	4/4	1/1	1/1*
Non-executive Directors			
Mr. Lau Ho Fung	3/4	0/1	0/1
Mr. Sun Wei (resigned with effect from 23 January 2017)	0/4	0/1	0/1
INEDs			
Mr. Wu Chi Keung	4/4	1/1*	1/1*
Mr. Zhang Yuezhou	3/4	1/1*	1/1*
Mr. Zhu Zhanbo	4/4	1/1*	1/1*

Notes:

1. * The Directors participated in AGM or SGM via teleconferencing.

2. During the Year, the Board had circulated and passed written resolutions on six occasions, which were dated 9 January, 23 January, 20 February, 5 April, 12 May and 29 June 2017, respectively, apart from the physical Board meetings stated above.

Board Diversity Policy

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") on 7 November 2013 and discussed all measurable objectives set for implementing the same.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of a diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are separated and assumed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one member of the Board. Mr. Zhao Hongliang, the Chairman, is responsible for overseeing the functions of the Board while Mr. Fu Wenguo, the Chief Executive Officer, is responsible for managing the Group's business and overall operations. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer.

BOARD COMMITTEES

The Board has established, with written terms of reference, three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

The written terms of reference for each Board committee are in line with the Listing Rules and they are posted on the respective websites of the Stock Exchange and the Company.

Audit Committee

The Board has established the Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the three INEDs, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. Mr. Wu Chi Keung is the chairman of the Audit Committee. The terms of reference of the Audit Committee were revised and adopted on 8 December 2015 to include additional responsibility in relation to the risk management system arising from the Stock Exchange's proposal on the risk management and internal control under the CG Code applicable to all listed companies with accounting periods beginning on or after 1 January 2016.

The principal responsibilities of the Audit Committee include, among others:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;

- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards;
- discussing with the external auditor the nature and scope of the audit and reporting obligations before the audit commences and ensuring co-ordination where more than one audit firm is engaged before the audit commences;
- developing and implementing a policy on engaging an external auditor to supply non-audit services and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- monitoring the integrity of the Company's financial statements and annual report, interim report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them;
- reviewing the Company's financial controls, and unless expressly addressed by a separate risk committee or the Board itself, reviewing the Company's risk management and internal control systems;
- discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensuring co-ordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
- considering other topics as defined by the Board.

For the Year, the Audit Committee held 3 meetings to review and supervise the financial reporting process and review the risk management and internal control systems of the Group. It had, in conjunction with Ernst & Young, the independent auditor of the Company, reviewed the Group's audited results for the year ended 31 December 2016 and unaudited interim results for the six months ended 30 June 2017 and recommended the same to the Board for their consideration and approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The Audit Committee also carried out and discharged its other duties as set out in the CG Code.

Details of the attendance of the Audit Committee meetings are as follows:

Members	**Attendance**
Mr. Wu Chi Keung *(Chairman)*	3/3
Mr. Zhang Yuezhou	3/3
Mr. Zhu Zhanbo	3/3

The Audit Committee met on 27 March 2018 and, among other matters, reviewed the Group's audited consolidated results for the Year.

Remuneration Committee

The Board has established the Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises three INEDs, namely Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Mr. Wu Chi Keung and Mr. Zhao Hongliang, an executive Director. Mr. Zhang Yuezhou is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee include, among others:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing a remuneration policy;
- reviewing and approving the management's remuneration proposals by reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management and such packages include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- making recommendations to the Board on the remuneration of the non-executive Directors;
- considering salaries paid by comparable companies, time commitment, responsibilities and employment conditions elsewhere in the Group;
- reviewing and approving compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with the contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to the dismissal or removal of the Directors for misconduct to ensure that they are consistent with the contractual terms and are otherwise reasonable and appropriate;
- ensuring that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration; and
- consulting the Chairman and/or Chief Executive Officer (where applicable) about their remuneration proposals for other executive Directors.

During the Year, the Remuneration Committee held 1 meeting and reviewed the remuneration packages of all the Directors, and made recommendations to the Board on the remuneration proposal for all Directors.

Details of the attendance of the Remuneration Committee meetings are as follows:

Members	Attendance
Mr. Zhang Yuezhou *(Chairman)*	1/1
Mr. Wu Chi Keung	1/1
Mr. Zhu Zhanbo	1/1
Mr. Zhao Hongliang	1/1

The Remuneration Committee met on 27 March 2018 and considered certain remuneration-related matters of the Directors and senior management.

Nomination Committee

The Board has established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee comprises three INEDs, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo and Mr. Fu Wenguo, an executive Director. Mr. Zhu Zhanbo is the chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee include, among others:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;

- assessing the independence of the INEDs;

- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that the Board has set for implementing such policy, and the progress on achieving the objectives; and making disclosure of its review results in the corporate governance report contained in the Company's annual report; and

- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for the Directors, in particular, the Chairman and the chief executives.

During the Year, the Nomination Committee held 1 meeting and, among other matters, (i) reviewed the structure, size and composition of the Board; (ii) assessed the independence of the INEDs; and (iii) reviewed and made a recommendation on the re-appointment of the retiring Directors.

Details of the attendance of the Nomination Committee meetings are as follows:

Members	Attendance
Mr. Zhu Zhanbo *(Chairman)*	1/1
Mr. Wu Chi Keung	1/1
Mr. Zhang Yuezhou	1/1
Mr. Fu Wenguo	1/1

The Nomination Committee met on 27 March 2018 and recommended the re-appointment of all the retiring Directors at the forthcoming AGM.

Board's Corporate Governance Functions

The Board is responsible for performing the corporate governance functions of the Company as set out in code provision D.3.1 of the CG Code. The Board has reviewed this corporate governance report in discharge of its corporate governance functions, ensuring compliance with the Listing Rules.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company, pursuant to which Messrs. Zhao Hongliang, Wang Shaogang and Fu Wenguo agreed to act as executive Directors for a further term of three years with effect from 1 November 2016 and Mr. Chen Xiangqing agreed to act as an executive Director for an initial term of three years with effect from 10 September 2015.

Each of the non-executive Directors has been appointed for a further term of three years with effect from 1 November 2016.

Each of the INEDs has been appointed for a further term of three years with effect from 7 November 2016.

Save as disclosed aforesaid, none of the Directors has or is proposed to have a service contract or letter of appointment with the Company or any of its subsidiaries other than the contracts or letters of appointment expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

All the Directors, including the INEDs, are subject to retirement by rotation and eligible for re-election in accordance with the Bye-Laws. At each AGM, one-third of the Directors for the time being (or if their number is not three (3) or a multiple of three (3), then the number nearest to but not exceeding one-third (1/3)), will retire from office by rotation provided that every Director will be subject to retirement at least once every three (3) years. A retiring Director will be eligible for re- election and will continue to act as a Director throughout the meeting at which he retires. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation will include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire will be those who have been the longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire will (unless they otherwise agree among themselves) be determined by lot.

The Bye-Laws further provide that the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed will hold office only until the next following AGM and will then be eligible for re-election at the meeting but will not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.

Any Director appointed by the Board to fill a casual vacancy will hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board will hold office only until the next following AGM and will then be eligible for re-election.

Remuneration of Directors and Senior Management

Particulars of the Directors' remuneration for the Year are set out in note 7 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Biographical Details of Directors and Senior Management" in this annual report for the Year by band is set out below:

	2017 Number of employees	2016 Number of employees
Nil to HKD1,000,000	1	–
HKD1,000,001 to HKD1,500,000	1	1
	2	1

INDEPENDENT AUDITOR'S REMUNERATION

For the Year, the fees charged by Ernst & Young in respect of the audit and non-audit (primarily review of interim financial information and report on continuing connected transactions) services provided to the Group for the Year amounted to approximate RMB1,950,000 and RMB450,000, respectively.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements for the Year, which give a true and fair view of the state of affairs of the Company and the Group's results and cashflows for the year then ended and are properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

In addition, Ernst & Young has stated its reporting responsibility in the independent auditor's report of the Company's consolidated financial statements for the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its overall responsibility for maintaining an adequate and effective risk management and internal control systems of the Group and reviewing their effectiveness. The Company has an established risk framework under which it identifies risks relevant to the operations and activities of the Group, and assesses these risks in relation to their likelihood and potential impacts. Procedures have been set up for, inter alia, safeguarding assets against unauthorised use or disposition, maintaining proper accounting records and ensuring reliability of financial information, ensuring compliance with relevant legislation and regulations and protecting the interests of the Shareholders. Such systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and aims to provide a reasonable, as opposed to an absolute assurance against material misstatement or loss. Under our framework, management is primarily responsible for the design, implementation and maintenance of the risk management and internal control systems, while the Board and the Audit Committee oversee the actions of management and monitor the effectiveness of these systems and to safeguard the Group's assets. This risk management and internal control framework (which include financial, operational and compliance controls) is reviewed annually by the Audit Committee on behalf of the Board.

In order to maintain sound and effective risk management and internal control systems, the Company has established and maintained stringent internal control procedures including the adoption of a corporate governance manual. Internal reporting guidelines have been developed at all department levels of the Company for identifying potential events of non-compliance, and all employees have been encouraged by management to report promptly any potential or actual non-compliance. The Internal Audit Department has been established to carry out annual risk assessment on each audit area and devise a yearly audit plan according to their risk ratings. The Internal Legal Department of the Group is also responsible for coordinating ongoing trainings for the staff by selecting and recommending suitable courses for the Directors, the management level and other employees of the Group. Periodic review of the Company's human resources policies has also been carried out to ensure sufficient manpower for the implementation of internal control measures. The Board has regularly evaluated the internal control procedures in order to prevent and detect any internal control procedural errors.

During the Year, the Company had in place renewed manuals for its risk management system, safety management system, human resources management system and work injury management system. In particular, the internal control department identified the major risks in connection with the information system, the management of construction-in-progress, the procurement process and the management of biological assets. Relevant sampling inspections were conducted and no material deficiencies were identified in the management as well as execution process.

The Company has also enhanced its internal communication system, ensuring policies formulated by the Board and the management would be effectively communicated to the relevant employees for execution. Internal communication between employees and the management has also been enhanced through conducting weekly or monthly meetings. Employees are encouraged to report potential fraud and suspicious circumstances relating to internal control failure to the management, which would be handled and investigated by a special audit team of the internal audit department, and relevant findings would be communicated to the whistleblower. Reward and management system is in place to encourage employees to streamline the production process and reduce costs. Responsibilities of employees and their internal control responsibilities are communicated through performance management system and face-to-face meetings.

Disclosure of Inside Information

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has strictly prohibited unauthorized use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the company secretary/joint company secretaries and investor relations officers are authorized to communicate with parties outside the Group.

In respect of the Year, the Company has carried out a review of, and the Board has received a confirmation from the management on, the effectiveness of the risk management and internal control systems of the Group and no significant areas of concern were identified. The Directors are of the view that the systems of internal control and risk management are effective and adequate and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness or adequacy of the Group's risk management and internal control systems.

JOINT COMPANY SECRETARIES

The Company has appointed Mr. Liu Gang ("**Mr. Liu**") as one of the joint company secretaries of the Company with effect from 7 November 2013. Mr. Liu joined the Group in January 2012 with sound understanding of the operations of the Board and the Company. He had been closely involved in the preparation of the initial listing of the Company's shares on the Main Board of the Stock Exchange on 26 November 2013 and, hence, was familiar with the legal and the Listing Rules' requirements applicable to the Group. He also attended training seminars of not less than 15 hours to update his skills and knowledge during the Year.

Given the important role of the Company Secretary in the corporate governance of the Company, particularly in assisting the Company as well as the Directors in complying with the Listing Rules and other relevant laws and regulations, the Company has also appointed Mr. Kwok Siu Man ("**Mr. Kwok**"), who meets the requirements under Note 1 to Rule 3.28 of the Listing Rules, as the other joint Company Secretary to work closely with and provide assistance to Mr. Liu in discharge of the latter's duties and responsibilities as a joint Company Secretary. Mr. Kwok was nominated by Boardroom Corporate Services (HK) Limited ("**Boardroom**") to assume such office and Boardroom has been providing certain corporate secretarial services to the Company pursuant to an engagement letter entered into between the Company and Boardroom. The primary person at the Company with whom Mr. Kwok has been contacting in respect of company secretarial matters is Ms. Song Miao, Investor Relations Director.

As Mr. Kwok was first appointed as the company secretary of a Hong Kong Hang Seng Index constituent stock company in 1991 and has been acting in such capacity for a number of other reputable companies listed on the Stock Exchange at a substantial amount of time since then, he was not required to have at least 15 hours of relevant continuous professional development training under the Listing Rules for each of the five consecutive years from 2012.

Mr. Kwok resigned as a joint Company Secretary with effect from 5 April 2017 and immediately following the resignation of Mr. Kwok, Mr. Liu has acted as the sole Company Secretary after the Stock Exchange had confirmed that Mr. Liu was qualified to act as the company secretary under Rule 3.28 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene a Special General Meeting ("SGM")

Shareholders who hold not less than 10% of the paid-up capital of the Company as at the date of depositing the requisition can convene a SGM by serving a written requisition notice to the Board or the Company Secretary for the purpose of requesting for convening a SGM. The written requisition shall be deposited to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong and to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda for the attention of the Board or the Company Secretary.

If the requisition is well-founded, the Board will, according to the applicable rules and regulations, issue sufficient notice to all Shareholders for convening the SGM. If the requisition is improper, the Company will notify the relevant requesting Shareholders of the objection and no SGM will be convened.

Procedures for Shareholders to Send Enquires to the Board

Shareholders can forward their questions about shareholding, share transfer/registration and dividend payment to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited whose contact particulars are as follows:

Email address:	hkinfo@computershare.com.hk
Address:	Shops 1712-1716,17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
Tel. No.:	(852) 2862 8555
Fax. No.:	(852) 2865 0990/2529 6087

For enquiries about the Company's information, Shareholders can contact Mr. Liu, the Company Secretary, whose contact particulars are as follows:

Email address:	liugang@ystdfarm.com
Fax. No.:	(86) 1064363988

or direct the enquiries to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong for the attention of the Board.

To put forward proposals at an AGM or a SGM, the Shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Company's registered office.

The request will be verified with the Company's branch share registrar in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

Moreover, the notice period concerning the notice to be given to all the Shareholders for consideration of the proposals submitted by the Shareholders concerned varies as follows pursuant to bye-law 66 of the Bye-laws:

(a) for an AGM, it shall be called by not less than twenty-one (21) clear days' notice and not less than twenty (20) clear business days;

(b) for any SGM at which the passing of a special resolution is to be considered, it shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days; and

(c) for all other SGMs, they may be called by not less than fourteen (14) clear days' notice and not less than ten (10) clear business days.

Procedures for Shareholders to Propose a Person for Election as a Director

Shareholders can propose a person for election as a Director at a general meeting in accordance with bye-law 111 of the Bye-Laws. By doing so, the Shareholder should deposit (i) a written notice (the "**Proposal Notice**") of the intention to propose the person (the "**Candidate**") for election as a Director; and (ii) a written notice (the "**Consent Notice**") by the Candidate of his/her willingness to be elected at the address of the Company's (a) principal place of business in Hong Kong or (b) Hong Kong branch share registrar and transfer office mentioned above at least seven (7) clear days before the date of the general meeting and the period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and shall be at least seven (7) clear days in length.

The Proposal Notice (i) must be accompanied by the information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Shareholder proposing the Candidate for election as a Director.

The Consent Notice (i) must indicate the Candidate's willingness to be elected and consent of the publication of his/her information as required by Rule13.51(2) of the Listing Rules; and (ii) must be signed by the Candidate.

In order to allow the Shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, those Shareholders who wish to make the proposal are urged to submit and lodge the Proposal Notice and the Consent Notice as early as practicable.

To enable the Shareholders to make an informed decision on the relevant election proposal at a general meeting, the Company shall publish an announcement or issue a supplemental circular as soon as practicable after the receipt of the Proposal Notice and the Consent Notice. The Company shall include particulars of the Candidate in the announcement or the supplemental circular. The Company shall assess whether or not it is necessary to adjourn the meeting to give Shareholders at least ten (10) business days to consider the relevant information disclosed in the announcement or the supplemental circular.

The relevant procedures are available on the respective websites of the Company at www.ystdfarm.com and www.ystdairyfarm.com.

For the purpose of the section headed "**Shareholders' Rights**" in this report, a business day shall mean any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which the Stock Exchange is open for the business of dealing in securities.

COMMUNICATION WITH SHAREHOLDERS

The Company adopted a shareholders' communication policy on 7 November 2013 with the objective of ensuring that both individual and institutional Shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments and governance), for the purpose of enabling the Shareholders to exercise their rights in an informed manner, and to allow them and the investment community to engage actively with the Company.

Information about the Company will be communicated to the Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports), AGMs and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications on the respective websites of the Stock Exchange and the Company.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the Year.

Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its memorandum of association and Bye-Laws on the respective websites of the Stock Exchange and the Company.

Environmental, Social and Governance Report

INTRODUCTION

Scope of this Report

This report is prepared in accordance with the Environmental, Social and Governance ("**ESG**") Reporting Guide in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It aims to provide a balanced representation of the efforts made by the Company and its subsidiaries (the "**Group**") on corporate social responsibility and covers the Group's operation in the production and sale of raw milk for the year ended 31 December 2017 (the "**Year**").

ESG Working Group

To demonstrate our commitment to transparency and accountability, the Company has established an ESG working group, which has clear terms of reference that set out the powers delegated to it by the Board of Directors.

CORPORATE SOCIAL RESPONSIBILITY ("CSR") VISION, POLICY AND STRATEGY

The Group adopted a CSR Policy in order to commit to the highest standards of corporate governance, and aims to integrate CSR into the Group's business strategy and management approach.

CSR is viewed as a business philosophy that creates shared sustainable value with its stakeholders in the economic, social and environmental dimensions. The Group's CSR vision and CSR Policy guide the Group's business and operational decisions to take into account its responsibility to the CSR cornerstones with pragmatic objectives providing guidance on the application of these principles in its daily operations.

The Group's CSR Policy describes our long-term approach to specific issues in the four cornerstones: Marketplace, Workplace, Community and Environment, which is instrumental in enabling our business to operate in a sustainable manner. Within each of the cornerstones, core principles and pragmatic objectives provide guidance on practicing CSR in our daily operations.

SUSTAINABILITY

The sustainable growth of the business of the Group is dependent on two critical aspects, which are, environmental protection and natural resources' exploitation. The need for achieving the harmonious development of society while catering to the increasing demands of resources has been recognized by the Group. Considering the importance of environment and natural resources, the Group has developed and implemented several management policies and conservation strategies in its business operations. To protect the environment and condense the exploitation of natural resources, the Group conforms to the requisite environmental regulations and international general practices, and undertakes measures accordingly. One of the prominent goals of the Group is to improve the efficiency in terms of using natural resources such as energy, water and other non-renewable resources. The actions taken by the Group constitute regular assessments of greenhouse gas ("**GHG**") emissions, classification and recycling of wastes, and deliberations on conservation strategies with those farms who consume higher levels of energy. Maintaining a balance between the business needs and sustainability of the natural environment has been regarded as eminently essential, for which, the Group emphasizes on offering quality services and products.

STAKEHOLDERS ENGAGEMENT

The Group endeavours to create sustainable growth and long-term value for its stakeholders, who comprise the Group's employees, investors, customers and the wider community. We continue to interact with our stakeholders on an ongoing basis in order to understand their views and collect their feedback. Our communication channels with our stakeholders include company website, annual general meeting and staff meetings.

ENVIRONMENTAL

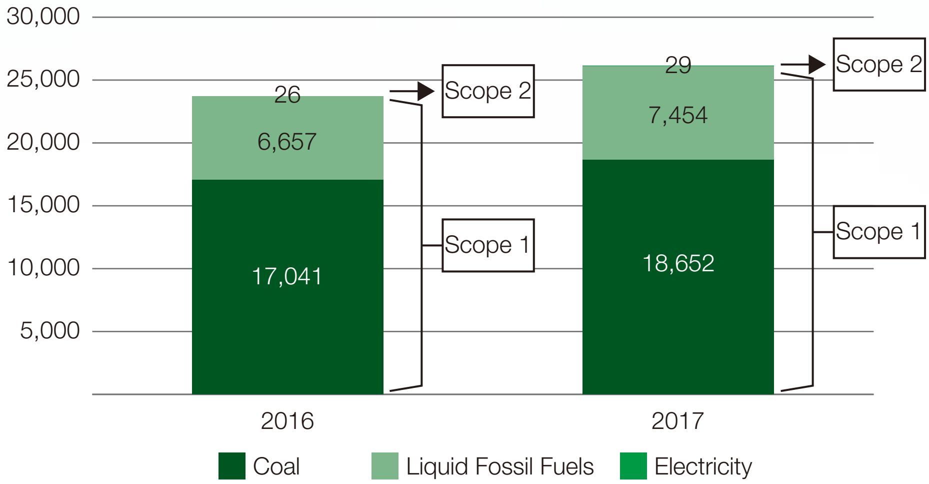
Emission

The laws and regulations adopted by local authorities, including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (畜禽規模養殖污染防治條例) to curtail the high emissions of greenhouse gas are considered and followed by the Group. No non-compliance with the laws and regulations relating to gas emissions, water discharges and generation of waste that have or may result in significant impact on the Company was identified during the Year. Apart from such conformity, the Group focuses on formulating and implementing needful measures to further the cause of preserving natural environment.

GHG Emission – Energy Use

The majority of the Group's operational greenhouse gas emissions are a result of its energy use. Most of this is from combustion of coal, consumption of liquid fossil fuels and use of electricity for the heating system, vehicles and on-farm equipment, respectively.

GHG emissions by fuel type (tCO_{2e})



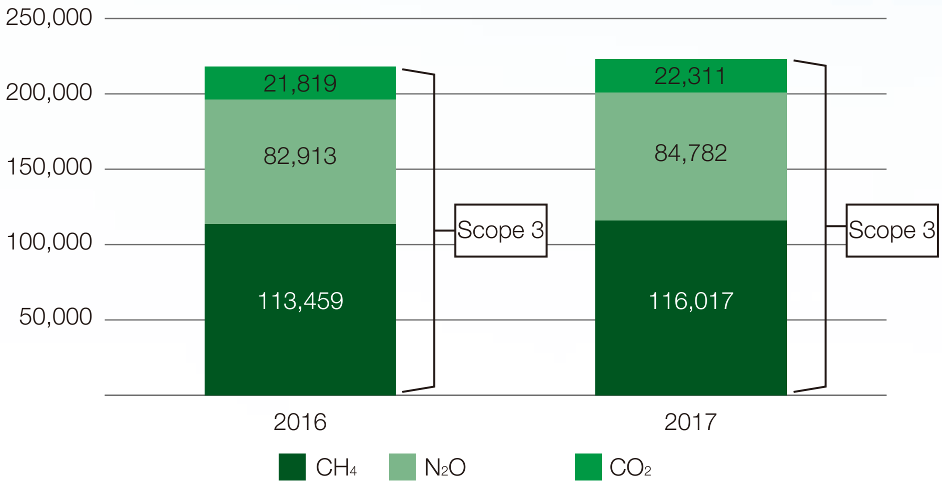
	2016	**2017**	**Variance Increase/ (decrease) %**
GHG emissions			
Scope 1: Direct emissions			
– Carbon dioxide (CO_2) (tCO_{2e})	23,698	**26,106**	10%
Scope 2: Indirect emissions			
– Carbon dioxide (CO_2) (tCO_{2e})	26	**29**	12%
Total GHG emissions (Scope 1+ 2) (tCO_{2e})	23,724	**26,135**	10%
GHG emissions intensity (Scope 1 + 2) (tCO_{2e}/number of cow)	0.4	**0.4**	0%

Note: GHG emissions intensity is calculated by dividing the total GHG emissions by the number of cow. The number of cow for 2016 and 2017 is 54,749 and 61,207 respectively.

On-farm GHG Emission

Methane (CH_4), nitrous oxide (N_2O) and carbon dioxide (CO_2) are the leading greenhouse gases emitted by the dairy farming. Methane (CH_4) is generated from plant diet of cows and other ruminants, where the animals are unable to digest the intake due to the high content of cellulose. Nonetheless, the methanogens, having interdependent association with ruminants, are the microorganisms residing within their guts. These are responsible for disintegrating the cellulose into carbohydrates, which further instigates a surge of energy within both the ruminant and microbial community. This process generates a by-product, which is methane. When utilizing fertilizers and manures in crop production, nitrous oxide (N_2O) is emanated. Moreover, it can be directly generated from the storage systems and land applications of manures. Lastly, carbon dioxide (CO_2) emissions are generated due to the animal respiration and decomposition of soil organic matter in the dairy farms. There is no identifiable hazardous waste generated from the diary operation.

On-farm GHG emissions by gas type (tonnes, tCo_{2e})



	2016 (Equivalent CO_2 Emission – (tCO2e))	**2017 (Equivalent CO_2 Emission – (tCO2e))**	**Variance Increase/ (decrease) %**
On-farm GHG emissions			
Scope 3: Other Indirect emissions			
– Methane (CH_4)	113,459	**116,017**	
– Nitrous oxide (N_2O)	82,913	**84,782**	
– Carbon dioxide (CO_2)	21,819	**22,311**	
	218,191	**223,110**	2%
Total GHG emissions (Scope 1 + 2 + 3)	241,915	**249,245**	3%
GHG emissions intensity[2] (Scope 1 + 2 + 3) (tCO$_{2e}$/number of cow)	4.4	**4.0**	(9%)

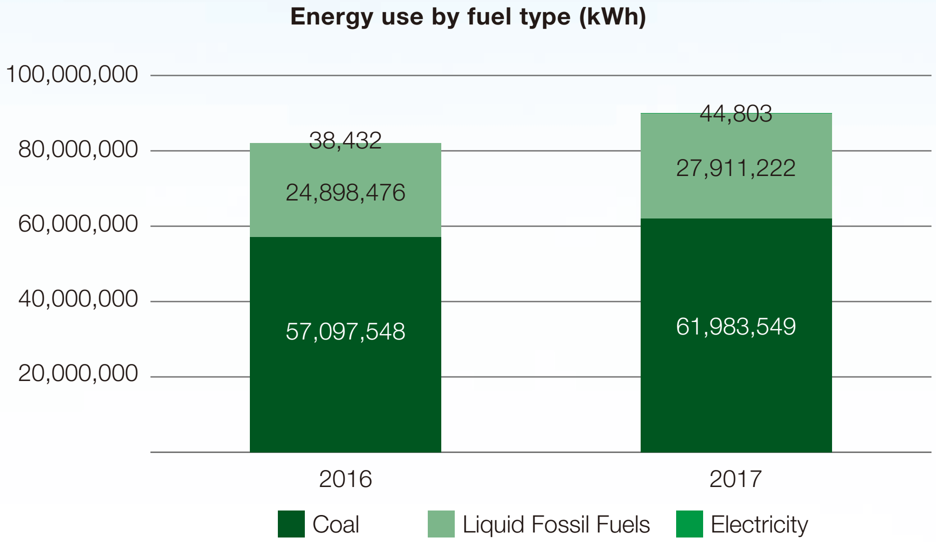
Notes:

1. The above calculation is based on the reference from Food and Agriculture Organization of the United Nations. http://www.fao.org/news/story/en/item/41348/icode/

2. GHG emissions intensity is calculated by dividing the total GHG emissions by the number of cow.

To reduce CH_4, N_2O and CO_2 emissions arising with the milk production, the Group has instigated certain initiatives concerned with cow maintenance. For cow maintenance, the productivity of the cow is enhanced that dwindles the proportion of feed, also, the duration of lactation can be increased for preserving the energy among cows. As a result of the Group's effort, total GHG emission intensity decreased by 9% from 4.4 tCO_{2e} per cow in 2016 to 4.0 tCO_{2e} per cow in 2017.

Use of Resources



	2016 (kWh)	**2017 (kWh)**	**Variance Increase/ (decrease) %**
Energy Consumption			
Coal	57,097,548	**61,983,549**	9%
Liquid fossil fuels	24,898,476	**27,911,222**	12%
Electricity	38,432	**44,803**	17%
Total energy consumption	82,034,456	**89,939,574**	10%
Energy consumption intensity (kWh/number of cow)	1,498	**1,469**	(2%)

Note:

1. Energy consumption intensity is calculated by dividing the total energy consumption by the number of cow.

Considering the usage of resources, the Group is eminently devoted towards using natural resources efficiently while emphasizing on their conservation.

The Group strives for continuous energy reduction, for which, implementation plans pertaining to energy consumption and conservation are developed through the assistance of autonomous consultants. One such plan or project is currently implemented, where CH_4 is converted into energy. Doing so decreases energy consumption rate. Moreover, solar panels are gradually placed on the farms to provide heating for the facility as they are rendered as a sustainable option when comparing with generators. In this manner, the CO_2 production is reduced while decreasing the power consumption. The Group's energy consumption intensity decreased by 2% from 1,498 kWh per cow in 2016 to 1,469 kWh per cow in 2017.

	2016	**2017**	**Variance Increase/ (decrease) %**
Water consumption (tonnes)	1,751,005	**1,700,498**	(3%)
Water intensity (tonnes/number of cow)	32	**28**	(13%)

Note:

1. Water intensity is calculated by dividing the water consumption by the number of cow.

The Group recognises that water management is one of the material aspects of preserving the natural environment. Water management is promoted by recycling the waste water obtained from the farms by executing the operations of filtering, sedimentation and oxygen treatment. Afterwards, the water is used for farm and cow cleaning and irrigation. As a result, water consumption was decreased from 1,751,005 tonnes in 2016 to 1,700,498 tonnes in 2017.

For the waste management, the Group currently does not report the volume of non-hazardous waste generated from dairy farms, however, consistent monitoring of potential impacts of activities on the environment are also encouraged. For instance, the Group promotes green information and electronic communication by using e-mail and electronic workflow to implement "paperless system" concept.

The Group is not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group relating to air and GHG emission, discharges into water and land and generation of hazardous and non-hazardous wastes.

The Environment and Natural Resources

Another integral aspect that is respected by the Group is environmental protection, for which the Group has developed proactive strategies that attenuates the impact of technology on the environment. Deploying energy efficient equipments for carrying out various stages of production has been a mean to minimize the consumption of fuel, electricity and water. This has also contributed to streamlining the processes for improving the utilization of resources and discovering new domains for conserving the environment.

For ensuring the compliance with the local laws and regulations including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (畜禽規模養殖污染防治條例), the Group has formulated and implemented environmental and waste management plans. For example, the impact of operations, in the three Kedong dairy farms, Zhenlai, Gannan, Baiquan and Keshan dairy farms, on the environment was assessed and only then the concerned production activities were approved.

Cow manure is the major waste product that is obtained from the dairy farms. This manure is treated via the deployment of waste treatment facilities such as biogas recycling. Such facilities are established in the farms, which collect and process the cow manure for fuel. Biogas produced through fermentation is used directly for heating. The residual waste is then recycled and converted into fertilizers, which are distributed to attain soil nutrition.

Apart from the aforementioned actions, the Group aligns its business activities with the local requirements related to natural environment. Moreover, the Group aims at reducing the repercussions of dairy farming on the environment while preserving and minimizing the usage of natural resources. The protection and conservation of natural resources and ecosystems, reduction of negative impacts across the global value chain and incessant improvement of overall business operations are highly encouraged by the Group.

SOCIAL

Employment and Labour Practices

Employment

Employees are an integral part of any organization and the corresponding labour management practices play a requisite role in affecting a company's culture, success and reputation. For attaining a higher position in the competitive business market, it is eminently essential to acquire a positive work culture by ensuring the sustainability of the employees and maintaining their safety. Attracting and retaining the employees are equally important in the quest of promoting an optimal work culture. Considering the work culture of the Group, the local residents residing closer to the farms are provided with enticing employment opportunities. In case the local people are unable to fulfill the demands of a particular job, only then the search of workforce is extended outside the local boundaries. The Group does not differentiate the workforce on the basis of gender, as long as the candidates are equipped with the qualifying experience or skills.

The Group offers salaries above the local minimum wage regulation. No non-compliance with the laws and regulations relating to labour and employment that have resulted or may result in significant impact on the Company was identified during the Year.

In the process of screening and recruitment, the candidates are required to acquire a physical examination certificate, provided by health and epidemic prevention departments. Apart from the recruitment and selection of employees, the skills of the workforce are developed through adequate trainings. Moreover, the employees are subject to regular medical examinations, which are carried out on the basis of job type and the employee position.

Health and Safety

The foremost objective of the Group is to ensure a robust system pertaining to policies while emphasizing on continuous improvements in all the business operations. Health and safety is one such aspect that underlies the success of an organization as it promotes an effective workforce. Therefore, the Group offers hazard identification training to all the employees, in which the individuals are trained to determine the potential health risks and apply preventive measures to resolve such issues. For promoting this cause, all the farms are requested to prepare a safety assessment report and occupational disease hazard assessment report.

The health and safety measures undertaken by the Group include the following:

- An animal health and epidemic prevention system is put in place to ensure the well-being of the farm herd. The farm's veterinarian is liable to supervise, implement and enhance the epidemic reporting system.

- The farms are regularly patrolled by the security guards, where all the activities in the farms are monitored. This comprises of the registration of personnel and delivery vehicle disinfection prior to entry. Other vehicles are prohibited from entering the facility.

- The production area is well guarded wherein the non-production workers are not allowed to enter the restricted zone. As a precaution, the staff members and keepers are not allowed in the production area before the sterilization of uniform, which must be disinfected into the locker room. Their uniforms are replaced and are only permitted inside the area after the sterilization.

- Visits to the farm by the general public are declined.

- Regular cleaning and disinfecting of the farm is carried out.

- Any ill cow or dead cow is isolated immediately and transported to either a diagnosis room or isolation zone.

- Feed quality is checked regularly to ensure freshness.

- Vaccination is offered to the cows in a regular manner to minimize the risk of infectious disease.

- Imported cows must pass the national import and export inspection and quarantine bureau's isolation test before admitting to the farm.

- In case a disease erupts among the cows, the animals are immediately isolated for treatment by the Group's veterinarians. Once an infectious disease is confirmed, it is reported directly to the farm and the Group. Infected cows will be separated in the isolation room, individual care including feeding and cleaning is provided until recovery.

- Sick carcasses and their contaminants are either burned or buried.

- Measures on epidemic prevention are implemented and improvement on feed management can reduce sick incident. Our goal is to reduce the numbers of sick cows.

During the Year, no non-compliance with the laws and regulations relating to occupational safety that have resulted or may result in significant impact on the Company was identified.

Development and Training

An effective workforce is only attained through essential development and training programs. The same has been recognized by the Group, which offers development opportunities to build a stronger team. In Hong Kong and Mainland China, a vigorous and appropriate training development framework was developed as per the requirements of different staff members working at different positions. The types of training comprise on the job training, occupational health and safety management, use of personal protection equipment, personal hygiene, technical training, management training and compliance and policies training. The Group emphasizes on staff training, offering room for individual staff's personal growth and long-term career development, so that staff could grow together with the Group. Moreover, the training is conducted in a regular fashion and evaluated timely to comprehend its effectiveness.

Labour Standards

To recruit and motivate the potential employees, the Group offers competitive remuneration and welfare packages. The workforce is retained by the Group by providing promotion opportunities and salary adjustments as per the performance given by the individual employees. The additional benefits given to the employees range from free meal and accommodation, annual leave and medical coverage in accordance with local regulations. With this robust system of motivating the employees with enticing rewards and support, the Group strives to retain talent and envision the development of all the staff members.

Apart from this, an ethical code is followed within the organization, wherein the employees are not differentiated on the basis of gender and racism. All are offered with equal opportunities and any act of misconduct, such as sexual harassment, is seriously prohibited. Grievance mechanisms and disciplinary procedures are also set in place that assist the transparent and adequate governance of the business. The Group abides by all the regulations and laws on terms of employment, and strictly prohibits the use of forced labour or child labour in all the business activities. During the Year, no violation of related laws, rules and regulations on child labour and forced labour was identified.

Operating Practices

Supply Chain Management

As the quality of feed has a substantial effect on the quality and yield of raw milk, the Group follows a strict review mechanism for choosing the feed suppliers. Only those feed suppliers who are legally approved and can ensure the proper means of importing the feed are selected. Qualified suppliers will be registered under the "Approved List of Suppliers" of the Group. For this purpose, the Group conducts surprise inspection tours to the supplier workshops and reviews the needful aspects of production. While the feed being delivered to the dairy farms are quarantined, the in-house laboratory performs the requisite sampling inspections. The feeds are checked for quality and only after they pass the inspection, they are allowed to be stored in the warehouse.

Product Responsibility

The Group adheres strictly to the local laws and regulations on product safety, including the Regulation on the Supervision and Administration of the Quality Safety of Dairy Products (乳品質量安全監督管理條例) and Regulations on the Administration of Livestock and Poultry (種畜禽管理條例). During the Year, no non-compliance with the laws and regulations relating to products and services safety that have resulted or may result in significant impact on the Company was identified.

Control Over the Quality of Dairy Cows

The safety and quality of the raw milk is highly influenced by the quality of the dairy cows. At present, the Group breeds the high-quality Holstein dairy cows. To achieve high quality of breed, the dairy cows are inseminated with the semen from selected Holstein bulls sourced from Canada and the United States. The frozen semen of selected Holstein bulls is purchased from international suppliers either directly or through third-party domestic trading companies. Before purchasing the semen, the quarantine report of the respective bull is assessed. The semen is assessed on the basis of several factors, including the nutritional content of raw milk produced by the bull's offspring, and the milk yield and health condition of the bull's offspring. This ensures the appropriate mix and quality of the cows.

Quality Control During the Milking Process

In all the dairy farms, a standard milking procedure is followed. For ensuring the milk quality and safety of the cows, the milk is produced and extracted in an automated and sanitary environment. The sterilizing fluids are sprayed across the teats of the dairy cows, and are rigorously cleaned with dry towels before attaching the milking cups. The milking cups are also sterilized and only then the milking process is commenced. The first three squeezes of raw milk from the dairy cows are discarded. Moreover, consistent inspection of the complete process is carried out with caution, for which the set milk safety standards are followed. After the milking process is complete, the teats of dairy cows are sanitized again so as to avoid any infection. Therefore, following this rigorous process of milking ensures the optimal quality of the raw milk with low microbe count and low somatic cell count ("**SCC**").

Quality Control During Storage and Transportation

After the milking process is completed, the raw milk is further tested and inspected before supplying it to the end user. The milk is tested against veterinary drug residues, SCC, microbe count, protein content and fat content. During this inspection, if any amount of veterinary drug residue that exceeds the safety standards are found, then all the stored raw milk is discarded. However, there has been no such incident during the Year. A quality report is then generated to be stored as an internal record.

Anti-epidemic Measures

It is essential to note that the Group has a prominent focus on reducing or avoiding the occurrence of diseases within the farm premises. For this purpose, several general management practices are adopted and implemented for controlling and preventing different types of diseases.

For ensuring good health of animals in the farm, they are subject to regular vaccinations, monitoring and controlling of parasites infestation, and promoting cleanliness for avoiding diseases. The workers are trained on how to care for the herd and protect them from unwanted harm through basic biosecurity measures. Such measure constitutes all the aspects of farm management and thus, aims at minimizing the disease transmission. For example, it involves the management of motor vehicle parking. All new bovines are individually quarantined before coming onto farm for at least two weeks. Cow with any illness is immediately isolated from the quarantine zone for veterinary diagnosis.

Anti-Corruption

The protocols and laws concerned with bribery, privileges, political contributions, medical sales and inducements are closely followed by the Group. During the Year, no violation of related rules and regulations on bribery, extortion, fraud and money laundering was identified. As per the specified policy, the employees are obstructed from offering unaccounted privileges and entertainment to the clients, as it may be viewed as a reward for customer purchase decisions. Therefore, the client entertainment must never surpass the rational and just business practices.

For ensuring an ethical behavior and conduct in the business environment, all the employees are subject to business ethics training, corresponding to their position and are developed by the group's legal advisers. In case any policy is compromised, a severe, earnest and just action is undertaken against the employee violating the rule. A board audit committee is set in place to conduct internal audits that investigate the obedience towards business processes and practices. To furthering the ethical code among all, revisions of the subject matter pertaining to ethical training and auditing are executed annually. Also, the controls and compliance process are examined through the input provided by the legal counsel and external advisers.

Community

Community Investment

The Group has portrayed immense dedication in furthering the environmental cause by collaborating with the local communities in the project area and offering them the required support. The communities are assisted in determining the development plans, however, the support is only useful if the communities are prepared to help themselves. When considering the complementary support offered by the Group, the Group follows its policy on corporate citizenship, wherein the communities are informed and updated about the several developments carried out in the farms.

The communities are also aware of the manner which the Group operates, thus, allowing them to contribute in decision-making pertaining to essential developments. Such a process, recognized during environmental impact assessment preparation, is followed all the way through the project implementation phase. In addition, the public shows an intrinsic involvement with the complete project and partakes in decision-making for the betterment of the local and wider environment.

Several sponsored community activities are arranged and established on the basis of community needs, which demonstrates the commitment of the Group in fulfilling its corporate social responsibility. These activities demonstrate acute care to the elderly, patients, disabled people and local students. Apart from such programs, the Group has been inclusive to the community by contributing through generous donations and formulating plans for environment conservation. For example, the Group donated RMB500,000 for the charitable purposes during the Year.

Directors' Report

The directors of the Company (the "**Directors**") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Year**").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. During the Year, the Company's subsidiaries were principally engaged in the production and sale of raw milk in the People's Republic of China (the "**PRC**").

RESULTS

The results of the Group for the Year and the state of affairs of the Company and of the Group as at 31 December 2017 are set out in the consolidated financial statements and their accompanying notes on pages 60 to 111 of this annual report.

DIVIDEND

The board of Directors (the "**Board**") does not recommend the payment of a final dividend for the Year (2016: Nil).

ANNUAL GENERAL MEETING (THE "AGM")

The AGM for the Year is scheduled to be held on Monday, 25 June 2018. A notice convening the AGM will be issued and dispatched to the shareholders of the Company (the "**Shareholders**") in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 20 June 2018 to Monday, 25 June 2018 (both days inclusive). In order to qualify for attending and voting at the AGM, non-registered Shareholders should ensure that all transfers documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 19 June 2018.

BUSINESS REVIEW AND PERFORMANCE

Review of our Business and Performance

A discussion and analysis of the Group's performance during the Year and the key factors affecting its results and financial position are set out in the section headed "Management Discussion and Analysis" of this annual report.

Information about affair review of, and an indication of likely future development in, the Group's business is set out in the "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

Directors' Report

Principal Risks and Uncertainties

The followings are the major risks and uncertainties currently faced or anticipated by the Group.

Operational Risk

Outbreak of animal disease, product contamination and unstable supply of the feed are certain risks distinctive to the dairy farming industry. Additionally, product safety and quality are crucial to the business of the Group as product contamination involving the farms of the Group could affect the Group's reputation and sales.

Competition Risk

The Group faces competition from large scale dairy farming companies in the PRC as well as foreign suppliers that sell substitutes for raw milk, such as raw milk powder. The Group's ability to compete is, to a significant extent, dependent on its ability to distinguish its products from those of the Group's competitors by providing high quality products at reasonable prices.

Regulatory Risk

The Group conducts business in an industry that is subject to stringent PRC environmental laws and regulations. Failures to comply with the PRC environmental laws and regulations may lead to claims, liabilities or the suspension of our operations, and thereby adversely affect our business and results of operations.

Financial Risk

The Group is exposed to a variety of financial risks in the normal course of business, including interest rate risk, foreign exchange risk, credit risk and liquidity risk. For details of the financial risk, please refer to note 29 to the consolidated financial statements.

The Board is dedicated to ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible.

Particulars of Important Events

Since 31 December 2017, being the end of the financial year under review, no important event has occurred affecting the Group.

Compliance with Laws and Regulations

During the Year, to the best of the knowledge and information of the Directors, the Group has complied with the relevant laws and regulations that had a significant impact on the business and operation of the Group.

Environmental Policies and Performance

We recognise the importance of environmental protection and place great emphasis on promoting environmental sustainability. In the course of our operation, the Group has inevitably produced considerable amount of cow manure by cows and heifers rearing. While cow manure is not hazardous waste or pollutants that have a significant adverse effect on the environment, in order to promote our own self-sufficiency and the environmental sustainability of our operations, the Group has implemented various waste management measures such as installing cow waste treatment facilities to treat the cow manure at all of our farms and recycling processed waste through internal recycling systems to produce fertilizers. The Group has also made continuous effort in exploring the possibility of generating electricity by processing the collected bio-waste into biogas.

Apart from the measures abovementioned, the Group has implemented a number of environment-friendly measures in its workplaces by implementing energy-saving practices. For instance, the Group opts for energy efficient lighting equipment and has encouraged our employees to reduce printing and, if reasonably practicable, make use of duplex printing for internal documents. We shall broaden the scope of our green agenda and identify energy improvement opportunities in order to uphold our sustainable development and environment friendly attitude in our daily operation. The Group's commitment to protecting the environment is well reflected by its continuous efforts in promoting green measures and awareness in its daily business operations.

Further discussion of our environmental policies and performance is set out in the "Environmental, Social and Governance Report" on pages 31 to 40 of this annual report.

Stakeholders' Engagement

The Group understands the importance of its customers, suppliers and employees to its long-term business development, and therefore has dedicated to maintain good relationship with these stakeholders.

Recognising the crucial roles of our customers and suppliers in our business operation, the Group has reinforced its relationships with these business partners through ongoing communication in a proactive and effective manner. In particular, the Group has through continuous interaction with its customers to ensure that the quality of our raw milk product has satisfied their needs and requirements and will, therefore, meet up to our customers' expectation. Besides, the Group is also dedicated to developing good relationship with its suppliers to ensure a stable supply of reliable and high-quality feed for the Group's daily operation.

Apart from the above, the Group recognizes the importance of human capital in its long-term development. The Group has provided a fair and safe workplace and offered competitive remuneration, benefits and career development opportunities based on the merits and performance of our employees. The Group also places ongoing effort to provide adequate training and development resources to our staff with an aim to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth.

Permitted Indemnity

Pursuant to the bye-laws of the Company (the "**Bye-laws**"), the Company may take out and pay the premium and other moneys for the maintenance of insurance, bonds and other instruments for the benefit either of the Company or the Directors' indemnity (and/or other officers) or any of them to indemnify the Company and/or the Directors (and/or other officers) for this purpose against any loss, damage, liability and claim which they may suffer or sustain in connection with any breach by the Directors (and/or other officers) or any of them of their duties to the Company. The Company has arranged for an appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

FINANCIAL SUMMARY

A summary of the results as well as the assets and liabilities of the Group for the last five financial years is set out on page 112 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 22 to the consolidated financial statements.

SHARES ISSUED

During the Year, the Company has issued 781,749,400 shares of the Company (the "**Shares**") of HK$0.01 each were allotted and issued at HK$0.50 per Share pursuant to the placing agreement dated 22 December 2016. The net proceeds from the placing was approximately HK$385.0 million. Please refer to the Company's announcements dated 23 December 2016 and 13 January 2017 for further details.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Year are set out in note 24 to the consolidated financial statements and the consolidated statement of changes in equity on pages 104 and 62, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution to equity holders, comprising the share premium, share option reserve, exchange fluctuation reserve and retained profits, amounted to approximately RMB2,953.5 million.

Under the Companies Act 1981 of Bermuda (as amended), the share premium account of the Company in the amount of RMB2,956.4 million may be applied for paying distributions or dividends to the Shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the Year are set out in note 12 to the consolidated financial statements.

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

MANAGEMENT CONTRACTS

No contracts (except for the executive Directors' service contracts) concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or executed during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

Sales attributable to the Group's largest customer and the three largest customers accounted for approximately 52.5% and 95.0%, respectively, of the Group's total revenue for the Year. The purchases made by the Group from its largest supplier and five largest suppliers accounted for approximately 19.0% and 44.9% of the Group's total purchases for the Year, respectively.

None of the Directors or any of their close associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's three largest customers or five largest suppliers.

BOARD

The Directors who were in office during the Year and up to the date of this report are named as follows:

Executive Directors

Mr. Zhao Hongliang (趙洪亮) *(Chairman)* R
Mr. Wang Shaogang (王紹崗) *(Vice-Chairman)*
Mr. Fu Wenguo (付文國) *(Chief Executive Officer)* N
Mr. Chen Xiangqing (陳祥慶) *(Chief Financial Officer)*

Non-executive Directors

Mr. Lau Ho Fung (劉浩峰)
*Mr. Sun Wei (孫瑋) *(resigned with effect from 23 January 2017)*

Independent Non-executive Directors (the "INEDs")

Mr. Wu Chi Keung (胡志強) A/R/N
Mr. Zhang Yuezhou (張月周) A/R/N
Mr. Zhu Zhanbo (朱戰波) A/R/N

A: Member of the audit committee
R: Member of the remuneration committee
N: Member of the nomination committee

* Mr. Sun Wei, a former non-executive Director, tendered his resignation due to his intention to devote more time to his other career commitments. For further information, please refer to the announcements of the Company dated 23 January 2017 and 24 January 2017, respectively.

In accordance with bye-laws 108(A) and (B) of the Bye-laws, Messrs. Zhao Hongliang ("**Mr. Zhao**"), Zhang Yuezhou ("**Mr. Zhang**") and Zhu Zhanbo ("**Mr. Zhu**") will retire from office by rotation at the AGM. All the above Directors, being eligible, have offered themselves for re- election thereat.

CONFIRMATION OF INDEPENDENCE OF INEDs

The Company has received from each of the INEDs, namely Mr. Wu Chi Keung ("**Mr. Wu**"), Mr. Zhang and Mr. Zhu, an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. At the date of this report, the Company considers all of them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical information of the Directors and senior management of the Group are set out on pages 13 to 16 of this annual report.

CHANGE IN INFORMATION OF A DIRECTOR

Mr. Wu, an INED, has resigned as an independent non-executive director and ceased to be the chairman and a member of each of the audit committee and the remuneration committee of COFCO Meat Holdings Limited, a company listed on the main board of the Stock Exchange (Stock Code: 1610) on 12 December 2017.

As at the date of this report of directors, there was no change in information of a Director subsequent to the date of the 2017 interim report of the Company as required to be disclosed pursuant to Rules 13.51(B) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zhao, Mr. Wang Shaogang ("**Mr. Wang**"), Mr. Fu Wenguo ("**Mr. Fu**") and Mr. Chen Xiangqing ("**Mr. Chen**"), being all the executive Directors, has entered into a service contract with the Company, pursuant to which each of Mr. Zhao, Mr. Wang and Mr. Fu has agreed to act as an executive Director for a further term of three years with effect from 1 November 2016 while Mr. Chen has agreed to act as an executive Director for an initial term of three years with effect from 10 September 2015.

The current non-executive Director has entered into a letter of appointment with the Company, pursuant to which he has been appointed for a term of three years commencing on 1 November 2016.

Each of the INEDs has entered into a letter of appointment with the Company, under which each of them has been appointed for a further term of three years commencing on 7 November 2016.

None of the Directors proposed for re-election at the AGM as stated in the section headed "Board" above has a service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the executive Directors and the five individuals with the highest emoluments for the Year are set out in notes 7 and 8 to the consolidated financial statements, respectively.

The non-executive Director is not entitled to any Director's fee. Each of Mr. Zhang and Mr. Zhu, an INEDs is entitled to a Director's fee of HK$125,000 per annum and Mr. Wu, an INED, is entitled to a Director's fee of HK$200,000 per annum.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "**SFO**")), which were required: (a) 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 (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Shares

Name of Directors/ Chief Executive	Capacity/ Nature of interest		Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of issued Shares
Mr. Zhao Hongliang *(Note 1)*	(i)	Interest in a controlled corporation and beneficial owner	1,150,900,000	10,400,000	1,161,300,000	24.76%
	(ii)	Deemed interest under S.317 of the SFO	170,200,000	–	170,200,000	3.63%
	Total		1,321,100,000	10,400,000	1,331,500,000	28.39%
Mr. Wang Shaogang *(Note 2)*	Beneficial owner		–	9,500,000	9,500,000	0.20%
Mr. Chen Xiangqing *(Note 2)*	Beneficial owner		–	5,500,000	5,500,000	0.12%
Mr. Fu Wenguo *(Note 2)*	Beneficial owner		–	15,000,000	15,000,000	0.32%
Mr. Wu Chi Keung *(Note 2)*	Beneficial owner		–	500,000	500,000	0.01%

Notes:

1. 1,150,900,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao Hongliang, an executive Director and the chairman of the Board (the "**Chairman**"). Therefore, Mr. Zhao Hongliang is deemed or taken to be interested in all the Shares beneficially owned by ZHL Asia Limited by virtue of the SFO.

   Options were granted to Mr. Zhao Hongliang on 22 August 2014 and 8 December 2015 pursuant to a share option scheme adopted by the Company on 7 November 2013 (the "**Share Option Scheme**"), which entitle him to subscribe for a total of 10,400,000 Shares upon his exercise of such options.

   170,200,000 Shares were beneficially owned by ZHY Asia Limited which is solely owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang.

ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao Hongliang and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao Hongliang was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. Therefore, Mr. Zhao Hongliang was deemed to be interested in an aggregate of approximately 28.39% of the issued share capital of the Company.

2. These represent the Shares to be issued and allotted by the Company upon exercise of the Options granted under the Share Option Scheme.

Save as disclosed above, as at 31 December 2017, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2017, so far as it was known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons which/who had 5% or more interests in the Shares and the underlying Shares as recorded in the register kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

Name of Shareholders	Capacity/ Nature of interest	Number of Shares held	Number of underlying Shares held	Deemed interest pursuant to Section 317 of the SFO	Total	Approximate percentage of issued Shares
ZHL Asia Limited *(Note 1)*	Beneficial owner	1,150,900,000	–	180,600,000	1,331,500,000	28.39%
Mr. Zhao Hongliang *(Note 1)*	Interest in a controlled corporation and beneficial owner	1,150,900,000	10,400,000	170,200,000	1,331,500,000	28.39%
Ms. Li Shuxia *(Note 2)*	Interest of spouse	1,150,900,000	10,400,000	170,200,000	1,331,500,000	28.39%
ZHY Asia Limited *(Note 1)*	Beneficial owner	170,200,000	–	1,161,300,000	1,331,500,000	28.39%
Mr. Zhao Hongyu *(Note 1)*	Interest in controlled corporation	170,200,000	–	1,161,300,000	1,331,500,000	28.39%

Notes:

1. Please refer to note 1 under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

2. Ms. Li Shuxia is the wife of Mr. Zhao Hongliang, an executive Director and the Chairman. Accordingly, Ms. Li Shuxia was deemed or taken to be interested in all the Shares in which Mr. Zhao Hongliang was interested and deemed or taken to be interested for the purpose of the SFO.

SHARE OPTION SCHEME

The Share Option Scheme for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. Details of the Share Option Scheme are set out in note 23 to the consolidated financial statements.

Share options comprising a total of 148,850,000 underlying Shares (the "**Options**") were granted under the Share Option Scheme to certain employees of the Group and the Directors on 22 August 2014 (the "**First Grant Date**") and 8 December 2015 (the "**Second Grant Date**"), respectively. Details of the movements of the Options during the Year are as follows:

	Number of underlying Shares comprised in Options								
Grantees	**Outstanding as at 01.01.2017**	**Granted during the Year**	**Cancelled during the Year**	**Lapsed during the Year**	**Exercise during the Year**	**Outstanding as at 31.12.2017**	**Exercise price per Share HK$**	**Grant Date**	**Validity period of the Options**
Directors									
Mr. Zhao Hongliang	6,500,000	–	–	–	–	6,500,000	1.462	22.08.2014	Note 1
	3,900,000	–	–	–	–	3,900,000	0.59	08.12.2015	Note 2
Mr. Wang Shaogang	3,500,000	–	–	–	–	3,500,000	1.462	22.08.2014	Note 1
	6,000,000	–	–	–	–	6,000,000	0.59	08.12.2015	Note 2
Mr. Fu Wenguo	5,000,000	–	–	–	–	5,000,000	1.462	22.08.2014	Note 1
	10,000,000	–	–	–	–	10,000,000	0.59	08.12.2015	Note 2
Mr. Chen Xiangqing	1,500,000	–	–	–	–	1,500,000	1.462	22.08.2014	Note 1
	4,000,000	–	–	–	–	4,000,000	0.59	08.12.2015	Note 2
Mr. Wu Chi Keung	200,000	–	–	–	–	200,000	1.462	22.08.2014	Note 1
	300,000	–	–	–	–	300,000	0.59	08.12.2015	Note 2
Senior management members									
Mr. Wang Yongxin	2,000,000	–	–	–	–	2,000,000	1.462	22.08.2014	Note 1
	4,000,000	–	–	–	–	4,000,000	0.59	08.12.2015	Note 2
Former senior management member									
Mr. Luo Qinghua *(note 3)*	2,000,000	–	–	2,000,000	–	–	1.462	22.08.2014	Note 1
	4,000,000	–	–	4,000,000	–	–	0.59	08.12.2015	Note 2
Employees	26,350,000	–	–	2,600,000	–	23,750,000	1.462	22.08.2014	Note 1
(in aggregate)	65,600,000	–	–	3,300,000	–	62,300,000	0.59	08.12.2015	Note 2

Notes:

1. The validity period of the Options shall expire on the 7th anniversary of the First Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

   Tranche I: beginning on the 1st anniversary of the First Grant Date: 30% of such Options granted;

   Tranche II: beginning on the 2nd anniversary of the First Grant Date: 30% of such Options granted; and

   Tranche III: beginning on the 3rd anniversary of the First Grant Date: 40% of such Options granted.

2. The validity period of the Options shall expire on the 7th anniversary of the Second Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

   Tranche I: beginning on the 1st anniversary of the Second Grant Date: 30% of such Options granted;

   Tranche II: beginning on the 2nd anniversary of the Second Grant Date: 30% of such Options granted; and

   Tranche III: beginning on the 3rd anniversary of the Second Grant Date: 40% of such Options granted.

3. Mr. Luo Qianghua resigned as the deputy technical manager of the Group with effect from 1 June 2017 and the Options lapsed.

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES

Save as disclosed in the paragraph headed "Share Option Scheme" above, at no time during the Year was the Company, its holding company, nor any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares and debentures in the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director had a material interest, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Group to which the Company or its holding company or any of its subsidiaries or fellow subsidiaries was a party during the Year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There has been no contract of significance between the Company or any of its subsidiaries and controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries during the Year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year and up to the date of this report, none of the Directors are considered to have any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and have any other conflicts of interest, as required to be disclosed under the Listing Rules.

NON-COMPETE UNDERTAKINGS

As disclosed in the Prospectus, Mr. Zhao Hongliang (an executive Director and the Chairman), Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited (collectively, the "**Controlling Shareholders**") executed a deed of non-compete and other undertakings (the "**Non-compete Undertakings**") in favour of the Company (for itself and for the benefits of its subsidiaries) on 7 November 2013. Pursuant to the Non-compete Undertakings, each of the Controlling Shareholders has, amongst other matters, irrevocably undertaken to the Company on a joint and several basis that at any time during the Relevant Period (as defined therein), each of them will not, directly or indirectly, compete or may compete with the Company's business. A summary of the principal terms of the Non-compete Undertakings is set out in the section headed "Relationship with our Controlling Shareholders" of the Prospectus.

Subsequent to the completion of placing of new Shares under general mandate on 13 January 2017 (the "**Placing**"), the shareholding of the Controlling Shareholders fell from 34.06% to 28.39%. As such, Mr. Zhao Hongliang, Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited have ceased to be controlling shareholders (as defined in the Listing Rules) in the Company from 13 January 2017. As a result, the Non-compete Undertakings ceased to be applicable to the Controlling Shareholders. For details of the Placing, please refer to the announcements of the Company dated 23 December 2016 and 13 January 2017, respectively.

Each of the Controlling Shareholders has made an annual written declaration as to the compliance with the terms of the Non-compete Undertakings during the period which the Non-compete Undertakings was applicable to them within the Year. The INEDs have reviewed the compliance by each of the Controlling Shareholders with the Non-compete Undertakings and considered that, for the Year, the Controlling Shareholders have complied with the terms of the Non-compete Undertakings during the period which the Non-compete Undertakings were applicable to them.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 26 to the consolidated financial statements. Save as disclosed herein and in the paragraph headed "Continuing Connected Transactions" below, none of them constituted a connected transaction or continuing connected transaction as defined under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group entered into certain transactions with parties which were connected persons of the Company under the Listing Rules. These transactions are considered to be continuing connected transactions under the Listing Rules, which need to be disclosed herein in compliance with the requirements under Chapter 14A of the Listing Rules.

Connected Person

Feihe Dairy Group (comprising Heilongjiang Feihe Dairy Co., Ltd. (黑龍江飛鶴乳業有限公司) ("**Feihe Dairy HLJ**") and its subsidiaries) is not a connected person of the Company for the purpose of the then Rule 14A.11 of the Listing Rules. However, due to the past relationship and transactions with Feihe Dairy Group, being one of the Group's customers, as disclosed in "Our Relationship with Feihe Dairy Group" paragraph in the section headed "History, Development And Reorganization" of the Prospectus, it has been deemed by the Stock Exchange as the Company's connected person after the Listing pursuant to Rule 14A.19 of the Listing Rules. As such, the Company has agreed to undertake to comply with Chapter 14A of the Listing Rules' requirements in respect of the transactions with the Feihe Dairy Group from the Listing Date.

2017 Feihe Master Agreement

As disclosed in the Prospectus, on 1 November 2013, (a) Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司) ("**Ruixinda**") and Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司) ("**Ruixincheng**"), both indirect wholly-owned subsidiaries of the Company on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) on the other part entered into a master agreement for the purchase of raw milk which expired on 31 December 2015.

Ruixinda and Ruixincheng (for themselves and on behalf of other members of the Group) and Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) entered into a new master agreement (the "**New Feihe Master Agreement**") on 14 December 2015 to continue the supply of raw milk to Feihe Dairy Group for a term of three years ending 31 December 2018.

The Company for itself and on behalf of its subsidiaries and China Feihe Limited (for itself and on behalf of its subsidiaries) entered in to a master agreement dated 12 May 2017 (the "**2017 Feihe Master Agreement**") to confirm the priority arrangement of the Group's supply for a raw milk to Feihe Diary Group for a term ending on 31 December 2019.

Pursuant to the 2017 Feihe Master Agreement, the Group would supply raw milk to Feihe Dairy Group in the event that the Group receives purchase orders from Feihe Diary Group and other purchasers concurrently, the Group shall give priority to Feihe Diary Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers. The Shareholders passed a resolution by way of poll at the special general meeting held on 17 July 2017 approving the continuing connected transactions contemplated under the 2017 Feihe Master Agreement and the annual caps relating thereto. Details of the 2017 Feihe Master Agreement are disclosed in the announcement and the circular of the Company dated 12 May 2017 and 30 June 2017, respectively.

The approved annual caps in respect of the transactions contemplated under the 2017 Feihe Master Agreement for each of the three years ending 31 December 2019 are RMB812 million, RMB902 million and RMB1,015 million, respectively. The aggregate value of raw milk supplied to Feihe Dairy Group under the 2017 Feihe Master Agreement for the Year was approximately RMB532.6 million. The connected transactions abovementioned have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the Year.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The INEDs have reviewed the above continuing connected transactions for the Year and confirmed that the above continuing connected transactions were entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or better; and

3. in accordance with the terms of the agreement governing the continuing connected transactions (i.e. the 2017 Feihe Master Agreement) that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ernst & Young, Certified Public Accountants, the Company's independent auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000: *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 "*Auditor's Letter on Continuing Connected Transactions under Hong Kong Listing Rules*" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued their unqualified letter to the Board containing their findings and conclusions in respect of the Group's continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that the Company has maintained a sufficient public float (i.e. at least 25% of the issued Shares are held by the public) as required by the Listing Rules during the Year and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Date of completion	Fund raising activity	Net proceeds raised	Reasons for fund raising and use of net proceeds	Closing price of last trading date
13 January 2017	Placing of 781,749,400 new ordinary Shares with nominal value of HK$0.01 at HK$0.50 each to not less than six independent third parties under general mandate	approximately HK$385.0 million	All the net proceeds are intended to be used for importing heifers and calves from Australia and New Zealand and general working capital	HK$0.54

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

EVENT AFTER REPORTING PERIOD

The Group did not have any material subsequent event after the Year and up to the date of this report.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or requiring the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Year or subsisted at the end of the Year.

CORPORATE GOVERNANCE

Particulars of the Company's significant corporate governance practices are set out in the Corporate Governance Report on pages 17 to 30 of this annual report.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Board (the "**Audit Committee**") comprises all the three INEDs, namely Mr. Wu Chi Keung (committee chairman), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. It has reviewed with management the audited consolidated financial statements of the Company for the Year.

INDEPENDENT AUDITOR

There were no changes of independent auditor in the past 3 years.

The consolidated financial statements of the Company for the Year have been audited by Ernst & Young which will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having approved by the Board upon the Audit Committee's recommendation, a resolution to re-appoint Ernst & Young as the independent auditor and to authorise the Directors to fix their remuneration will be proposed at the forthcoming AGM.

On behalf of the Board

Zhao Hongliang
Chairman

Hong Kong, 27 March 2018

Ernst & Young
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To the shareholders of YuanShengTai Dairy Farm Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of YuanShengTai Dairy Farm Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 60 to 111, 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 ("**HKSAs**") 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.

KEY AUDIT MATTERS (Continued)

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.

Key audit matter	How our audit addressed the key audit matter
Fair value of biological assets	
As at 31 December 2017, the carrying value of the Group's biological assets, mainly including heifers/calves and milkable cows, amounted to RMB1,211,825,000, representing 22% of its total assets. During the year ended 31 December 2017, the Group recorded a loss of RMB228,665,000 arising from the changes in fair value less costs to sell of biological assets. The Group's biological assets are measured at fair value less costs to sell. The determination of the fair value requires significant management's judgement regarding inter alia, the species, age, culling rates and growing condition of the biological assets; cost incurred and the average milk yield of each cow, the estimated milk price and the discount rate. Management employs external valuer to support its determination of the fair value of the biological assets. Relevant disclosures are included in notes 3 and 15 to the consolidated financial statements.	Our audit procedures for the year ended 31 December 2017 included understanding and reviewing the key assumptions used by management to determine the fair value of the biological assets. In particular, we compared the valuation inputs to available market data. We considered the objectivity, independence and expertise of the independent valuer. We also involved our internal valuation specialists to assist us in evaluating the valuation models and the key assumptions adopted, including discount rate and Contributory Asset Charges. In addition, we evaluated the adequacy of the related disclosures of the fair value of biological assets in the consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment	
As at 31 December 2017, the carrying amount of the Group's property, plant and equipment amounted to RMB2,596,929,000, representing 47% of its total assets. As at 31 December 2017, after assessing external and internal sources of information, management considered no indicator of impairment existed. In addition, management also performed an impairment assessment on the property, plant and equipment in accordance with IAS 36 *Impairment of Assets*. This matter was significant to our audit because the balance of property, plant and equipment was material to the consolidated financial statements and the impairment assessment involved the determination of the recoverable amounts of the assets which was complex and involved significant judgements and estimates. Relevant disclosures are included in notes 3 and 12 to the consolidated financial statements.	We checked management's procedures in identifying the existence of any impairment indicators. In addition, we involved our internal valuation specialists to assist us in assessing management's assumptions in calculating the value in use of property, plant and equipment focusing on growth rate and discount rate.

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.

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, in accordance with section 90 of the Bermuda Companies Act 1981, 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.

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

- 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 Yee Chung Man.

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 RMB'000	2016 RMB'000
REVENUE	5	**1,014,128**	1,029,232
Cost of sales		**(760,867)**	(689,731)
Gross profit		**253,261**	339,501
Other income	5	**43,027**	72,193
Selling and distribution expenses		**(19,871)**	(18,292)
Administrative expenses		**(82,692)**	(74,918)
Other expenses		**(32,967)**	–
Changes in fair value less costs to sell of biological assets	15	**(228,665)**	(407,053)
LOSS BEFORE TAX	6	**(67,907)**	(88,569)
Income tax expense	9	**–**	–
LOSS FOR THE YEAR		**(67,907)**	(88,569)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(22,560)**	4,870
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(90,467)**	(83,699)
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the Company		**(90,467)**	(83,699)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	11	**RMB(1.46) cents**	RMB(2.27) cents

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	12	2,596,929	2,453,485
Prepaid land lease payments	13	91,768	96,732
Prepayments and other receivables	14	68,256	72,696
Biological assets	15	1,211,825	1,101,641
Total non-current assets		3,968,778	3,724,554
CURRENT ASSETS			
Inventories	16	259,379	316,622
Trade receivables	17	85,339	105,742
Prepayments and other receivables	14	11,654	20,807
Prepaid land lease payments	13	5,096	5,720
Cash and cash equivalents	18	1,135,920	870,134
Total current assets		1,497,388	1,319,025
CURRENT LIABILITIES			
Trade payables	19	233,211	185,113
Other payables and accruals	20	464,765	343,230
Total current liabilities		697,976	528,343
NET CURRENT ASSETS		799,412	790,682
TOTAL ASSETS LESS CURRENT LIABILITIES		4,768,190	4,515,236
NON-CURRENT LIABILITIES			
Other payables and accruals	20	156,137	159,523
Total non-current liabilities		156,137	159,523
Net assets		4,612,053	4,355,713
EQUITY			
Issued capital	22	37,674	30,727
Reserves	24	4,574,379	4,324,986
Total equity		4,612,053	4,355,713

Zhao Hongliang
Director

Chen Xiangqing
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2017

		Attributable to owners of the Company							
	Notes	**Issued capital** RMB'000	**Merger reserve** RMB'000 (Note 24)	**Share premium** RMB'000	**Capital reserve** RMB'000 (Note 24)	**Share option reserve** RMB'000	**Exchange fluctuation reserve** RMB'000	**Retained profits** RMB'000	**Total equity** RMB'000
At 1 January 2016		30,727	186,000	2,621,198	455,505	16,135	3,400	1,107,167	4,420,132
Loss for the year		–	–	–	–	–	–	(88,569)	(88,569)
Other comprehensive income for the year:									
Exchange differences related to foreign operations		–	–	–	–	–	4,870	–	4,870
Total comprehensive income for the year		–	–	–	–	–	4,870	(88,569)	(83,699)
Equity-settled share option arrangements	23	–	–	–	–	19,280	–	–	19,280
Transfer of share option reserve upon the forfeiture of share options		–	–	–	–	(1,333)	–	1,333	–
At 31 December 2016 and 1 January 2017		30,727	186,000	2,621,198	455,505	34,082	8,270	1,019,931	4,355,713
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(67,907)**	**(67,907)**
Other comprehensive loss for the year:									
Exchange differences related to foreign operations		**–**	**–**	**–**	**–**	**–**	**(22,560)**	**–**	**(22,560)**
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**(22,560)**	**(67,907)**	**(90,467)**
Issue of shares	22	**6,947**	**–**	**340,384**	**–**	**–**	**–**	**–**	**347,331**
Share issue expenses	22	**–**	**–**	**(5,210)**	**–**	**–**	**–**	**–**	**(5,210)**
Equity-settled share option arrangements	23	**–**	**–**	**–**	**–**	**4,686**	**–**	**–**	**4,686**
Transfer of share option reserve upon the forfeiture of share options		**–**	**–**	**–**	**–**	**(1,238)**	**–**	**1,238**	**–**
At 31 December 2017		**37,674**	**186,000***	**2,956,372***	**455,505***	**37,530***	**(14,290)***	**953,262***	**4,612,053**

* These reserve accounts comprise the consolidated reserves of RMB4,574,379,000 (2016: RMB4,324,986,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(67,907)	(88,569)
Adjustments for:			
Interest income	5	(26,466)	(21,824)
Depreciation	6	73,223	72,457
Recognition of prepaid land lease payments	6	5,588	6,226
Loss on disposal of items of property, plant and equipment	6	14,113	–
Changes in fair value less costs to sell of biological assets	15	228,665	407,053
Equity-settled share option expense	23	4,686	19,280
Recognition of government grants		(7,684)	–
Impairment of prepayments and other receivables		9,301	–
Foreign exchange differences, net		9,253	–
		242,772	394,623
Decrease in inventories		57,226	9,577
(Increase)/decrease in trade receivables		20,403	(18,136)
Decrease in prepayments and other receivables		10,405	14,089
Increase/(decrease) in accruals and other payables		29,883	(83,799)
Increase/(decrease) in trade payables		48,098	(9,691)
Decrease in an amount due to a related company		–	(563)
Cash generated from operations		408,787	306,100
Interest received		22,589	21,824
Net cash flows from operating activities		431,376	327,924
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(212,242)	(320,495)
Additions to biological assets		(391,882)	(284,627)
Proceeds from disposal of biological assets		94,803	27,362
Proceeds from disposal of items of property, plant and equipment		4,888	–
Receipt of government grants		5,975	169,667
Increase in time deposits		(180,640)	(17,692)
Net cash flows used in investing activities		(679,098)	(425,785)

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 *RMB'000*	2016 *RMB'000* (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue expenses		(5,210)	–
Proceeds from issue of shares		347,331	–
Net cash flows from financing activities		342,121	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		94,399	(97,861)
Cash and cash equivalents at beginning of year		278,460	376,321
Effect of foreign exchange rate changes, net		(9,253)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		363,606	278,460

1. CORPORATE AND GROUP INFORMATION

YuanShengTai Dairy Farm Limited (the "**Company**") is a limited liability company incorporated in Bermuda and its registered office is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

During the year ended 31 December 2017, the Company and its subsidiaries (together, the "**Group**") are principally engaged in the production and sale of milk in the People's Republic of China (the "**PRC**").

Information about subsidiaries

Particulars of the Company's subsidiaries (all of which are private companies with limited liability) are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Natural Dairy Farm Limited	BVI/Mainland China	US$100	100	–	Investment holding
Royal Dairy Farm Limited	Hong Kong/Mainland China	HKD100	–	100	Investment holding
黑龍江甘南瑞信達原生態牧業有限公司 Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. ("**Ruixinda Gannan**") #*	PRC/Mainland China	RMB38,000,000	–	100	Production and sale of milk
黑龍江克東和平原生態牧業有限公司 Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. ("**YST Heping**") #*	PRC/Mainland China	RMB246,520,000	–	100	Production and sale of milk
黑龍江克東瑞信達原生態牧業股份有限公司 Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd. ("**YST Heilongjiang**") #*	PRC/Mainland China	RMB186,850,000	–	100	Production and sale of milk
鎮賚瑞信達原生態牧業有限公司 Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd. #*	PRC/Mainland China	RMB60,000,000	–	100	Production and sale of milk
哈爾濱市瑞信達牧業有限公司 Harbin Ruixinda Dairy Farming Co., Ltd. ("**Ruixinda**") #*	PRC/Mainland China	RMB180,000,000	–	100	Investment holding
哈爾濱市瑞信誠商貿有限公司 Harbin Ruixincheng Trading Co., Ltd. ("**Ruixincheng**") #*	PRC/Mainland China	RMB550,000,000	–	100	Inactive

1. CORPORATE AND GROUP INFORMATION (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
克東勇進原生態牧業有限公司 Kedong Yongjin YuanShengTai Dairy Farming Joint Stock Co., Ltd. #*	PRC/Mainland China	RMB1,216,000,000	–	100	Production and sale of milk
克東瑞信達商貿有限公司 Kedong Ruixinda Commercial Trade Co., Ltd. #*	PRC/Mainland China	RMB430,000,000	–	100	Sale of milk
甘南瑞信誠商貿有限公司 Gannan Ruixincheng Commercial Trade Co., Ltd. #*	PRC/Mainland China	RMB400,000,000	–	100	Inactive
拜泉瑞信誠牧業有限公司 Baiquan Ruixincheng Dairy Farming Co., Ltd. #*	PRC/Mainland China	RMB534,113,940	–	100	Production and sale of milk
克山瑞信誠牧業有限公司 Keshan Ruixincheng Dairy Farming Co., Ltd. #*	PRC/Mainland China	RMB100,000,000	–	100	Production and sale of milk

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

* Registered as limited liability companies under PRC law.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IAS**"), and Interpretations) issued by the International Accounting Standards Board (the "**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 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 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).

2.1 BASIS OF PRESENTATION (Continued)

Basis of consolidation (Continued)

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. 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.

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.

2.2 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	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements.

2.3 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	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
IFRS 17	*Insurance Contracts*
Amendments to IAS 19	*Employee Benefits*[1]
Amendments to IAS 28	*Investments in Associates and Joint Ventures*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*[2]

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.

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 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, no provision for impairment will increase upon the initial adoption of the standard.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 15, 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 plans to adopt IFRS 15 from 1 January 2018. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15 and expect that the impact should not be material. The Group's principal activities consist of the production and sale of milk in PRC. The expected changes in accounting policies will not have any significant impact on the Group's financial statements.

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 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. 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle, issued in February 2018, sets out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

IFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

IFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

IAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

IAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete. (or add the expected impact upon initial application)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its biological assets and agricultural produce at fair value 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 to 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and biological assets), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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.

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.

2.4 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. 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 principal annual rates used for this purpose are as follows:

Buildings	3-4%
Plant and machinery	6-10%
Furniture and fixtures	18-20%
Motor vehicles	11-12%
Other equipments	18-20%

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 mainly represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Biological assets

Dairy cows, including milkable cows, heifers and calves, are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in profit or loss for the period 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 dairy cows is determined based on their present location and condition and is determined independently by professional valuers.

The feeding costs and other related costs including the depreciation charge, utility costs and consumables incurred for the raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Agricultural produce represents raw milk harvested from the Group's biological assets. Milk is recognised at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices quoted in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation costs, excluding finance costs and income tax.

Leases

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss and other comprehensive income 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, 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.

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.

2.4 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 follow:

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 in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in profit or loss for receivables in finance costs for loans and in administrative expenses for receivables.

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 and the Company's statements 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.

2.4 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 asset's 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 asset's 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 the statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, 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 payables and other payables and accruals.

Subsequent measurement

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

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 the statement of profit or loss and other comprehensive income 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 the statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income.

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 and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provision

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.

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, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and 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, 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.

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 exists to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the 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. 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 statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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; and

(b) 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.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binominal model, further details of which are given in note 23 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Payments to state-managed retirement benefit schemes in jurisdictions other than the PRC are charged as expenses when employees have rendered services entitling them to the contributions.

Foreign currencies

These financial statements are presented in Renminbi ("**RMB**"). The Company's functional currency is Hong Kong dollars ("**HKD**"). 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 statement of profit or loss and 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 functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 the statement of profit or loss and other comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, 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 assumption concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is described below.

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of each reporting period adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 15 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw milk. For the purpose of resource allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

The Group's revenue from external customers is derived solely from its operations in Mainland China.

All external sales of milk produced by the Group during the year are attributable to customers located in Mainland China.

All non-current assets were located in Mainland China.

During the year, the Group made sales to major customers, the revenue from which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2017 and 2016 is as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Customer A	**532,594**	456,428
Customer B	**369,003**	476,050
Others	**112,531**	96,754
	1,014,128	1,029,232

5. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of raw milk sold.

An analysis of revenue and other income is as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Revenue		
Sales of raw milk	**1,014,128**	1,029,232
Other income		
Government subsidies	**16,425**	43,915
Interest income from bank deposits	**22,482**	21,824
Others	**4,120**	6,454
	43,027	72,193

6. LOSSES BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Breeding costs to produce		**544,442**	512,438
Production costs for raw milk		**216,425**	177,293
Cost of sales		**760,867**	689,731
Depreciation	*12*	**116,897**	72,457
Less: Capitalised in biological assets		**(43,674)**	(26,973)
Depreciation recognised in the statement of profit or loss and other comprehensive income*		**73,223**	45,484
Recognition of prepaid land lease payments		**5,588**	6,226
Auditors' remuneration		**2,400**	2,400
Changes in fair value less costs to sell of biological assets	*15*	**228,665**	407,053
Employee benefit expenses excluding directors' and chief executive's remuneration *(note 7)*:			
Wages and salaries		**73,584**	68,950
Equity-settled share option expense		**2,472**	14,101
Pension scheme contributions		**15,360**	12,578
Less: Capitalised in biological assets		**(25,220)**	(21,060)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the statement of profit or loss and other comprehensive income**		**66,196**	74,569
Loss on disposal of items of property, plant and equipment		**14,113**	–
Foreign exchange differences, net		**9,253**	497

* Depreciation of approximately RMB71,857,000 (2016: RMB44,691,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

** Employee benefit expenses of approximately RMB48,973,000 (2016: RMB44,267,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's 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 *RMB'000*	2016 *RMB'000*
Fees	**389**	385
Other emoluments:		
Salaries, allowances and benefits in kind	**464**	400
Equity-settled share option expense	**2,214**	5,179
Pension scheme contributions	**376**	324
	3,054	5,903
	3,443	6,288

(a) Independent non-executive directors

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

	Fees *RMB'000*	**Salaries, allowances and benefits in kind** *RMB'000*	**Performance related bonuses** *RMB'000*	**Equity-settled share option expense** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Total remuneration** *RMB'000*
2017						
Wu Chi Keung	**173**	**–**	**–**	**27**	**–**	**200**
Zhang Yuezhou	**108**	**–**	**–**	**–**	**–**	**108**
Zhu Zhanbo	**108**	**–**	**–**	**–**	**–**	**108**
	389	**–**	**–**	**27**	**–**	**416**
2016						
Wu Chi Keung	171	–	–	63	–	234
Zhang Yuezhou	107	–	–	–	–	107
Zhu Zhanbo	107	–	–	–	–	107
	385	–	–	63	–	448

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors and chief executive

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2017						
Executive directors:						
Fu Wenguo*	**–**	**116**	**–**	**837**	**114**	**1,067**
Wang Shaogang	**–**	**116**	**–**	**522**	**114**	**752**
Zhao Hongliang	**–**	**116**	**–**	**514**	**34**	**664**
Chen Xiangqing	**–**	**116**	**–**	**314**	**114**	**544**
	–	**464**	**–**	**2,187**	**376**	**3,027**
Non-executive directors:						
Sun Wei**	**–**	**–**	**–**	**–**	**–**	**–**
Lau Ho Fung	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**	**–**
	–	**464**	**–**	**2,187**	**376**	**3,027**
2016						
Executive directors:						
Fu Wenguo*	–	100	–	1,921	102	2,123
Wang Shaogang	–	100	–	1,212	102	1,414
Zhao Hongliang	–	100	–	1,272	33	1,405
Chen Xiangqing	–	100	–	711	87	898
	–	400	–	5,116	324	5,840
Non-executive directors:						
Sun Wei**	–	–	–	–	–	–
Lau Ho Fung	–	–	–	–	–	–
	–	–	–	–	–	–
	–	400	–	5,116	324	5,840

* Mr. Fu Wenguo is also the chief executive of the Company.

** Mr. Sun Wei resigned as a non-executive director with effect from 23 January 2017.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during 2017 and 2016.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors and chief executive (2016: four directors and chief executive), details of whose remuneration are set out in note 7 above.

The aggregate of the remuneration in respect of the individuals who are neither a director nor chief executive is as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	733	300
Equity-settled share option expense	857	737
Pension scheme contributions	17	32
	1,607	1,069

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

	2017 Number of employees	2016 Number of employees
Nil to HKD1,000,000	1	–
HKD1,000,001 to HKD1,500,000	1	1
	2	1

9. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2017 as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: Nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

According to the prevailing tax rules and regulations, certain subsidiaries of the Group operating in the agricultural business are exempted from enterprise income tax.

9. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to loss before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, are as follows:

2017	**Mainland China**		**Hong Kong**		**Others**		**Total**	
	RMB'000	**%**	***RMB'000***	**%**	***RMB'000***	**%**	***RMB'000***	**%**
Loss before tax	**(62,447)**		**6,412**		**(11,872)**		**(67,907)**	
Tax at the statutory tax rate	**(15,612)**	**25.0**	**1,058**	**16.5**	**–**	**0.0**	**(14,554)**	**21.4**
Effect of tax exemptions granted to agricultural entities	**9,035**	**(14.5)**	**–**	**0.0**	**–**	**0.0**	**9,035**	**(13.4)**
Income not subject to tax	**–**	**0.0**	**(3,480)**	**(54.3)**	**–**	**0.0**	**(3,480)**	**5.1**
Expenses not deductible for tax	**–**	**0.0**	**2,422**	**37.8**	**–**	**0.0**	**2,422**	**(3.6)**
Tax losses not recognised	**6,577**	**(9.5)**	**–**	**0.0**	**–**	**0.0**	**6,577**	**(9.7)**
Tax charge at the Group's effective rate	**–**	**0.0**	**–**	**0.0**	**–**	**0.0**	**–**	**0.0**

2016	Mainland China		Hong Kong		Others		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Loss before tax	(78,769)		15,666		(25,466)		(88,569)	
Tax at the statutory tax rate	(19,692)	25.0	2,585	16.5	–	0.0	(17,107)	19.3
Effect of tax exemptions granted to agricultural entities	16,927	(21.5)	–	0.0	–	0.0	16,927	(19.1)
Income not subject to tax	–	0.0	(2,878)	(18.4)	–	0.0	(2,878)	3.2
Expenses not deductible for tax	–	0.0	293	1.9	–	0.0	293	(0.3)
Tax losses not recognised	2,765	(3.5)	–	0.0	–	0.0	2,765	(3.1)
Tax charge at the Group's effective rate	–	0.0	–	0.0	–	0.0	–	0.0

10. DIVIDENDS

No dividend was paid or proposed during 2017, nor has any dividend been proposed since the end of the reporting period.

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of RMB67,907,000 (2016: RMB88,569,000) and the weighted average number of ordinary shares in issue of 4,664,795,050 (2016: 3,908,747,000).

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2017 and 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Other equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	1,734,992	218,866	27,783	93,364	21,019	677,038	2,773,062
Accumulated depreciation	(207,823)	(53,669)	(14,446)	(38,064)	(5,575)	–	(319,577)
Net carrying amount	1,527,169	165,197	13,337	55,300	15,444	677,038	2,453,485
At 1 January 2017, net of accumulated depreciation	1,527,169	165,197	13,337	55,300	15,444	677,038	2,453,485
Additions	391	10,927	1,206	4,297	13,531	248,990	279,342
Disposals	(7,138)	(4,880)	(3)	(4,884)	(296)	(1,800)	(19,001)
Depreciation provided during the year	(67,612)	(28,387)	(4,475)	(10,839)	(5,584)	–	(116,897)
Transfers	622,997	5,608	32	–	13,459	(642,096)	–
At 31 December 2017, net of accumulated depreciation	2,075,807	148,465	10,097	43,874	36,554	282,132	2,596,929
At 31 December 2017:							
Cost	2,349,690	227,255	28,989	83,656	47,669	282,132	3,019,391
Accumulated depreciation	(273,883)	(78,790)	(18,892)	(39,782)	(11,115)	–	(422,462)
Net carrying amount	2,075,807	148,465	10,097	43,874	36,554	282,132	2,596,929

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Other equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	1,502,244	171,709	23,601	72,726	10,736	547,847	2,328,863
Accumulated depreciation	(162,137)	(43,460)	(12,383)	(28,961)	(3,156)	–	(250,097)
Net carrying amount	1,340,107	128,249	11,218	43,765	7,580	547,847	2,078,766
At 1 January 2016, net of accumulated depreciation	1,340,107	128,249	11,218	43,765	7,580	547,847	2,078,766
Additions	671	21,850	2,611	21,404	8,536	401,215	456,287
Disposals	–	(8,409)	(6)	(160)	(536)	–	(9,111)
Depreciation provided during the year	(45,686)	(12,513)	(2,073)	(9,709)	(2,476)	–	(72,457)
Transfers	232,077	36,020	1,587	–	2,340	(272,024)	–
At 31 December 2016, net of accumulated depreciation	1,527,169	165,197	13,337	55,300	15,444	677,038	2,453,485
At 31 December 2016:							
Cost	1,734,992	218,866	27,783	93,364	21,019	677,038	2,773,062
Accumulated depreciation	(207,823)	(53,669)	(14,446)	(38,064)	(5,575)	–	(319,577)
Net carrying amount	1,527,169	165,197	13,337	55,300	15,444	677,038	2,453,485

13. PREPAID LAND LEASE PAYMENTS

	2017 *RMB'000*	2016 *RMB'000*
Carrying amount at beginning of the year	**102,452**	108,678
Recognised during the year	**(5,588)**	(6,226)
Carrying amount at end of the year	**96,864**	102,452
Current portion	**(5,096)**	(5,720)
Non-current portion	**91,768**	96,732

At 31 December 2017 and 2016, all of the Group's leasehold land located in Mainland China did not have land use right certificates as all the land is leased from various independent third parties.

14. PREPAYMENTS AND OTHER RECEIVABLES

	2017 *RMB'000*	2016 *RMB'000*
Prepayments	**71,125**	77,454
Other receivables	**8,785**	16,049
	79,910	93,503
Non-current portion	**(68,256)**	(72,696)
Current portion	**11,654**	20,807

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

15. BIOLOGICAL ASSETS

A – Nature of activities

Dairy cows owned by the Group are primarily held to produce milk.

The quantity of dairy cows owned by the Group at 31 December 2017 and 2016 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 31 December 2017 and 2016 are dairy cows that have not had their first calves.

	2017 ***heads***	2016 *heads*
Dairy cows		
Heifers and calves	**32,963**	28,060
Milkable cows	**28,244**	26,689
Total dairy cows	**61,207**	54,749

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

In general, the heifers are inseminated with semen when they reach approximately 16 months old. After approximately nine months following a successful insemination, 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 before a resting period of approximately 60 days.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

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

(i) Regulatory and environment risks

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

15. BIOLOGICAL ASSETS (Continued)

A – Nature of activities (Continued)

(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.

The value of dairy cows at the end of the year was:

	2017 *RMB'000*	2016 *RMB'000*
Dairy cows	**1,211,825**	1,101,641

	Heifers and calves *RMB'000*	**Milkable cows** *RMB'000*	**Total** *RMB'000*
Balance as at 1 January 2016	502,449	748,980	1,251,429
Increase due to raising (feeding costs and others)	290,037	–	290,037
Increase due to purchase	27,024	–	27,024
Transfer (out)/in	(303,205)	303,205	–
Decrease due to sales	(8,260)	(51,536)	(59,796)
Loss arising from changes in fair value less costs to sell	(61,374)	(345,679)	(407,053)
Balance as at 31 December 2016 and 1 January 2017	**446,671**	**654,970**	**1,101,641**
Increase due to raising (feeding costs and others)	**341,082**	**–**	**341,082**
Increase due to purchase	**94,474**	**–**	**94,474**
Transfer (out)/in	**(262,267)**	**262,267**	**–**
Decrease due to sales	**(48,944)**	**(47,763)**	**(96,707)**
Gain/(Loss) arising from changes in fair value less costs to sell	**3,170**	**(231,835)**	**(228,665)**
Balance as at 31 December 2017	**574,186**	**637,639**	**1,211,825**

15. BIOLOGICAL ASSETS (Continued)

B – Value of dairy cows

The Group's dairy cows in Mainland China were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), a firm of independent qualified professional valuers not connected with the Group, who has appropriate qualifications and recent experiences in the valuation of biological assets. The fair value less costs to sell of the heifers and calves are determined with reference to the market prices of items with similar age, breed and genetic merit, if the market prices are available. There is no active market for heifers and calves in the Mainland China market. An arm's length negotiation price in Mainland China might deviate from an overseas market price because of transportation costs, administrative costs and other factors. Due to the fact that the market prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less costs to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of the year will reduce at a certain culling rate due to natural or unnatural factors.
- The culling rates adopted are 10%, 13%, 15%, 23%, 35% and 100% for milkable cows in the first to sixth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.
- The average milk yield of each cow per day ranges from 24.25 to 26.21 kg during the projected period of six lactation cycles, which is the estimated amount of milk producible by a cow.
- The expected average prices of milk during the projected period of six lactation cycles, which is the estimated production period of a dairy cow, are estimated after taking into account 3% of growth for each projected year after considering future demand and inflation in Mainland China.
- The cash flows for financing the assets and taxation are not included in accordance with IAS 41 *Agriculture*.
- Costs are average costs based on historical cost information and taking into account a 3% growth for each projected year after considering future supply and inflation in Mainland China.
- The discount rate used was 14% (2016: 14%) for the year ended 31 December 2017.

The principal valuation assumption adopted in measuring the fair value of heifers and calves is as follows:

- The average market price of a heifer of 14 months old was RMB19,000 (2016: RMB19,000) for the year ended 31 December 2017 and the average feeding cost per day of each calf and heifer ranged from RMB28.97 to RMB30.00.

15. BIOLOGICAL ASSETS (Continued)

C – Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's biological assets.

	Fair value measurement using significant unobservable inputs (Level 3)	
	2017	2016
	RMB'000	*RMB'000*
As at 31 December 2017	**1,211,825**	1,101,641

D – Sensitivity analysis

Feeding costs sensitivity analysis for milkable cows

The following table demonstrates the sensitivity to a reasonably possible change in feeding costs, with all other variables held constant, of the Group's loss before tax (through the impact on changes in the feeding costs).

	Increase/(decrease) in loss before tax	
	2017	2016
	RMB'000	*RMB'000*
Increase in feeding costs of 10%	**129,120**	51,244
Decrease in feeding costs of 10%	**(129,120)**	(51,244)

Milk price sensitivity analysis for milkable cows

The following table demonstrates the sensitivity to a reasonably possible change in the milk price, with all other variables held constant, of the Group's loss before tax (through the impact on changes in the milk price).

	Increase/(decrease) in loss before tax	
	2017	2016
	RMB'000	*RMB'000*
Increase in milk price of 10%	**(226,600)**	(102,923)
Decrease in milk price of 10%	**226,600**	102,923

16. INVENTORIES

	2017 RMB'000	2016 RMB'000
Feeds	237,404	290,289
Milk powder	–	10,155
Others	21,975	16,178
	259,379	316,622

17. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	85,339	105,742

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a few numbers of customers, there is a concentration of credit risk as disclosed in note 29 to the financial statements. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of each reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 month	54,844	87,852
1 to 2 months	6,777	17,890
Over 2 months	23,718	–
	85,339	105,742

No provision for impairment of trade receivables for each of the reporting periods was made.

17. TRADE RECEIVABLES (Continued)

The aging analysis of the trade receivables that are individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	54,844	87,852
Less than 1 month past due	6,777	17,890
1 to 3 months past due	23,718	–
	85,339	105,742

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

Receivables that were past due but not impaired relate to customers that have a good track record 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.

18. CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000 (Restated)
Cash and bank balances	363,606	276,382
Time deposits	772,314	593,752
	1,135,920	870,134
Less: Non-pledged time deposits with maturity of more than three months when acquired	(772,314)	(591,674)
Cash and cash equivalents	363,606	278,460

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB260,050,000 (2016: RMB249,151,000). In addition, at the end of the reporting period, the time deposit of the Group denominated in RMB amounted to RMB608,476,000 (2016: RMB593,752,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

19. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 2 months	185,778	138,425
2 to 6 months	38,779	37,136
6 to 12 months	4,816	5,354
Over 1 year	3,838	4,198
	233,211	185,113

Trade payables are non-interest-bearing and are normally settled on terms of two to six months.

20. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000 (Restated)
Deferred income	167,804	169,667
Other payables – construction	268,432	210,207
Other payables – equipment and materials	7,955	10,095
Others	176,711	112,784
	620,902	502,753
Non-current portion		
Deferred income	(156,137)	(159,523)
	464,765	343,230

Other payables are non-interest-bearing and have no fixed terms of repayment.

Deferred income represented government grants received by the group as financial subsidies for the purchases of feed and the construction of farms. Government grants are recognised as income over the period necessary to match the grant on a systematic basis to the costs and expenses that they are intended to compensate on over the weighed average of the expected useful life of the relevant property, plant and equipment.

21. DEFERRED TAX

The Group has tax losses arising in Mainland China of RMB60,389,000 (2016: RMB34,081,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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 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.

As 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 RMB106,564,000 at 31 December 2017 (2016: RMB112,174,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. SHARE CAPITAL

Shares

	2017 ***RMB'000***	2016 *RMB'000*
Authorised:		
50,000,000,000 ordinary shares of HKD0.01 each	**406,897**	406,897
Issued and fully paid:		
4,690,496,400 (2016: 3,908,747,000) ordinary shares of HKD0.01 each	**37,674**	30,727

22. SHARE CAPITAL (Continued)

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	3,908,747,000	30,727
At 31 December 2016 and 1 January 2017	3,908,747,000	30,727
Issue of shares *(Note (a))*	781,749,400	6,947
At 31 December 2017	4,690,496,400	37,674

Note:

(a) On 13 January 2017, placement of new shares has been completed with a total of 781,749,400 shares at a placing price of HKD0.5 per share.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 23 to the financial statements.

23. 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, at the discretion of the Company's directors, include, amongst others, the Company's directors, covering the non-executive directors and independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, service providers rendering research, development or other technological support services to the Group, the Group's shareholders, advisors or consultants of the Group and any other participants who have contributed to the development and growth of the Group. The Scheme became effective on 7 November 2013 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 30% 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.

23. SHARE OPTION SCHEME (Continued)

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. 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 HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HKD1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which period may commerce from the date of grant of the option is made, but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Company's shares on the date of the offer for the grant, which must be a business day; (ii) the average of the closing prices of Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share of the Company.

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

The following share options were outstanding under the Scheme during the year:

	2017		2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HKD per share	***'000***	*HKD per share*	*'000*
At 1 January	**0.873**	**144,850**	0.881	148,850
Forfeited during the year	**0.927**	**(11,900)**	1.157	(4,000)
At 31 December	**0.868**	**132,950**	0.873	144,850

No share options were exercised during the year (2016: nil).

23. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017 Number of options '000	2016 Number of options '000	Exercise price HKD per share	Exercise period
12,735	14,115	1.462	22-8-2015 to 22-8-2021
12,735	14,115	1.462	22-8-2016 to 22-8-2021
16,980	18,820	1.462	22-8-2017 to 22-8-2021
27,150	29,340	0.590	8-12-2016 to 8-12-2022
27,150	29,340	0.590	8-12-2017 to 8-12-2022
36,200	39,120	0.590	8-12-2018 to 8-12-2022
132,950	144,850		

No share option was granted during the year (2016: nil). The Group recognised a share option expense of RMB4,686,000 (2016: RMB19,280,000) during the year ended 31 December 2017.

The fair value of equity-settled share options granted during the year ended 31 December 2015 was estimated as at the date of grant, using a binomial model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2015
Dividend yield (%)	–
Expected volatility (%)	54.56
Historical volatility (%)	54.56
Risk-free interest rate (%)	1.24
Expected life of options (year)	6.94
Weighted average share price (HKD per share)	0.590

The expected life of the options is based on the assumption that each tranche of options will be exercised in the middle point between the vesting date and the last exercise date and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 132,950,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 132,950,000 additional ordinary shares of the Company and additional share capital of approximately HKD1,330,000 (equivalent to RMB1,111,000) and share premium of HKD114,127,000 (equivalent to RMB95,399,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 132,950,000 share options outstanding under the Scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

24. RESERVES

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 on page 62 of the annual report.

The Group's merger reserve represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor.

The capital reserve represents the amount of a capital contribution from Ms. Li Shuxia, the spouse of Mr. Zhao Hongliang, to YST Heilongjiang for repayment of the total indebtedness.

25. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2017	2016
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Plant and machinery	**93,555**	104,708

26. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the year:

		2017	2016
	Notes	***RMB'000***	*RMB'000*
Purchases of feeds:			
Heilongjiang Dinghe Feeds Company Limited ("**Dinghe Feeds**")	*(i), (ii)*	**–**	276

Notes:

(i) The transaction was conducted in accordance with the terms and conditions mutually agreed by both parties.

(ii) The major shareholder of the Company is the sole beneficial owner of this entity.

26. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel of the Group is as follows:

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**1,263**	1,428
Post-employment benefits	**397**	351
Equity-settled share option expense	**1,965**	5,158
Total compensation paid to key management personnel	**3,625**	6,937

Further details of directors' and the chief executive's remuneration are included in note 7 to the financial statements.

27. 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:

2017

Financial assets

	Loans and receivables RMB'000
Trade receivables	**85,339**
Financial assets included in prepayments and other receivables	**8,785**
Cash and cash equivalents	**1,135,920**
	1,230,044

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	**233,211**
Financial liabilities included in other payables and accruals	**436,175**
	669,386

27. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2016

Financial assets

	Loans and receivables *RMB'000*
Trade receivables	105,742
Financial assets included in prepayments and other receivables	9,737
Cash and cash equivalents	870,134
	985,613

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade payables	185,113
Financial liabilities included in other payables and accruals	317,304
	502,417

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, trade receivables, financial assets included in prepayments and other receivables, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group did not have any financial assets or financial liabilities measured at fair value as at 31 December 2017 (2016: nil).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and time deposits. 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 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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances with floating interest rates. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

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

	2017		2016	
	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax *RMB'000*	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *RMB'000*
RMB	**100**	**8,145**	100	8,429
HKD	**100**	**3,194**	100	127
USD	**100**	**20**	100	145
RMB	**(100)**	**(8,145)**	(100)	(8,429)
HKD	**(100)**	**(3,194)**	(100)	(127)
USD	**(100)**	**(20)**	(100)	(145)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from cash and cash equivalents and time deposits held by operating units in currencies other than the units' functional currencies. Approximately 14% (2016: 3%) of the Group's cash and cash equivalents and time deposits were denominated in currencies other than the functional currency of the operating units.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD and US$ exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets).

	2017		2016	
	Increase/ (decrease) in foreign currency rate	**Increase/ (decrease) in loss before tax**	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in loss before tax
		RMB'000		*RMB'000*
If RMB weakens against HKD	**3%**	**(4,934)**	3%	(382)
If RMB strengthens against HKD	**(3%)**	**4,934**	(3%)	382
If RMB weakens against US$	**3%**	**(61)**	3%	(435)
If RMB strengthens against US$	**(3%)**	**61**	(3%)	435

Credit risk

Credit risk of the Group's other financial assets, which comprise cash and cash equivalents, time deposits and financial assets included in prepayments and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At the end of the reporting period, the Group had certain concentrations of credit risk as 68% (2016: 50%) and 94% (2016: 99%) of the Group's trade receivables were due from the Group's largest customer and the four largest customers, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines that there are minimal concentrations of credit risk within the Group as the customers of the Group's trade receivables are recognised and creditworthy.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

	2017 On demand or no later than 1 year	2016 On demand or no later than 1 year
	RMB'000	*RMB'000*
Trade payables	**233,211**	185,113
Financial assets included in other payables and accruals	**436,175**	317,304
	669,386	502,417

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. 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. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade, other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**233,211**	185,113
Other payables and accruals (note 20)	**436,175**	317,304
Less: Cash and cash equivalents	**(1,135,920)**	(870,134)
Net asset	**(466,534)**	(367,717)
Equity attributable to owners of the parent	**4,612,053**	4,355,713
Capital and net debt	**4,145,519**	3,987,996
Gearing ratio	**N/A**	N/A

30. COMPARATIVE AMOUNTS

The Group has reclassified deferred income of asset-related government grants of RMB159,523,000 as at 31 December 2016, which were expected to be recognised as other income in the consolidated statement of profit or loss and other comprehensive income in more than one year, from current portion of other payables and accruals to non-current portion of other payables and accruals. In addition, the Group has reclassified time deposits of RMB591,674,000 as at 31 December 2016 and RMB573,982,000 as at 31 December 2015, with maturity of over three months when acquired, from cash and cash equivalents to investing activities in the consolidated statement of cash flow.

31. 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	2016
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Due from subsidiaries	**2,845,693**	2,867,722
Investments in subsidiaries	**1**	1
Total non-current assets	**2,845,694**	2,867,723
CURRENT ASSETS		
Prepayments and other receivables	**13**	–
Cash and cash equivalents	**156,909**	14,657
Total current assets	**156,922**	14,657
CURRENT LIABILITIES		
Due to subsidiaries	**7,617**	8,160
Other payables and accruals	**3,795**	5,812
Total current liabilities	**11,412**	13,972
NET CURRENT ASSETS	**145,510**	685
Net assets	**2,991,204**	2,868,408
EQUITY		
Issued capital	**37,674**	30,727
Reserves *(note)*	**2,953,530**	2,837,681
Total equity	**2,991,204**	2,868,408

Zhao Hongliang
Director

Chen Xiangqing
Director

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Share premium *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2016	2,621,198	16,135	137,980	(115,752)	2,659,561
Total comprehensive income	–	–	184,306	(25,466)	158,840
Equity-settled share option arrangements	–	19,280	–	–	19,280
Transfer of share option reserve upon the forfeiture of share options	–	(1,333)	–	1,333	–
At 31 December 2016 and 1 January 2017	**2,621,198**	**34,082**	**322,286**	**(139,885)**	**2,837,681**
Total comprehensive income	**–**	**–**	**(212,139)**	**(11,872)**	**(224,011)**
Issue of shares	**340,384**	**–**	**–**	**–**	**340,384**
Share issue expenses	**(5,210)**	**–**	**–**	**–**	**(5,210)**
Equity-settled share option arrangements	**–**	**4,686**	**–**	**–**	**4,686**
Transfer of share option reserve upon the forfeiture of share options	**–**	**(1,238)**	**–**	**1,238**	**–**
At 31 December 2017	**2,956,372**	**37,530**	**110,147**	**(150,519)**	**2,953,530**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

32. APPROVAL OF THE FINANCIAL STATEMENTS

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

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements for the years ended 31 December 2013, 2014, 2015, 2016, and 2017 as follows:

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,014,128**	1,029,232	1,032,648	1,162,890	880,760
(Loss)/profit for the year	**(67,907)**	(88,569)	66,173	418,790	217,734

ASSETS AND LIABILITIES

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**5,466,166**	5,043,579	4,940,280	5,073,570	4,967,515
Total liabilities	**(854,113)**	(687,866)	(520,148)	(737,381)	(1,056,759)
Total equity	**4,612,053**	4,355,713	4,420,132	4,336,189	3,910,756


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