



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

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



**2017**  
**Annual Report**

\* For identification purposes only



## About Us

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





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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Ma Hongfu

Mr. Wang Guofu

Mr. Chen Yuhai

Ms. Zhang Qianyu (*appointed on 26 March 2018*)

Mr. Yan Bin (*retired on 26 March 2018*)

### Non-Executive Directors

Mr. Yap Kean Chong

Mr. Song Xiaopeng

### Independent Non-Executive Directors

Ms. Liu Zhijun

Mr. Wong Cho Hang Stanley

Mr. Zhao Xinmin (*appointed on 26 March 2018*)

Ms. Xin Shihua (*retired on 26 March 2018*)

### Supervisors

Ms. Du Wei

Mr. Wei Lin

Mr. Sun Chuang (*appointed on 26 March 2018*)

Mr. Pan Jin (*retired on 26 March 2018*)

## AUDIT COMMITTEE

Ms. Liu Zhijun (*Chairman*)

Mr. Wong Cho Hang Stanley

Mr. Zhao Xinmin (*appointed on 26 March 2018*)

Ms. Xin Shihua (*retired on 26 March 2018*)

## REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Zhijun (*Chairman*)

Mr. Wang Guofu

Mr. Zhao Xinmin (*appointed on 26 March 2018*)

Ms. Xin Shihua (*retired on 26 March 2018*)

## NOMINATION COMMITTEE

Mr. Zhao Xinmin (*appointed on 26 March 2018*) (*Chairman*)

Mr. Ma Hongfu

Mr. Wong Cho Hang Stanley

Ms. Xin Shihua (*retired on 26 March 2018*)

## STRATEGY COMMITTEE

Mr. Ma Hongfu (*Chairman*)

Mr. Song Xiaopeng

Mr. Zhao Xinmin (*appointed on 26 March 2018*)

Ms. Xin Shihua (*retired on 26 March 2018*)

## AUTHORISED REPRESENTATIVES

Mr. Ma Hongfu

Mr. Li Siu Bun

## JOINT COMPANY SECRETARIES

Mr. Wang Guofu (*Executive Director*)  
(*appointed on 26 March 2018*)

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

Mr. Yan Bin (*retired on 26 March 2018*)

### STOCK CODE

1533

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 43, AIA Tower  
183 Electric Road  
North Point  
Hong Kong

### REGISTERED OFFICE

Sanjiaocheng Village  
Sanjiaocheng Town  
Yuzhong County  
Lanzhou, Gansu  
PRC

### PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

No. 158 Yanerwan Road  
Chengguan District  
Lanzhou, Gansu  
PRC

### H SHARE REGISTRAR AND TRANSFER OFFICE

#### Computershare Hong Kong Investor Services Limited

Shops 1712-1716  
17/F, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### LEGAL ADVISOR (AS TO HONG KONG LAW)

#### P.C. Woo & Co.

12/F, Prince's Building  
10 Chater Road  
Central  
Hong Kong

### PRINCIPAL BANK

#### Agricultural Development Bank of China, Yuzhong County Branch

No. 19, Tai Bai Road  
Yuzhong County  
Lanzhou, Gansu  
PRC

### AUDITOR

#### KPMG Huazhen LLP

8th Floor, KPMG Tower  
Oriental Plaza  
1 East Chang An Avenue  
Beijing  
PRC

### COMPANY WEBSITE

<http://www.lzzhuangyuan.com>

# Annual Results Highlights

## FINANCIAL HIGHLIGHTS

### Results

	Years ended 31 December	
	2017 RMB'000	2016 RMB'000
Operating income	<b>628,374</b>	665,823
Gross profit	<b>192,966</b>	225,126
Profit for the year attributable to equity shareholders of the Company	<b>68,352</b>	75,910
Earnings per share (RMB) <sup>(1)</sup>	<b>0.46</b>	0.54
Proposed dividend per share (RMB)	<b>7.30 cents</b>	7.42 cents

- Operating income decreased by 5.6% as compared to the year ended 31 December 2016.
- Gross profit decreased by 14.3% as compared to the year ended 31 December 2016.
- Profit for the year attributable to equity shareholders of the Company decreased by 10.0% as compared to the year ended 31 December 2016.

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

# Chairman's Statement



## REPORT TO THE SHAREHOLDERS

Dear Shareholders,

Our operating income decreased by 5.6% from RMB665.8 million for the year ended 31 December 2016 to RMB628.4 million for year ended 31 December 2017, primarily due to an decrease in our sales of liquid milk products, particularly the modified milk and yogurt products.

Our total gross profit margin of our dairy products was 34.0% for 2016 and 30.8% for 2017. The decrease in the overall gross profit margin was primarily due to (1) decrease in the proportion of sales of products with higher gross profit margin and (2) decrease in selling price of liquid milk products which face the national brand competition.

**Ma Hongfu**

*Chairman*

As one of the leading enterprises in dairy products market in northwestern China, the Group's distribution network covers most local markets in Gansu and Qinghai. As at 31 December 2017, there were 587 distributors and sales agents for our products, a significant increase as compared to 471 in 2016.

We continued to strive to be the best player in the market of northwestern China through ongoing efforts to optimise its product mix, develop new products and expand its sales network. A stable dividend policy would be implemented to thank for the continuous support on the Group. While there will be numerous challenges in the future development, the Group is confident that, with the adoption of proactive business strategies, its business performance will enjoy continued growth to the benefit of all shareholders.



# Management Discussion and Analysis

## INDUSTRY REVIEW

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

China has strong consuming power in dairy products, and Chinese consumers have increasingly realised the benefits of dairy products. The market has therefore been enjoying healthy growth in recent years. With the rising disposable income, ongoing urbanisation progress as well as consumers' rising health awareness, the consumption and the market share of pasteurised milk among liquid milk in China are expected to increase in the future. Similar with pasteurised milk, the market share of yogurt has also been increasing among liquid milk and has become the second largest segment in China's liquid milk product market.



Compared with the overall liquid milk market in China, the liquid milk markets in Gansu and Qinghai provinces in China ("Gansu" and "Qinghai") were still at their early growth stage. Pursuant to the rising per capita disposable income and increasing regional nominal GDP of Gansu and Qinghai, the liquid milk markets in these regions are expected to grow faster in the future.

## BUSINESS REVIEW

We are one of the leading dairy companies in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. We owned and operated five dairy farms and collectively operated three dairy farms through cooperation with local dairy farmers as at 31 December 2017. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so that at least 60% of our raw milk requirement could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.





## Management Discussion and Analysis



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

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

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

# Management Discussion and Analysis

## Key Financial Ratios

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

	2017	2016
Current ratio <sup>(1)</sup>	1.44	0.79
Net gearing ratio <sup>(2)</sup>	-25.4%	11.1%
Quick ratio <sup>(3)</sup>	1.32	0.63
Return on equity <sup>(4)</sup>	7.2%	10.4%
Return on assets <sup>(5)</sup>	4.3%	5.7%

Notes:

- (1) Current assets/current liabilities.
- (2) (Debts including bank loans and obligations under finance leases – cash and cash equivalents as at the end of the year)/total equity attributable to equity shareholders of the Company x 100%.
- (3) (Current assets – inventory)/current liabilities.
- (4) Net profit for the year/(total equity attributable to equity shareholders of the Company as at the beginning of the year + total equity attributable to equity shareholders of the Company as at the end of the year)/2 x 100%.
- (5) Net profit for the year/(total assets as at the beginning of the year + total assets as at the end of the year)/2 x 100%.



## Management Discussion and Analysis

### Biological Assets

During the Reporting Year, our biological assets comprised dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our biological assets as at 31 December of 2017 and 2016:

	At 31 December	
	2017 RMB'000	2016 RMB'000
<b>Dairy cows</b>		
Milkable cows	89,722	80,869
Heifers	78,904	32,914
Calves	7,190	12,506
<b>Total</b>	<b>175,816</b>	126,289

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

	At 31 December	
	2017 (Heads)	2016 (Heads)
<b>Dairy cows</b>		
Milkable cows	2,803	2,560
Heifers	3,446	1,534
Calves	723	1,008
<b>Total</b>	<b>6,972</b>	5,102

# Management Discussion and Analysis

## Dairy Farming

- **Milk yield**

We produced approximately 24,766 tonnes of raw milk for the year ended 31 December 2017, representing an increase of approximately 24.8% from about 19,837 tonnes in 2016. The increase in milk production was mainly attributable to the increase in number as well as average milk yield per annum of milkable cows.

During the Reporting Year, the average milk yield per milkable cow per annum increased from 5.9~7.7 tonnes during 2016 to 6.3~9.1 tonnes during 2017, which was mainly due to the higher percentage of number of imported cow over the total number of cows.

## Dairy Products Production

In 2017, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased. In response to these market conditions, we continuously optimized our product mix using our advantages of milk sources produced by our own farms and quality dairy products with high protein and fresh dairy milk products, thus strengthening our differentiated competitiveness, and focused on developing the northwestern China market.

- **Optimizing Liquid Milk Product Mix**

Product mix has affected our revenue, gross profit and gross profit margin in the past. We continued to place effort to increase the sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future and will provide higher selling prices and higher gross profit margin to us compared to other dairy products. Our yogurt products experienced decrease in sales amount, which decreased from RMB278.5 million in 2016 to RMB223.9 million in 2017. Attributable to the decrease in average selling price, the gross profit margin of our yogurt products decreased from 38.7% in 2016 to 33.6% in 2017.

Revenue from modified milk products decreased significantly from RMB219.4 million in 2016 to RMB117.8 million in 2017 due to the intention of the Group to expand the sale of UHT milk and decrease the sale of modified milk correspondingly.

Our gross profit margin of the principal activities decreased to 30.8% in 2017 from 34.0% in 2016 due to the (1) decrease in the proportion of sales of products with higher gross profit margin and (2) decrease in selling price of liquid milk products which face the national brand competition.



## Management Discussion and Analysis

- **Expansion of our Distribution Network**

We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu and Qinghai. As at 31 December 2017, we had entered into distribution agreements with 417 distributors and 170 sales agents, as compared to 303 distributors and 168 sales agents as at 31 December 2016. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network and solidify our established position in our primary markets. We also plan to continue to expand our Cold Chain Liquid Milk Products distribution network to further increase sales of our Cold Chain Liquid Milk Products. We plan to develop our distribution network for the sales of our products outside Gansu and Qinghai and focus on major cities in China. We expect our sales to increase as we expand our geographical reach and distribution channels.

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

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition. The average selling price of our liquid milk products decreased from RMB9,375 per tonne in 2016 to RMB9,093 per tonne in 2017.

### Quality Control

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

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

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

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

## Management Discussion and Analysis

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

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

### Brand Building

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

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

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



## Management Discussion and Analysis

### FINANCIAL OVERVIEW

#### Operating Income

##### Principal Activities

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the years ended 31 December 2017 and 2016:

	Years ended 31 December					
	2017			2016		
	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne
<b>Liquid Milk Products</b>						
Pasteurised Milk	19,847	2,299	8,633	21,018	2,530	8,308
UHT Milk	222,237	30,314	7,331	98,551	15,791	6,241
Modified Milk	117,845	13,665	8,624	219,403	25,283	8,678
Yogurt	223,904	17,931	12,487	278,532	22,266	12,509
<b>Subtotal</b>	<b>583,833</b>	<b>64,209</b>	<b>9,093</b>	617,504	65,870	9,375
<b>Milk Beverage</b>	<b>3,116</b>	<b>791</b>	<b>3,939</b>	5,258	1,250	4,206
<b>Other Dairy Products</b>	<b>5,214</b>	<b>189</b>	<b>27,587</b>	2,470	144	17,153
<b>Total</b>	<b>592,163</b>	<b>65,189</b>	<b>9,084</b>	625,232	67,264	9,295

Our revenue decreased by 5.3% from RMB625.2 million for the year ended 31 December 2016 to RMB592.2 million for the year ended 31 December 2017, primarily due to a decrease in our sales of liquid milk products, particularly the modified milk and yogurt products.

The decrease in our liquid milk business was primarily due to the fierce competition from national brand in our current market.

## Management Discussion and Analysis

### Gross profit and gross profit margin

#### Principal Activities

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

	Years ended 31 December					
	2017			2016		
	Cost of Sales RMB'000	Gross Profit RMB'000	Gross Profit Margin %	Cost of Sales RMB'000	Gross Profit RMB'000	Gross Profit Margin %
<b>Liquid Milk Products</b>						
Pasteurised Milk	11,247	8,600	43.3%	11,665	9,353	44.5%
UHT Milk	160,933	61,304	27.6%	78,348	20,203	20.5%
Modified Milk	80,450	37,395	31.7%	145,676	73,727	33.6%
Yogurt	148,623	75,281	33.6%	170,706	107,826	38.7%
<b>Subtotal</b>	<b>401,253</b>	<b>182,580</b>	<b>31.3%</b>	<b>406,395</b>	<b>211,109</b>	<b>34.2%</b>
<b>Milk Beverage</b>	<b>2,503</b>	<b>613</b>	<b>19.7%</b>	<b>4,321</b>	<b>937</b>	<b>17.8%</b>
<b>Other Dairy Products</b>	<b>5,796</b>	<b>(582)</b>	<b>-11.2%</b>	<b>2,013</b>	<b>457</b>	<b>18.5%</b>
<b>Total</b>	<b>409,552</b>	<b>182,611</b>	<b>30.8%</b>	<b>412,729</b>	<b>212,503</b>	<b>34.0%</b>

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was 34.0% for the year ended 31 December 2016 and 30.8% for year ended 31 December 2017. The decrease in the overall gross profit margin during the Reporting Year was primarily due to the (1) decrease in the proportion of sales of products with higher gross profit margin and (2) decrease in selling price of liquid milk products which face the national brand competition.

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased from RMB8.6 million for the year ended 31 December 2016 to RMB8.9 million for the year ended 31 December 2017. The increase during the Reporting Year was primarily due to the increase in raw milk yield.

## Management Discussion and Analysis

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

We recorded loss arising from changes in fair value less costs to sell of biological assets amounted to RMB0.9 million for the year ended 31 December 2017, which decreased by 96% from RMB23.7 million for the year ended 31 December 2016, primarily due to the increase in the number of dairy cows.

### Qualification and independence of the valuers

Beijing Yatai Lianhua Assets Appraisal Co. Ltd. (“Beijing Yatai Lianhua”) was established in 1993 certified with the Licensed Certification for Appraisals in relation to Securities and Futures (《證券期貨相關業務評估資格》) jointly issued by the MOF and the CSRC. It possesses qualifications in the valuation of properties and land. Given the need of the Company for the preparation of financial statements for the year ended 31 December 2017, the Company engaged Beijing Yatai Lianhua to perform a valuation on the biological assets intended to be carried at fair value that are reported by five wholly-owned subsidiaries under Lanzhou Zhuangyuan Pasture Co., Ltd.\*, being Qinghai Shengya Plateau Pasture Co., Ltd.\*, Qinghai Shengyuan Pasture Co., Ltd.\*, Linxia County Ruiyuan Pasture Co., Ltd.\*, Lanzhou Ruixing Farming Co., Ltd.\* and Wuwei Ruida Pasture Co., Ltd.\*.

Beijing Yatai Lianhua is a firm of independent qualified professional valuer. The asset valuation report was prepared in accordance to the Asset Evaluation Standards – Basic Standards (《資產評估基本準則》) issued by the MOF and the Asset Valuation Professional Ethical Standards (《資產評估職業道德準則》) issued by the China Appraisal Society. Beijing Yatai Lianhua, parties engaging in the valuation and preparing the valuation results do not hold any interests in the Company or our related parties. The appointment of the valuer for the performance of valuation by the Company is based on the requirements under laws and regulations such as the Asset Appraisal Law of the People’s Republic of China (《中華人民共和國資產評估法》), the Contract Law of the People’s Republic of China (《中華人民共和國合同法》), the Asset Evaluation Basic Standards (《資產評估基本準則》) and the Practicing Standards for Asset Valuation – Asset Valuation Engagement Contracts (《資產評估執業準則—資產評估委託合同》). The valuer of Beijing Yatai Lianhua obtained the appraisal results in accordance with the relevant PRC regulations on valuing assets and the principles of independence, objectiveness, fairness and science. Payment of valuation fees is not contingent upon the conclusion drawn in the valuation results.

The key members of Beijing Yatai Lianhua who engaged in this valuation were Ms. Guo Hong and Mr. Li Dongfeng. Ms. Guo Hong is the general manager of Beijing Yatai Lianhua, a senior accountant, an asset valuer and an insurance assessor. Mr. Li Dongfeng is the deputy general manager of Beijing Yatai Lianhua and a senior economist. Both of them have provided a wide range of valuation services in relation to company conversion, reorganization and listing to numerous companies in Mainland China. They also provided asset appraisal services for H-share companies such as Luoyang Glass Company Limited (洛陽玻璃股份有限公司) and Hanergy Thin Film Power Group Limited (漢能薄膜發電集團有限公司). They have extensive experience in asset appraisal.



## Management Discussion and Analysis

### Government grants

Government grants are generally obtained from our agricultural activities. For the years ended 31 December 2017, government grants we recognized amounted to RMB10.8 million in other income and RMB8.6 million offset against financial expenses. For the year ended 31 December 2016, we recognized amount to RMB16.8 million in non-operating income.

### Operating expenses

	Years ended 31 December	
	2017 RMB'000	2016 RMB'000
Selling and distribution expenses	71,556	53,099
General and administrative expenses	55,209	62,918
Total operating expenses	126,765	116,017

Our operating expenses increased from RMB116.0 million for the year ended 31 December 2016 to RMB126.8 million for the year ended 31 December 2017. During the Reporting Year, as we further explored the northwestern China market for our Cold Chain Liquid Milk Products in other major cities and maintained our geographical spread in regional key markets nationwide which preliminarily required more (1) freight and miscellaneous charges and (2) low cost and short-hired consumable items generated from promotion events for securing higher sales growth and gaining larger market shares which led to the increase in the selling and distribution expenses correspondingly.

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

### Financial expenses

Our financial expenses decreased by 37.6% from RMB17.8 million for the year ended 31 December 2016 to RMB11.1 million for the year ended 31 December 2017, primarily because the interest subsidies for policy-related preferential loans were offset against the relevant loan expenses in accordance with the change in accounting policy during the year.

### Current ratio and net gearing ratio

As at 31 December 2017, our current ratio (current assets/current liabilities) was approximately 1.44 compared to 0.79 as at 31 December 2016. As at 31 December 2017, the net gearing ratio was -25.4% due to the issuance of A Shares compared to 11.1% as at 31 December 2016. Net gearing ratio was calculated by net debt (aggregated bank loans and obligations under finance leases net of cash and cash equivalents as at the ending of the year) over total equity attributable to equity shareholders of the Company.

## Management Discussion and Analysis

### Liquidity and capital resources

During the Reporting Year, we financed our operations primarily through net cash inflows from our daily operations. As at 31 December 2017 and 2016, we had RMB736.9 million and RMB273.4 million in cash and cash equivalents, respectively, which were mainly denominated in Renminbi and primarily consisted of cash on hand and bank deposits.

### Capital expenditures

We had capital expenditures of RMB44.1 million and RMB85.7 million for the years ended 31 December 2017 and 2016, respectively, which were primarily used in purchasing property, plant and equipment, and procuring dairy cows.

### Working capital

As at 31 December 2017, we had net current assets of RMB265.0 million (31 December 2016: net current liabilities of RMB103.8 million).

### Indebtedness

During the Reporting Year, our borrowings were denominated in Renminbi. As at 31 December 2017, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB421.1 million at interest rates ranging from 4.35% to 8.00% per annum. As at 31 December 2017, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB26.6 million at interest rates ranging from 4.90% to 5.49% per annum.

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

For the year ended 31 December 2017, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed.

The book value of our fixed assets and intangible assets that were used as guarantees was RMB349.5 million as at 31 December 2017 (31 December 2016: RMB661.3 million). The net book value of the pledge of assets are as follow: (1) Fixed assets: RMB344.6 million (31 December 2016: RMB643.8 million); and (2) Intangible assets: RMB4.9 million (31 December 2016: RMB17.5 million).

### Contingent liabilities

As at 31 December 2016 and 31 December 2017, we did not have significant contingent liabilities.

## Management Discussion and Analysis

### Use of Proceeds from A Share Listing and H Share Listing

In October 2017, our Company carried out initial public offering of 46,840,000 A Shares to eligible natural person and institutional investors at a price of RMB7.46 per share, which became listed on the SZSE on 31 October 2017 (the “A Share Listing”). The total proceeds amounted to RMB349.43 million. After deducting issuance expenses, the net proceeds raised amounted to RMB309.50 million. We set out below the status of the application of the net proceeds from the A Share Listing:

	As of 31 December 2017	
	Actual amount used RMB'000 (%)	Intended amount to be used RMB'000 (%)
Construction project of a dairy farm for 10,000 imported fine-breed dairy cows	0 (0.0%)	260,193 (84.1%)
Construction project of milk vending machines and ancillary facilities	0 (0.0%)	49,310 (15.9%)
IPO proceeds not utilized	309,507 (100.0%)	N/A
Total	<b>309,507</b> <b>(100.0%)</b>	<b>309,507</b> <b>(100.0%)</b>

We had four bank accounts in Mainland China to manage the A Share Listing proceeds balance. We currently do not have any intention to change our current plan for the use of proceeds.



## Management Discussion and Analysis

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

We set out below the status of the application of the net proceeds from the H Share Listing:

	<b>As of 31 December 2017</b>	
	<b>Actual amount used</b>	<b>Intended amount to be used</b>
	RMB'000 (%)	RMB'000 (%)
Financing a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand	81,222 (70.0%)	81,222 (70.0%)
Promoting our brands	10,870 (9.4%)	23,206 (20.0%)
Working capital and other general corporate purposes	11,603 (10.0%)	11,603 (10.0%)
IPO proceeds not utilized	12,336 (10.6%)	N/A
<b>Total</b>	<b>116,031 (100.0%)</b>	<b>116,031 (100.0%)</b>

We had one bank account in Mainland China to manage the unutilized H Share Listing proceeds balance. We currently do not have any intention to change our current plan for the use of proceeds.

## Management Discussion and Analysis

### HUMAN RESOURCES

We had 724 employees in PRC and Hong Kong as at 31 December 2017 (31 December 2016: 748 employees). During the Reporting Year, total staff costs, including the portion accounted for in the profit and loss statement and capitalised to assets but excluding independent non-executive Directors' fees, were approximately RMB50.6 million (the corresponding period in 2016: RMB52.0 million).

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

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

### CORPORATE SOCIAL RESPONSIBILITY

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

### OUTLOOK

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

- Pursue our branding strategies to strengthen our branding positions under our different brands, increase our market shares and enhance consumer loyalty;
- Upgrade our cold chain distribution facilities to strengthen our regional market leader position in Gansu and Qinghai and expand our sales and distribution network;
- Improve our raw milk production capacity and quality to satisfy the needs of our fast growing business; and
- Enrich our product portfolio to address changing consumer preferences and offer new tasting experience to inspire demands for our products through our continuous product development efforts.

# Directors, Supervisors and Senior Management

## Executive Directors

**Mr. Ma Hongfu (馬紅富)**, aged 52, the founder of our Group, is the chairman of the board of Directors (the “Board”). Mr. Ma Hongfu also served as the general manager of our Company from April 2011 to 21 December 2017. He was appointed to the Board on 6 April 2011. He is responsible for the overall management of our Company. Mr. Ma Hongfu worked as the chairman of the board and the general manager of Gansu Minqinxian Hongchang Agriculture and Trading Company\* (甘肅省民勤縣宏昌農貿公司) from 1988 to 1999. Mr. Ma Hongfu obtained a degree of Executive Master of Business Administration (EMBA) from Tsinghua University (清華大學) in July 2005. He is the legal representative of Qinghaihu Dairy Co., Ltd.\* (青海青海湖乳業有限責任公司) (“Qinghaihu Dairy”), Lanzhou Ruixing Farming Co., Ltd.\* (蘭州瑞興牧業有限公司) (“Lanzhou Ruixing”), Wuwei Ruida Pasture Co., Ltd.\* (武威瑞達牧場有限公司) (“Wuwei Ruida”), Qinghai Shengya Plateau Pasture Co., Ltd.\* (青海聖亞高原牧場有限公司) (“Qinghai Shengya”) and Qinghai Shengyuan Pasture Co., Ltd.\* (青海聖源牧場有限公司) (“Qinghai Shengyuan”).

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

Mr. Ma was the committee member of 6th Yuzhong County of the National Committee of the Chinese People’s Political Consultative Conference (中國人民政治協商會議榆中縣第六屆委員會委員) from November 2002 to December 2007. Mr. Ma currently serves as a deputy to the 13th Gansu’s People’s Congress, a member of the Agriculture and Rural Affairs Committee, a deputy to the 16th Lanzhou’s People’s Congress, the president (會長) of the Dairy Association of Gansu Province (甘肅省奶業協會) and deputy president (副會長) of the Food Industry Association of Gansu Province (甘肅省食品工業協會). Mr. Ma was honoured as “2004 Excellent Operator in Industrial Economic Field (2004年度工業經濟工作優秀經營者)” by Lanzhou People’s Government (蘭州市人民政府) in January 2005, and “Rural Entrepreneur of Lanzhou (蘭州市鄉鎮企業家)” by Lanzhou People’s Government in February 2005. In June 2017, he was accredited as “Long Shang New Talent” (隴商新銳人物) by eight departments, such as the propaganda department of the Gansu provincial party committee.

As at the date of this report, Mr. Ma is, pursuant to Part XV of the SFO, deemed to be interested in 30,894,700 A Shares held by Lanzhou Zhuangyuan Investment Co., Ltd.\* (蘭州莊園投資股份有限公司) (“Zhuangyuan Investment”) since Mr. Ma holds 97.38% equity interests in Zhuangyuan Investment and 15,000,000 A Shares held by Gansu Lucky Cow Investment Co., Ltd.\* (甘肅福牛投資有限公司) (“Lucky Cow”) since Mr. Ma holds 39.44% equity interests in Lucky Cow. Mr. Ma also holds interest in 32,197,400 A Shares of the Company (i.e. a total of 78,092,100 A Shares of the Company, representative approximately 51.31% of the total issued A Shares of the Company and representing approximately 41.68% of the total issued share capital of the Company). Save as disclosed above, Mr. Ma does not have or is not deemed to have any other interests in the Shares or underlying Shares within the meaning of Part XV of the SFO as at the date of this report.



## Directors, Supervisors and Senior Management

### Executive Directors *(Continued)*

**Mr. Wang Guofu (王國福)**, aged 49, is our executive Director, deputy chairman, deputy general manager and financial controller of our Company. He was appointed to the Board on 6 April 2011 and was appointed as the financial controller of the Company on the same day. Mr. Wang has more than 20 years of experience in the food industry. Mr. Wang completed his master courses majoring in Business Management in Lanzhou University (蘭州大學) in August 2005 and has accountant qualification (會計師). He was an accountant in Gansu Import and Export of Agricultural By-products Company (甘肅省農副產品進出口公司) from 1990 to 1992, and he was the financial manager and subsequently the financial controller of Lanzhou Yongtai Food Co., Ltd. (蘭州永泰食品有限責任公司) from 1992 to 2001. He is primarily responsible for the overall financial management of our Company. He is the legal representative of Yuzhong Ruifeng Pasture Co., Ltd.\* (榆中瑞豐牧場有限公司) (“Yuzhong Ruifeng”) and Linxia County Ruian Pasture Co., Ltd.\* (臨夏縣瑞安牧場有限公司) (“Linxia Ruian”) and the supervisor of Qinghaihu Dairy Co., Ltd.\* (青海青海湖乳業有限責任公司) (“Qinghaihu Dairy”), Qinghai Shengya Plateau Pasture Co., Ltd.\* (青海聖亞高原牧場有限公司) (Qinghai Shengya), Linxia County Ruiyuan Pasture Co., Ltd.\* (臨夏縣瑞園牧場有限公司) (“Linxia Ruiyuan”) and Lanzhou Ruixing Farming Co., Ltd.\* (蘭州瑞興牧業有限公司) (“Lanzhou Ruixing”). Mr. Wang was also appointed as the company secretary of the Company on 26 March 2018.

**Mr. Chen Yuhai (陳玉海)**, aged 44, is our executive Director and general manager. He was appointed to the Board on 6 April 2011. After joining our Company in April 2008, Mr. Chen has served as project manager responsible for the overall work of the project development department. Mr. Chen has more than 20 years of experience in the dairy industry. Mr. Chen attended the Business Administration Chief Executive Officer Senior Training Course (工商管理總裁高級研修班) organised by Tsinghua University (清華大學) during 17 March 2011 to 19 May 2012, and the Enterprise Management Senior Research and Study Course (企業管理人員高級研修班) organised by Zhejiang University (浙江大學) in October 2010. Mr. Chen was the branch manager and deputy general manager of the marketing department of Ningxia Xiajin Dairy and Beverage Co., Ltd. (寧夏夏進乳品飲料有限公司) from 1995 to 2005. From 2005 to 2007, Mr. Chen served as the deputy general manager in Ningxia Hongguo Dairy Co., Ltd. (寧夏紅果乳業有限公司). He is the legal representative of Ningxia Zhuangyuan Pasture Co., Ltd.\* (寧夏莊園牧場有限公司) (“Ningxia Zhuangyuan”) and the supervisor of Wuwei Ruida Pasture Co., Ltd.\* (武威瑞達牧場有限公司) (“Wuwei Ruida”), Linxia County Ruian Pasture Co., Ltd.\* (臨夏縣瑞安牧場有限公司) (“Linxia Ruian”) and Qinghai Shengyuan Plateau Pasture Co., Ltd.\* (青海聖源牧場有限公司) (“Qinghai Shengyuan”).

**Ms. Zhang Qianyu (張騫予)**, aged 37, is our executive Director and manager of the securities department of the Company. Ms. Zhang is responsible for system establishment, plans administration and equity management. Ms. Zhang joined the Company in January 2018. Ms. Zhang obtained her bachelor degree in Accounting from Taiyuan University of Technology (太原理工大學) in July 2003. She was a member of The Chinese Institute of Certified Public Accountants. Prior joining the Company, Ms. Zhang worked as a business manager of the investment banking department of Xi'an Branch of GF Securities Co., Ltd. from July 2012 to December 2016. Ms. Zhang was the general manager of the investment banking department of Lanzhou Branch of China CITIC Bank Corporation Limited from January 2017 to December 2017.

## Directors, Supervisors and Senior Management

### Non-executive Directors

**Mr. Song Xiaopeng (宋曉鵬)**, aged 40, is our non-executive Director. He was appointed to the Board on 2 March 2015. Since 2010, Mr. Song has successively been the Deputy General Manager of Shenzhen Shenshang Richland Xingye Fund Management Co., Ltd. (深圳市深商富坤興業基金管理有限公司) and the Senior Investment Manager of Shenzhen Richland Equities Ltd. (深圳市富坤創業投資有限公司). Mr. Song obtained his bachelor degree in Management from Shanxi University of Finance & Economics (山西財經大學) in March 2002. He was a qualified Certified Public Accountant of the PRC.

**Mr. Yap Kean Chong (葉健聰)**, aged 52, is our non-executive Director. He was appointed to the Board on 6 April 2011. Mr. Yap obtained his bachelor degree in Business in Curtin University of Technology in February 1988, and his post graduate diploma in Business from Curtin University of Technology in August 1990. He was qualified as the admitted Associate of the Institute of Chartered Secretaries and Administrators in May 1991 and received the Certificate of Membership of the Institute of Chartered Accountant in Australia in February 2002. Mr. Yap has been the director and chief executive officer of Rico Harvest Capital (上海財晟股權投資管理有限公司) since 2009.

### Independent Non-executive Directors

**Ms. Liu Zhijun (劉志軍)**, aged 45, graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in securities and futures (證券與期貨) in July 1996. Ms. Liu then obtained a master degree in finance (金融學) in January 2001 from Wuhan University (武漢大學) and a doctoral degree in finance (金融學) in June 2009 from Suzhou University (蘇州大學). She is also a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). Since July 1996, Ms. Liu has been teaching in School of Finance of Lanzhou University of Finance and Economics (蘭州財經大學) and is currently a professor of the said university. Ms. Liu also serves as an independent non-executive director of Gansu Dunhuang Seed Co., Ltd. (甘肅省敦煌種業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600354), Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange: 600108), Lanzhou Great Wall Electrical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600192) and Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002644).

**Mr. Wong Cho Hang Stanley (黃楚恒)**, aged 43, is our independent non-executive Director. He was appointed to the Board on 2 March 2015. Mr. Wong has been the director and vice general manager of Chuan Chiong Co., Ltd. (泉昌有限公司) since 2007. He is awarded the “2014 Excellence in Achievement of World Chinese Youth Entrepreneurs” (世界傑出青年華裔) jointly by Yazhou Zhoukan (亞洲週刊) and World Federation of Chinese Entrepreneurs Organisation (世界華裔組織聯盟). He is the committee member of 11th Fujian Provincial Committee of the National Committee of the Chinese People’s Political Consultative Conference (中國人民政治協商會議第十一屆福建省委員會委員). Mr. Wong obtained his bachelor degree in Economics, from Carleton University in 1998.

## Directors, Supervisors and Senior Management

### Independent Non-executive Directors (Continued)

**Mr. Zhao Xinmin (趙新民)**, aged 48. Mr. Zhao has more than 20 years of experience in the securities law sector. Mr. Zhao obtained his bachelor degree in Law from Gansu Institute of Political Science and Law (甘肅政法學院) in June 1993. He acquired the Lawyer's Practice License of the PRC in March 1994. He was a lawyer of Gansu Zheng Tian He Law Firm (甘肅正天合律師事務所) from 1994 to 2001. Mr. Zhao was a lawyer of Allbright Law Office (上海錦天城律師事務所) from 2001 to 2005. Mr. Zhao has been the partner of Shanghai Ke Hui Law Firm\* (上海科匯律師事務所) since 2005. Mr. Zhao also serves as an independent non-executive director of Lanzhou Changcheng Electric Apparatus Stock Co., Ltd.\* (蘭州長城電工股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600192), Gansu Qilianshan Cement Group Company Limited (甘肅祁連山水泥集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600720), Tianshui Zhongxing Bio-Technology Co., Ltd. (天水眾興菌業科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002772) and Lanzhou LS Heavy Equipment Co., Ltd.\* (蘭州蘭石重型裝備股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603169). Mr. Zhao served as an independent non-executive director of Dayu Jieshui Group Company Limited (大禹節水集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300021) from April 2014 to April 2017. Mr. Zhao served as an independent non-executive director of Gansu Ronghua Industrial (Group) Company Limited (甘肅榮華實業(集團)股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 600311) from July 2016 to January 2018.

### Supervisors

**Mr. Wei Lin (魏琳)**, aged 49, was appointed to the Supervisory Committee on 2 March 2015. Mr. Wei has been the managing partner (執行事務合夥人) of Gansu Hengrui Asset Valuation Firm (甘肅恒瑞資產評估事務所) since 2012. Mr. Wei worked in ICBC Lanzhou Branch Qilihe Sub-branch (中國工商銀行蘭州分行七里河支行) from 1985 to 2001. He has obtained the Finance and Economics Personnel Certificate (金融經濟師證書) accredited by Ministry of Personnel People's Republic of China (中華人民共和國人事部) in October 1996. He was qualified as a PRC Asset Valuer accredited by the China Appraisal Society (中國資產評估協會) in August 2005. Mr. Wei has completed a three-year Finance programme in Night College of Lanzhou University of Finance and Economics (蘭州商學院) in July 1991.

**Mr. Sun Chuang (孫闖)**, aged 31, obtained his bachelor degree in Law from Zhengzhou University (鄭州大學) in July 2010. He is also the arbitrator of the Shenzhen Court of Arbitration. Mr. Sun obtained the Legal Professional Qualification Certificate of the PRC in 2010. He also obtained Securities Investment Fund Industry Qualification Certificate of the PRC in 2017. Mr. Sun has served as the vice general manager for the risk management department of Shenzhen CDF-Capital Co., Ltd. (深圳市創東方投資有限公司) since July 2016. Mr. Sun has extensive experience in investment risk management and legal matters. From July 2010 to July 2013, Mr. Sun served as the legal specialist of China General Nuclear Power Service Group Company Limited\* (中廣核服務集團有限公司) (formerly known as Guangdong Daya Bay Nuclear Power Service (Group) Company Limited (廣東大亞灣核電服務(集團)有限公司)). Mr. Sun served as the legal manager of Shenzhen Taifeng Investment Group Company Limited (深圳市泰豐投資集團有限公司) from August 2013 to August 2014. From September 2014 to June 2016, Mr. Sun served as the legal manager of Shenzhen Baode Investment Holding Company Limited (深圳市寶德投資控股有限公司).

**Ms. Du Wei (杜魏)**, aged 40, was appointed to the Supervisory Committee on 6 April 2011. Ms. Du has obtained the college diploma majoring in Electronic Technology and Micro-computer Application by Lanzhou University (蘭州大學) in July 2001, and was engaged in a self-learning programme of Lanzhou University majoring in Computer Science Application and graduated in June 2004. Ms. Du is also qualified as Second Level Corporate Human Resource Manager (二級企業人力資源管理師) by the Occupational Skill Testing Centre of Human Resource and Social Security Department (人力資源和社會保障部職業技能鑒定中心) in December 2013. Ms. Du joined our Company in March 2008 and used to serve as the person-in-charge in our human resource department. Ms. Du is currently the manager of our human resource department responsible for management of human resource of our Company.

## Directors, Supervisors and Senior Management

### Senior Management

**Mr. Li Siu Bun (李兆彬)**, aged 33, is the chief financial officer and joint company secretary of our Company since 12 March and 18 March 2015, respectively. He is responsible for our financial matters and the communication with the Stock Exchange. Mr. Li has worked in well-known accounting firm and financial institutions, including Deloitte Touche Tohmatsu from September 2006 to February 2010 as senior auditor, PetroAsian Energy Holdings Limited from June 2010 to September 2012 as project manager, Glory Sky Capital Holdings Limited as Vice President of the Corporate Finance Department from October 2012 to November 2014, and Cinda International Asset Management Limited as Investment Manager from November 2014 to March 2015. Mr. Li is a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Li obtained his bachelor degree in Finance from Lingnan University, Hong Kong in June 2006 and his master of business administration from the University of Hong Kong in November 2013.

**Mr. Li Baozhu (李寶柱)**, aged 45, is the deputy general manager of our Company. Mr. Li has almost 20 years of experience in dairy industry. Mr. Li obtained his bachelor degree from Ninxia University majoring in Food Science in July 2003 and received a diploma in manufacturing and operational officer senior study programme (生產與運營總監高級研修班) from Fudan University (復旦大學) in 2010. Mr. Li served in different positions such as workshop director and production manager of Ningxia Xiajin Dairy and Beverage Co., Ltd. (寧夏夏進乳品飲料有限公司) and deputy general manager of a branch company of Ningxia Xiajin Dairy Group Co. Ltd. (寧夏夏進乳業集團股份有限公司) from August 1994 to June 2005. Subsequently, Mr. Li worked in Ningxia Hongguo Dairy Co. Ltd. (寧夏紅果乳業有限公司) responsible for the quality control of production and technology from July 2005 to October 2006. After joining our Company in August 2007, Mr. Li has been our production officer responsible for the production, operation and management of the Yuzhong production plant of our Company.

**Mr. Ma Tianliang (馬添糧)**, aged 38, is the deputy general manager of our Company since July 2011 and general manager of Qinghaihu Dairy, a subsidiary of our Company, since December 2014. Mr. Ma is responsible for the overall management of Qinghaihu Dairy. Mr. Ma participated in Tsinghua University Marketing and Creativity Senior Study Programme (清華大學營銷管理與創新高級研修班) from June 2009 to July 2010. Mr. Ma is enrolled in a master programme at Lanzhou University (蘭州大學) majoring in Business Management. Mr. Ma joined our Company in January 2003 and has served in different positions within our Company, including serving in marketing and management positions in different regions.



# Corporate Governance Report

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

## BOARD OF DIRECTORS AND MANAGEMENT

The Board is responsible and has general power for the management and conduct of the Group's business. As of the date of this report, the Board consists of nine Directors, comprising four executive Directors, namely Mr. Ma Hongfu, Mr. Wang Guofu, Mr. Chen Yuhai, and Ms. Zhang Qianyu, two non-executive Directors, namely Mr. Song Xiaopeng and Mr. Yap Kean Chong, and three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. Biographical details of the Directors are set out in the "Directors, Supervisors and Senior Management" section on pages 21 to 25 of this annual report.

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

- developing the Company's development plans;
- developing the Company's management and business strategies;
- approving financial statements;
- developing and approving the internal control and risk management systems;
- developing and reviewing the Company's corporate governance policies and practices;
- developing, reviewing and monitoring the code of conduct and compliance manual for employees and Directors;

## Corporate Governance Report

- reviewing and monitoring training and continuous professional development of Directors and senior management of the Company (the “Senior Management”);
- reviewing the Company’s compliance with the CG Code under the Listing Rules and disclosure as set out in the corporate governance reports included in annual reports of the Company; and
- reviewing and monitoring the Company’s policies and practices regarding compliance with laws and regulations.

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

We are committed to ensuring high standards of corporate governance at all times and in all aspects of our operations. The Board believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole. The Board strives to adhere to the principles of corporate governance and has further strengthened and improved its internal controls in order to undertake sound corporate governance code provisions and practices to meet the relevant statutory and commercial standards by focusing on internal control, fair disclosure and accountability to all shareholders.

### Code Provision A.2.1 of the CG Code

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, before 21 December 2017, the Company did not have a separate chairman and chief executive officer and Mr. Ma Hongfu performed both roles.

Mr. Ma Hongfu tendered his resignation as the chief executive officer of the Company with effect from 21 December 2017, and Mr. Chen Yuhai, an executive Director, had been appointed as the general manager of the Company, a position equivalent to a chief executive officer in the PRC. For details, please refer to the announcement of the Company dated 21 December 2017.

Save for the above and as disclosed in this report, the Company has complied with all applicable Code Provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2017.

# Corporate Governance Report

## BOARD MEETINGS

The Board meets regularly. During the Reporting Year, 8 Board meetings were held at approximately monthly intervals.

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

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

## BOARD COMMITTEES

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

### Audit Committee

As at 31 December 2017, the audit committee comprises three independent non-executive Directors, namely Ms. Liu Zhijun, Ms. Xin Shihua (retired on 26 March 2018) and Mr. Wong Cho Hang Stanley. As at the date of this report, the audit committee comprises three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin (appointed on 26 March 2018) and Mr. Wong Cho Hang Stanley. The chairman of the audit committee is Ms. Liu Zhijun. Details of the terms of reference of the audit committee are set out on the Company's website ([www.lzzhuangyuan.com](http://www.lzzhuangyuan.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The principal duties of the committee include but not limited to the followings:

- (1) suggest engagement or change of external audit organisation;
- (2) supervise on internal audit agency and its implementation;
- (3) take charge of communication between internal and external audit;
- (4) audit on our Company's financial information and its disclosures;
- (5) supervise on our Company's internal control system and audit on significant connected transactions; and
- (6) other issues as authorised by the Board.

### Nomination Committee

As at 31 December 2017, the nomination committee consists of one executive Director, being Mr. Ma Hongfu, and two independent non-executive Directors, being Ms. Xin Shihua (retired on 26 March 2018) and Mr. Wong Cho Hang Stanley. As at the date of this report, the nomination committee consists of one executive Director, being Mr. Ma Hongfu, and two independent non-executive Directors, being Mr. Zhao Xinmin (appointed on 26 March 2018) and Mr. Wong Cho Hang Stanley. The chairman of the nomination committee was Ms. Xin Shihua and currently Mr. Zhao Xinmin. Details of the terms of reference of the nomination committee are set out on the Company's website ([www.lzzhuangyuan.com](http://www.lzzhuangyuan.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The principal duties of the committee include but not limited to the followings:

- (1) provide advice on the Board's scale and composition according to our Company's operation condition, asset size and shareholding structure;
- (2) research on selecting standards and procedure of Directors and Senior Management and provide advice to the Board accordingly;
- (3) search for suitable candidates as qualified Directors and Senior Management;



## Corporate Governance Report

- (4) examine and provide advice on candidates as Directors and Senior Management;
- (5) examine and provide advice on other candidates of Senior Management that needs to be appointed by the Board;  
and
- (6) other issues as authorised by the Board.

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

### **Appointment of Directors**

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

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

## Training and Development of Directors

As at 31 December 2017, the four executive Directors, namely Mr. Ma Hongfu (being the chairman of the Board), Mr. Wang Guofu, Mr. Yan Bin (retired on 26 March 2018) and Mr. Chen Yuhai, two non-executive Directors, namely Mr. Yap Kean Chong and Mr. Song Xiaopeng, and three independent non-executive Directors, namely Ms. Liu Zhijun, Ms. Xin Shihua (retired on 26 March 2018) and Mr. Wong Cho Hang Stanley, took part in various continuous training with respect to Directors' duties through regularly receiving latest information and updates in relation to the Listing Rules and related regulations, participating in relevant training programmes or through regularly taking note of industrial updates, attending relevant seminars or perusing reading materials, magazines and updated information in relation to business and industrial development. The following table sets out a summary of the types of training our Directors received:

Director	Training Category
<b>Executive Directors</b>	
Mr. Ma Hongfu	A, B, C, D
Mr. Wang Guofu	A, B, C, D
Mr. Chen Yuhai	A, B, C, D
Mr. Yan Bin (retired on 26 March 2018)	A, B, C, D
<b>Non-executive Directors</b>	
Mr. Yap Kean Chong	A, B
Mr. Song Xiaopeng	A, B
<b>Independent non-executive Directors</b>	
Ms. Liu Zhijun	A, B
Ms. Xin Shihua (retired on 26 March 2018)	A, B
Mr. Wong Cho Hang Stanley	A, B

- A Attending training and/or reading materials relevant to the Directors' duties and responsibilities
- B Reading materials relevant to the Listing Rules and other regulations
- C Attending industry seminars/or meetings/conferences
- D Visiting enterprises in the same industry at the PRC and abroad/or attending meetings

# Corporate Governance Report

## Remuneration and Appraisal Committee

As at 31 December 2017, the remuneration and appraisal committee consists of one executive Director, being Mr. Wang Guofu, and two independent non-executive Directors, being Ms. Liu Zhijun, and Ms. Xin Shihua (retired on 26 March 2018). As at the date of this report, the remuneration and appraisal committee consists of one executive Director, being Mr. Wang Guofu, and two independent non-executive Directors, being Ms. Liu Zhijun, and Mr. Zhao Xinmin (appointed on 26 March 2018). The chairman of the remuneration and appraisal committee is Ms. Liu Zhijun. Details of the terms of reference of the remuneration and appraisal committee are set out on the Company's website ([www.lzzhuangyuan.com](http://www.lzzhuangyuan.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The principal duties of the committee include but not limited to the followings:

- (1) draft remuneration plan according to the Directors and Senior Management's position scope, duties, significance and remuneration level in other similar companies and similar positions;
- (2) remuneration plan includes but not limited to performance evaluation standards, procedures, and major evaluation system and major plan of incentives and punishment;
- (3) review performance of the duties of the Directors and Senior Management and undertake annual evaluation;
- (4) supervise on implementation of our Company's remuneration plan; and
- (5) other issues as authorised by the Board.

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

## Directors and Senior Management emoluments

For the year ended 31 December 2017, the emoluments of the individuals who are not Directors and who are amongst the five highest paid individuals of the Group are within the following band:

	Year ended 31 December 2017
HK\$Nil – HK\$1,000,000	3

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

### Strategy Committee

As at 31 December 2017, the strategy committee consists of one executive Director, being Mr. Ma Hongfu, one non-executive Director, being Mr. Song Xiaopeng, and one independent non-executive Director, being Ms. Xin Shihua (retired on 26 March 2018). As at the date of this report, the strategy committee consists of one executive Director, being Mr. Ma Hongfu, one non-executive Director, being Mr. Song Xiaopeng, and one independent non-executive Director, being Mr. Zhao Xinmin (appointed on 26 March 2018). The chairman of the strategy committee is Mr. Ma Hongfu. The primary duties of the strategy committee include, but are not limited to, the followings:

- (1) organise and research on our Company's long-term development strategy and offer advice to the Board;
- (2) organise and research on effects of adjustment of the country's macroeconomic policy and structure on our Company;
- (3) track actions of major similar companies worldwide;
- (4) provide advice on our Company's structure organisation and development strategy according to our needs;
- (5) research and provide advice on significant financing plan that needs to be approved by the Board according to our articles of association;
- (6) research and provide advice on significant projects of capital operation and asset management that needs to be approved by the Board according to our articles of association;
- (7) research and provide advice on other significant issues that may affect the long-term development of our Company;
- (8) examine and demonstrate long-term plan, significant projects or strategic suggestions provided by our Company's departments before the Board's meeting to provide advice for formal examination in the Board meeting;
- (9) supervise and analyse issues mentioned above and provide advice on adjustments and improvements to the Board; and
- (10) other issues as authorised by the Board.



## Corporate Governance Report

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

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

Directors	Number of Meetings Attended/Number of Meetings Held					
	General Meeting	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration and appraisal Committee Meeting	Strategy Committee Meeting
<b>Executive Directors</b>						
Mr. Ma Hongfu	2/2	8/8	-/-	1/1	-/-	1/1
Mr. Wang Guofu	2/2	8/8	-/-	-/-	1/1	-/-
Mr. Chen Yuhai	2/2	8/8	-/-	-/-	-/-	-/-
Mr. Yan Bin	2/2	8/8	-/-	-/-	-/-	-/-
<b>Non-Executive Directors</b>						
Mr. Yap Kean Chong	2/2	8/8	-/-	-/-	-/-	-/-
Mr. Song Xiaopeng	2/2	8/8	-/-	-/-	-/-	1/1
<b>Independent Non-Executive Directors</b>						
Ms. Liu Zhijun	2/2	8/8	2/2	-/-	1/1	-/-
Ms. Xin Shihua	2/2	8/8	2/2	1/1	1/1	1/1
Mr. Wong Cho Hang Stanley	2/2	8/8	2/2	1/1	-/-	-/-

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

### INDEPENDENCE

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

### SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules regarding directors’ securities transactions. Having made specific enquiry of all Directors and the supervisors of the Company (the “Supervisors”), all the Directors and Supervisors confirm that they have complied with the required standards of the Model Code during the year ended 31 December 2017.

### INSURANCE ON DIRECTORS’ AND OFFICERS’ LIABILITIES

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

### FINANCIAL REPORTING

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

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

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

### AUDITORS AND THEIR REMUNERATIONS

During the Reporting Year, the fees received/receivable by the Company’s auditor, KPMG Huazhen LLP, for audit services was approximately RMB2,200,000.

### JOINT COMPANY SECRETARIES

Mr. Li Siu Bun and Mr. Yan Bin are our joint company secretaries during the Reporting Year.

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

## Corporate Governance Report

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

On 26 March 2018, Mr. Yan Bin retired as the joint company secretary of the Company and Mr. Wang Guofu was appointed as the joint company secretary on the same date. The biographical details of our joint company secretaries are set out in the section headed “Directors, Supervisors and Senior Management” in this annual report.

### SHAREHOLDERS' COMMUNICATION POLICY AND RIGHTS

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

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

### Convening extraordinary general meetings

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

### Procedures for putting forward proposals at a general meeting

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

### Procedures of Making Enquiry to the Board

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

The Board undertakes that it listens to and takes note of Shareholders' opinion, and Shareholders are welcome to raise questions or concerns as to the management and governance of the Group. They may at any time send their questions or concerns to the company secretary by post at Level 43, AIA Tower, 183 Electric Road, North Point, Hong Kong, which will be forwarded to the Board.

### Constitutional Documents of the Company

Save as the amendments to the Articles of Association as detailed in the Company's circular dated 28 April 2017 and 5 February 2018 and as approved by our Shareholders at the annual general meeting held on 16 June 2017 and the extraordinary general meeting held on 26 March 2018, there has been no amendment to the constitutional documents of the Company.

## INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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



# Directors' Report

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

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

- (A) a fair review of the company's business;**
- (B) a description of the principal risks and uncertainties facing the company;**
- (C) particulars of important events affecting the company that have occurred since the end of the financial year; and**
- (D) an indication of likely future development in the company's business.**

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

## **(A) FAIR REVIEW OF THE COMPANY'S BUSINESS**

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

- (1) a description of the business and the external environment in which the reporting entity operates, as context for the directors' discussion and analysis;*
- (2) an analysis of the performance of the reporting entity for the year under review and the financial position of the reporting entity as at the end of that period using financial KPIs which complement or supplement the financial statements;*
- (3) a discussion of the reporting entity's environmental policies and performance and the reporting entity's compliance with the relevant laws and regulations that have a significant impact on the entity; and*
- (4) an account of the reporting entity's key relationships with its employees, customers and suppliers and others that have a significant impact on the entity and on which the entity's success depends.*

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

#### Overview

We are one of the leading dairy companies in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We own and operate five dairy farms and collectively operate three dairy farms through cooperation with local dairy farmers as at 31 December 2017. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so that at least 60% of our raw milk requirements could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

Product mix has affected our revenue, gross profit and gross profit margin in the past. We continued to place effort to increase the sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future and will provide higher selling prices and higher gross profit margin to us compared to other dairy products. Our yogurt products experienced decrease in sales amount, which decreased from RMB278.5 million in 2016 to RMB223.9 million in 2017. Attributable to the decrease in average selling price, the gross profit margin of our yogurt products decreased from 38.7% in 2016 to 33.6% in 2017. Revenue from modified milk products decreased significant from RMB219.4 million in 2016 to RMB117.8 million in 2017 due to the intention of the Group to expand the sale of UHT milk and decrease the sale of modified milk correspondingly. Our gross profit margin of the principal activities decreased to 30.8% in 2017 from 34.0% in 2016 due to the (1) decrease in the proportion of sales of products with higher gross profit margin and (2) decrease in selling price of liquid milk products to face the national brand competition.

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

## Directors' Report

### Our business model

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

### Our products and brands

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

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

Further discussion and analysis of the performance for 2017 and the financial position as at the end of 2017 using financial KPIs which complement or supplement the financial statements can be found in the Financial Overview of the Management Discussion and Analysis section set out on this annual report. This discussion forms part of this Directors' Report.

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

#### **Environmental matters**

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

#### **Health and safety matters**

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



## Directors' Report

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

#### Relationships with contracted farmers

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

#### Relationship with third party raw milk suppliers

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

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

### Relationship with distributors

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

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

### Relationship with employees

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

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

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

## Directors' Report

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

The major risks we face in our business are:

- Actual or perceived contamination in our dairy products could adversely and materially affect our business and reputation
- Our results of operations are subject to biological asset fair value adjustments, which can be highly volatile and are subject to a number of assumptions
- Failure to manage our distribution network may materially and adversely affect our business
- Raw milk supply, quality and price fluctuation may materially and adversely affect our business
- Quality control system failures may materially and adversely affect our business
- Any material disputes between us and local dairy farmers with whom we collectively operate our dairy farms may adversely affect the operations of the relevant dairy farms and, if unresolved, could potentially lead to termination of cooperation with such farmers and as a result adversely affect the operation of our collectively-operated dairy farms
- Our operations could be adversely affected if we no longer benefit from favourable government policies in the dairy industry and policies to promote the economic development in Northwestern China
- Disruption of operations at our dairy farms and production plants could materially and adversely affect our business
- Our business and future expansion depend on the quality and health conditions of our dairy cows, as well as the quality of raw milk and yield of the cows
- The outbreak of any major disease among our cows or at neighbouring farms could materially and adversely affect our business

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

### **(C) IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF 2017 (PARAGRAPH 53-54 OF AB5)**

Subsequent to 31 December 2017, there had been no significant change in our principal business, pricing policy and costs structure, while the market price of raw milk experienced slight fluctuation.

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

#### **Extensive sales and distribution regional network in Gansu and Qinghai**

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

#### **Strong market-oriented product development**

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

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

#### **Short and longer term funding needs**

Through the successful listing on 31 October 2017 as A Share Company in Shenzhen Stock Exchange, the Company has adequate cash to fund the liquidity needs of short and medium term. The Company can also raise extra funding through the secondary market after being recognized as listed company when required.

#### **Risk warning in respect of forward-looking statements**

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



## Directors' Report

### PRINCIPAL ACTIVITIES

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

### RESULTS OF THE GROUP

The Group's and the Company's results for the Reporting Year and the state of affairs of the Group and the Company as at 31 December 2017 are set out in the Financial Statements on pages 73 to 80 of this annual report.

### DIVIDEND

The Board has resolved to recommend the payment of final dividend of RMB7.30 cents per share (including tax) for the year ended 31 December 2017 (for the year ended 31 December 2016: RMB7.42 cents per share). The total dividend amounted to approximately RMB13.7 million.

The proposed final dividend is subject to the consideration and approval of the shareholders at the forthcoming annual general meeting (the "AGM") of the Company. The Company will publish announcement, circular and notice of general meeting regarding the AGM in accordance with the Listing Rules and the articles of association of the Company. For details in relation to the record date and date of closure of register of members for the payment of the final dividend to the holders of H Shares, please refer to the paragraph headed "Closure of Register of Members for H Shares for AGM and Dividend Distribution" below. It is expected that the final dividend will be distributed before 31 August 2018.

The final dividend will be denominated and declared in RMB. The holders of A Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the dividend at the AGM.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organisations or groups, will be deemed as shares held by non-resident enterprise shareholders. Therefore, enterprise income tax will be withheld from dividends payable to such shareholders. If holders of H Shares intend to change its shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant shareholders based on the register of members for H Shares as at the record date of the proposed final dividend.

In accordance with the “Circular on Certain Issues Concerning the Policies of Individual Income Tax” (Cai Shui Zi [1994] No. 020) (《關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, temporarily, exempted from the PRC individual income tax for dividend or bonuses received from foreign invested enterprises. In accordance with the “Letter of the State Administration of Taxation concerning Taxation Issues of Dividends Received by Foreign Individuals Holding Shares of Companies Listed in China” (Guo Shui Han Fa [1994] No. 440) (《外籍個人持有中國境內上市公司股票所取得的股息有關稅收問題的函》(國稅函發[1994]440號)) as promulgated by the State Administration of Taxation on 26 July 1994, dividends (capital bonuses) received by foreign individuals holding B shares or overseas shares (including H Shares) from Chinese enterprises issuing such B shares or overseas shares are temporarily exempted from individual income tax. Accordingly, in the payment of final dividend, the Company will not withhold and pay the individual income tax on behalf of individual Shareholders when the Company distributes the final dividend to individual Shareholders whose names appear on the register of members of H Shares of the Company.

Subject to Shareholders' approval at the forthcoming annual general meeting (“AGM”), the abovementioned proposed final dividend is expected to be paid to the Shareholders on or before 31 August 2018. Details of the payment of the proposed final dividend will be announced after conclusion of the AGM.

### **CLOSURE OF REGISTER OF MEMBERS FOR H SHARES FOR AGM AND DIVIDEND DISTRIBUTION**

For ascertaining H Shareholders' eligibility to attend and vote at the AGM, the register of members for H Shares of the Company will be closed from Monday, 21 May 2018 to Wednesday, 20 June 2018, both days inclusive, during which period no transfer of H Shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with H share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 18 May 2018.

H Shareholders whose names appear on the register of members for H Shares of the Company at the close of business on 18 May 2018 are entitled to attend and vote at the AGM. Please refer to A Share announcement as published by the Company on the website of the Shenzhen Stock Exchange for relevant information in respect of the Shareholders of A Shares attending the AGM.

For ascertaining the entitlements of the Shareholders to receive the final dividend (if any), the register of members for H Shares of the Company will be temporarily closed from Friday, 29 June 2018 to Wednesday, 4 July 2018 (both days inclusive), during which no transfer of shares will be registered. All transfer documents together with the relevant share certificates and form of transfer must be delivered to the Company's share registrar, 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 Thursday, 28 June 2018.

If the proposed profit distribution plan is approved at the AGM, the final dividend will be paid to the Shareholders whose names are registered in the Company's register of members on 4 July 2018.

## Directors' Report

### FINANCIAL SUMMARY

A summary of the published financial performance and of the assets and liabilities of the Group for the last four reporting years, as extracted from the audited financial statement and accountant's report in the prospectus of the Company dated 30 September 2016 and reclassified as appropriate, is set out on page 183 of this annual report.

### SHARE CAPITAL

As at 31 December 2017, there was a total issued share capital of 187,340,000 Shares which include:

	<b>Number of Shares</b>	<b>Approximate percentages of share capital %</b>
H Shares	35,130,000	18.75
A Shares	152,210,000	81.25
Total	187,340,000	100.00

### TAX RELIEF AND EXEMPTION

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

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, there was no purchase, redemption or sale by the Company, or any of its subsidiaries, of any listed securities of the Company.

### PRE-EMPTIVE RIGHTS

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

### CAPITAL RESERVE, SURPLUS RESERVE AND RETAINED EARNINGS

Details of the movements in the reserves of the Company during the Reporting Year are set out in Notes VI. 28, 29 and 30 to the Financial Statements.

### DISTRIBUTABLE RESERVES

As at 31 December 2017, the aggregate amount of reserves available for distribution to equity Shareholders amounted to approximately RMB270.7 million (31 December 2016: RMB246.5 million).

### CHANGES OF AUDITORS

To improve the efficiency of information disclosure and reduce information disclosure costs, as reviewed by the Board meeting dated 5 February 2018, it was proposed to the general meeting to remove KPMG as the international auditors of the Company and appoint KPMG Huazhen LLP as the PRC auditors of the Company for the year 2017, to audit the financial statements of the Company in accordance with China Auditing Standards, and prepare financial statements in accordance with China Accounting Standards, and to shoulder the duties as overseas auditors under the Amended Listing Rules of the Stock Exchange (including but not limited to the annual financial report and annual audit of related items).

The aforesaid matters have been approved by the First 2018 Extraordinary General Meeting held on 26 March 2018 (please refer to the announcement dated 5 February 2018 and 26 March 2018 for details).

### FIXED ASSETS AND CONSTRUCTION IN PROGRESS

Details of the changes in the fixed assets and construction in progress of the Group during the Reporting Year are set out in Note VI. 8 and 9 to the Financial Statements.

### SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, the Company acquired 18% equity interests in Xi'an Dongfang Dairy Co., Ltd. (西安東方乳業有限公司) in 2013. There was no significant influence on the investee during the years ended 31 December 2017 and 2016.

### MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2017, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

### MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

The Group has no material litigation or arbitration proceedings during the year ended 31 December 2017.



## Directors' Report

### MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the largest customer and supplier of the Group accounted for 2.26% and 9.32% of the Group's total revenue and total purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for 8.01% and 30.41% of the Group's total revenue and total purchases, respectively.

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

### DIRECTORS AND SUPERVISORS

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

#### Executive Directors

Mr. Ma Hongfu

Mr. Wang Guofu

Mr. Chen Yuhai

Ms. Zhang Qianyu (*appointed on 26 March 2018*)

Mr. Yan Bin (*retired on 26 March 2018*)

#### Non-Executive Directors

Mr. Yap Kean Chong

Mr. Song Xiaopeng

#### Independent Non-Executive Directors

Ms. Liu Zhijun

Mr. Zhao Xinmin (*appointed on 26 March 2018*)

Mr. Wong Cho Hang Stanley

Ms. Xin Shihua (*retired on 26 March 2018*)

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

#### Supervisors

Ms. Du Wei

Mr. Wei Lin

Mr. Sun Chuang (*appointed on 26 March 2018*)

Mr. Pan Jin (*retired on 26 March 2018*)

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

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

As at 31 December 2017, no contract of significance had been entered into between the Company, or any of its subsidiaries, and the controlling shareholders of the Company or any of its subsidiaries.

### **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Year and up to the date of this annual report.

### **PERMITTED INDEMNITY PROVISION**

During the financial year and up to the date of this annual report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors of the Company or its associated companies. The permitted indemnity provisions are provided for in the Articles of Association in respect of potential liability and costs associated with legal proceedings that may be brought against such Directors.

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

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

### **COMPLIANCE WITH NON-COMPETE UNDERTAKING**

Each of Mr. Ma Hongfu, Lanzhou Zhuangyuan Investment Co., Ltd. (蘭州莊園投資有限公司) ("Zhuangyuan Investment") and Gansu Lucky Cow Investment Co., Ltd. (甘肅福牛投資有限公司) ("Lucky Cow") (the Controlling Shareholders) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 23 September 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the period for the year ended 31 December 2017.

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

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

## Directors' Report

### EMOLUMENT POLICY

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

### SHARE OPTION SCHEME

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

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

As at 31 December 2017, the interests and short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares	Approximate percentage in the issued share capital of the Company
<b>A Shares</b>				
Ma Hongfu ( <i>Note 2</i> )	Beneficial owner	32,197,400 (L)	21.15%	17.19%
	Interested in controlled corporation	45,894,700 (L)	30.15%	24.50%

Notes:

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

Save as disclosed above, as at 31 December 2017, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2017, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares/ H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
<b>A Shares</b>				
Yang Xiuhua (Note 2)	Interest of spouse	78,092,100 (L)	51.31%	41.68%
Lanzhou Zhuangyuan Investment Co., Ltd. (Note 3)	Beneficial owner	30,894,700 (L)	20.30%	16.49%
Gansu Lucky Cow Investment Co., Ltd. (Note 3)	Beneficial owner	15,000,000 (L)	9.85%	8.01%
Chongqing Fukun Venture Investment Centre LLP	Beneficial owner	6,990,000 (L)	4.60%	3.73%
<b>H Shares</b>				
Hu Keliang	Beneficial owner	7,000,000 (L)	19.93%	3.74%
Li Yanling (Note 4)	Interests of spouse	7,000,000 (L)	19.93%	3.74%
Wang Wei (Note 5)	Beneficial owner	800,000 (L)	2.28%	0.43%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.49%
Li Qi (Note 5)	Interests of spouse	3,600,000 (L)	10.25%	1.92%
Venko Limited (Note 5)	Beneficial owner	2,800,000 (L)	7.97%	1.49%
Ren Qifeng (Note 6)	Interest of controlled corporation	3,523,000 (L)	10.03%	1.88%
Ren Songliu (Note 6)	Interests of spouse	3,523,000 (L)	10.03%	1.88%
Technoart Investments Limited (Note 6)	Beneficial owner	3,523,000 (L)	10.03%	1.88%
Hu Jiawu	Beneficial owner	3,000,000 (L)	8.54%	1.60%
Xi Xin (Note 7)	Interests of spouse	3,000,000 (L)	8.54%	1.60%
Zhang Chenbin	Beneficial owner	2,443,500 (L)	6.96%	1.30%



## Directors' Report

### Notes:

1. All interests in Shares were long positions.
2. Ms. Yang Xiuhua is the spouse of Mr. Ma Hongfu. Therefore, Ms. Yang Xiuhua is deemed to be interested in the Shares in which Mr. Ma Hongfu is interested by virtue of the SFO.
3. Mr. Ma Hongfu holds 97.38% equity interests in Zhuangyuan Investment and 39.44% equity interests in Lucky Cow. Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.
4. Ms. Li Yanling is the spouse of Mr. Hu Keliang. Therefore, Ms. Li Yanling is deemed to be interested in the Shares in which Mr. Hu Keliang is interested by virtue of the SFO.
5. The entire issued share capital of Venko Limited is beneficially owned by Mr. Wang Wei who is deemed to be interested in the Shares held by Venko Limited by virtue of the SFO. Mr. Wang Wei is also beneficially interested in 800,000 H Shares. Ms. Li Qi is the spouse of Mr. Wang Wei. Therefore, Ms. Li Qi is deemed to be interested in the Shares in which Mr. Wang Wei is interested by virtue of the SFO.
6. The entire issued share capital of Technoart Investments Limited is beneficially owned by Mr. Ren Qifeng who is deemed to be interested in the Shares held by Technoart Investments Limited by virtue of the SFO. Ms. Ren Songliu is the spouse of Mr. Ren Qifeng. Therefore, Ms. Ren Songliu is deemed to be interested in the Shares in which Mr. Ren Qifeng is interested by virtue of the SFO.
7. Ms. Xi Xin is the spouse of Mr. Hu Jiawu. Therefore, Ms. Xi Xin is deemed to be interested in the Shares in which Mr. Hu Jiawu is interested by virtue of the SFO.

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

### **ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES**

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

### RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

### SUFFICIENCY OF PUBLIC FLOAT

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

ON BEHALF OF THE BOARD

**Lanzhou Zhuangyuan Pasture Co., Ltd.**

**Ma Hongfu**

*Chairman*

Lanzhou, the PRC, 28 March 2018

# Supervisory Committee's Report

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

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

The Supervisory Committee has reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming AGM. We are of the opinion that the Board, chief executive of the Company and other Senior Management have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the articles of association of the Company. Up till now, none of the Directors, chief executive of the Company nor Senior Management has been found to have been in breach of any laws or regulations or the articles of association of the Company and damaged the interests of the Company or the Shareholders. The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2017 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

*Chairman of the Supervisory Committee*

**Wei Lin**

Lanzhou, the PRC, 28 March 2018

# Environmental, Social and Governance Report

## BASIS OF PREPARATION

We have adopted the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide ("ESG Guide") in preparing this report. The Directors considered we have complied with the "comply or explain" provisions set out in the ESG Guide for the year ended 31 December 2017. This is the second annual Environmental, Social and Governance ("ESG") Report of the company. An online copy of this report is available at <http://www.lzzhuangyuan.com/>.

In this report, we have included all operations in the Group, covering both dairy farming business and dairy products production business.

## BUSINESS OPERATION OF THE GROUP

During the year ended 31 December 2017, the Group engaged principally operates two business segments: (i) dairy farming business, under which we produced and sold raw milk; and (ii) dairy products production business, under which we produced and sold dairy products. This report provides general disclosures that cover both dairy farming business and dairy products production business.

## OUR ESG MANAGEMENT APPROACH

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

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

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

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

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

## Environmental, Social and Governance Report

### PROTECTING OUR ENVIRONMENT

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

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

Water and power are the major resources to keep the operation of our dairy farming business and dairy products production business. We strive to minimise our water and energy consumption through transforming and upgrading our equipment and standardized operation. We also promote the awareness of environmental preservation of our employees by providing training on relevant topics. We standardised the washing time and frequency of the facilities, reuse the water used in sterilization process and have regular maintenance checks on our drainage to ensure it is unblocked. Where significant waste water is produced, we have our own waste water treatment facilities with online monitoring system to monitor and make sure the outfall and discharge of wastewater are up to standard. The system is interconnected with third party online monitoring platform and achieved real-time data transmission and monitoring.

In the reporting period, we consumed 788,285 cubic meter of freshwater and 47,772 cubic meter of treated water for secondary uses. While most of the water are drunk by our cattle and added to our products, only 339,675 cubic meter of waste water are discharged.

Our major air and greenhouse gas emissions is cattle methane emission. In the reporting period, we produced 376 tonnes methane. Our indirect air and greenhouse gas emissions are mainly from purchased electricity. In the reporting period, we consumed 15.5 million kWh electricity, which generated approximately 46.8 million tonnes of carbon dioxide. Of which, 11.5 million kWh are consumed by our Dairy Products Production Business. To minimise our emissions, we have used Light Emitting Diodes (“LED”) lights and have temperature control system in all of our production plants.



## Environmental, Social and Governance Report

Apart from electricity, we also consumed 832,200 cubic meter of natural gas and 209,973 cubic meter of diesel, which generated approximately 27.3 million tonnes and 0.7 million tonnes of carbon dioxide respectively, in the reporting period. All of the natural gas is consumed by the dairy products production business while most of the diesel is consumed by the engines used in the dairy farming business.

### Dairy Farming Business

Our major non-hazardous waste is cowpat. In the reporting period, we disposed 39,461 tonnes non-hazardous waste, mainly cowpat. We adopt electronic scraper to clear the cowpat automatically, which provides a clean and comfortable living environment to our cows with minimum water consumption. Used plastic wastes and medical wastes would be treated by qualified firms for disposal. Commercial wastes would be sent to waste transfer stations for recycling.

In 2016, we have invested about RMB4.3 million to build three biogas digesters to transfer the biogas to gas, which could be used by the staff canteen in the dairy farms, and turned biogas slurry to non-hazardous fertilizer, which would be used by farmers in the neighbourhood. As at 31 December 2017, two biogas digesters are in operation.

In 2017, we purchased a new solid-liquid separator (固液分離機) and a new night soil collector (清糞車) for our dairy farm in Qinghai. These help to improve the efficiency in the cowpat cleansing and treatment. More cowpat could be recycled and reused as fertiliser.

### Dairy Products Production Business

Our major non-hazardous waste includes metal scrap from aged equipment and packaging materials. To minimize the waste, we adopt waste classification system to ensure all re-usable parts and materials would not be disposed. In the reporting period, we produced 1,303 tonnes general commercial wastes. We do not generate any hazardous waste.

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

In 2017, we equipped a new magnetic loading wastewater treatment system (磁載入污水處理系統) in our Qinghai production base. Its daily treatment capacity is up to 1,000 tonnes. The new wastewater treatment system improves the efficiency of filtering sludge with magnetics which is recyclable. The system could also stop the bacterium sludge expansion effectively.

In regards to the industrial noise, we installed cushions and acoustic cladding on machines which generate strong noise and adopt closed factory method to make sure the noise is less than 60dB in daytime and 50dB in night time, which is in compliance with the Emission Standard for Industrial Enterprises Noise at Boundary (GB 12348-2008).

# Environmental, Social and Governance Report

## Compliance

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

- The Environmental Protection Law of the PRC (中華人民共和國環境保護法)
- The Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法)
- The Prevention and Control of Water Pollution Law of the PRC (中華人民共和國水污染防治法)
- The Law on Prevention of Environmental Pollution Caused by Solid Waste of the PRC (中華人民共和國固體廢物污染環境防治法) (as amended on 24 April 2015)
- The Law on Appraising Environmental Impact of the PRC (中華人民共和國環境影響評價法)

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

## EMPLOYMENT AND LABOUR PRACTICES

We recognise our employees as an important assets. As on 31 December 2017, the Group had 724 (2016: 748) employees. Of which, 358 are males and 370 are females. We are committed to building an open and inspirational working environment to our employees.

### We promote fair competition

All employment related decisions shall be based on objective criteria. Equal opportunities principles are applied in all employment policies, in particular to recruitment, training, career development and promotion of employees.

Remuneration packages are determined based on responsibilities and performance. Working time, rest periods and defined contributions are in compliance to relevant labour laws and regulations. Regulated by the employee handbook, our remuneration scheme consists of basic salary, bonus, social security contribution and statutory holidays. We contributed social security in compliance with local labour law and regulations.

Our remuneration scheme is comparable to the peers in the local industry. Working hours and rest periods are in compliance with local labour law and regulations.

# Environmental, Social and Governance Report

## **We do not tolerate discrimination or harassment**

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

## **We welcome for feedbacks**

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

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

## **We promote occupational safety and health**

We commit to providing a safe working environment to employees and to protect them from occupational hazards. Safety guidelines are formulated and communicated to all employees. Relevant trainings are organised regularly to improve our employees' awareness on health and safety. In March 2017, we invited fire instructor to conduct training session with our staff on the fire equipment usage and have fire drills to improve their awareness of fire security.

In the reporting period, no significant instances on health and safety were noted.

## **We promote sustainable learning environment**

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

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

## **Prohibition on child and forced labour**

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

## Environmental, Social and Governance Report

### SUPPLY CHAIN MANAGEMENT

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

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

### PRODUCT RESPONSIBILITY

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

Our quality control system is designed based on the Good Manufacturing Practices (GMPs), the Hazard Analysis and Critical Control Points (HACCPs) and the Sanitation Standard Operating Procedures (SSOPs). As at 31 December 2017, we have obtained Dairy HACCP Certification for our production of liquid milk at our Qinghai production facility and ISO9001:2008 Quality Management System Certificate for our development and production of pasteurised milk, UHT milk, yogurt, other milk beverages and milk powder.

### Dairy Farming Business

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

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

## Environmental, Social and Governance Report

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

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

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

### **Dairy Products Production Business**

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

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

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



## Environmental, Social and Governance Report

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

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

### INTELLECTUAL PROPERTY

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

### ANTI-CORRUPTION

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

### COMMUNITY INVESTMENT

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

In April 2017, we participated the tree planting activity in Yuzhong Xian Baihu Shan.

# Environmental, Social and Governance Report

## MATERIAL ENVIRONMENTAL KPIS

	Unit of Measurement	2017 Annual Total	Carbon dioxide emission
<b>Use of Electricity</b>			
Dairy Farming Business	kWh	11.5 million	34.7 million tonnes
Dairy Products Production Business		4.0 million	12.1 million tonnes
<b>Greenhouse gas emission</b>			
Methane	Tonne	376	
<b>Use of Natural Gas</b>		832,000	27.3 million tonnes
<b>Use of Diesel</b>		209,973	0.8 million tonnes
<b>Use of Freshwater</b>	m <sup>3</sup>	788,285	
<b>Use of Treated water</b>		47,772	
<b>Waste Water Discharged</b>		339,675	
<b>Disposal of Hazardous Waste</b>			
Dairy Farming Business	Tonne	39,461	
Dairy Products Production Business		1,303	

Note: The above figures are unaudited and cover all 8 dairy farms and 2 dairy products production facilities unless or otherwise specified.



# Auditor's Report



The Shareholders of

Lanzhou Zhuangyuan Pasture Co., Ltd.

KPMG Huazhen Shen Zi No.1801429

## OPINION

We have audited the accompanying financial statements of Lanzhou Zhuangyuan Pasture Co., Ltd. (the “Zhuangyuan Pasture”), which comprise the consolidated and company balance sheets as at 31 December 2017, the consolidated and company income statements, the consolidated and company cash flow statements, the consolidated and company statements of changes in shareholders’ equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company financial position of Zhuangyuan Pasture as at 31 December 2017, and the consolidated and company financial performance and cash flows of Zhuangyuan Pasture for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China.

## BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants (“CSAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Zhuangyuan Pasture in accordance with the China Code of Ethics for Certified Public 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(English translation of financial statements. If there is any conflict between the Chinese version and its English translation, the Chinese version will prevail)

### KEY AUDIT MATTERS *(Continued)*

<b>Revenue recognition</b>	
<i>Refer to Note III.21(1) of the significant accounting policies and accounting estimates to the financial statements, and Note VI.31 to the consolidated financial statements.</i>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>The principal products of Zhuangyuan Pasture and its subsidiaries (collectively referred to as “Zhuangyuan Pasture Group”) comprise pasteurised milk, UHT milk, modified milk, yogurt and milk beverages, which are mainly sold through distributors, sales agents and direct sales.</p> <p>The contract terms with customers are generally standardised with sales returns and exchanges not being permitted except for in the case of product defects or spoilage.</p> <p>Revenue is recognised when the customer has acknowledged acceptance of the goods by signing the goods delivery note which is the point at which the related risks and rewards of ownership of the goods are considered to have been transferred to the customer.</p> <p>We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of Zhuangyuan Pasture Group, which gives rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.</p>	<p>Our audit procedures to assess revenue recognition included the following:</p> <ul style="list-style-type: none"> <li>• understanding and assessing the design and operating effectiveness of Zhuangyuan Pasture Group’s key internal controls relating to revenue recognition;</li> <li>• evaluating Zhuangyuan Pasture Group’s recognition of revenue by inspecting, on selected items, the key terms and conditions of sales agreements relating to customer acceptance and the transfer of risks and rewards of ownership of the goods with reference to the requirements of the Accounting Standards for Business Enterprises;</li> <li>• comparing sales transactions recorded during the year, on a sample basis, with the underlying documentation including goods delivery notes signed by customers as acknowledgement of their acceptance of goods and date of receipt of goods by customers, to assess whether sales were recognised in accordance with Zhuangyuan Pasture Group’s accounting policy;</li> <li>• Performing confirmation procedures, on selected items, on the balance of accounts receivables at the balance sheet date and the transaction of sales during the year;</li> <li>• comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with goods delivery notes signed by customers, to determine whether the revenue had been recognised in the appropriate financial period.</li> <li>• inspecting underlying documentation for journal entries selected based on specified risk-based criteria.</li> </ul>

## Auditor's Report (Continued)

### KEY AUDIT MATTERS (Continued)

<b>Valuation of bearer biological assets</b>	
<p>Refer to Note III.15 of the significant accounting policies and accounting estimates to the financial statements, and Note VI.10 to the consolidated financial statements, and Note VIII of fair value disclosure.</p>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>Zhuangyuan Pasture Group's bearer biological assets comprise dairy cattle, which are categorised into calves, heifers and milkable cows. Zhuangyuan Pasture Group engaged an independent external valuer to assist in valuation of the bearer biological assets based on different valuation techniques on each category.</p> <p>The fair value assessment of bearer biological assets involves a significant degree of judgement, particularly in respect of estimated culling and birth rates, future average milk production volumes, future raw milk market prices, breeding costs and the discount rate applied.</p> <p>We identified the valuation of bearer biological assets as a key audit matter because the valuation is dependent on certain key assumptions, which require the exercise of significant judgement and are subject to an inherent risk of error or potential management bias.</p>	<p>Our audit procedures to assess the valuation of biological assets included the following:</p> <ul style="list-style-type: none"> <li>• evaluating the external valuers' competence, capabilities and objectivity;</li> <li>• assessing the methodologies adopted in the valuation of bearer biological assets with reference to the requirements of the Accounting Standards for Business Enterprises;</li> <li>• assessing the key assumptions adopted in the valuation of bearer biological assets, including the estimated culling and birth rates, future average milk production volumes, future market prices for raw milk and breeding costs based on historical data and our knowledge of the dairy industry with reference to the relevant available market data;</li> <li>• engaging our internal valuation specialist to assist us in comparing the discount rate used by external valuers in the valuation model with those of companies in the same industry and external market data;</li> <li>• observing, on a sample basis, the physical count of bearer biological assets performed by Zhuangyuan Pasture Group and comparing the quantity of bearer biological assets with that included in the valuation model;</li> <li>• evaluating the disclosures in the consolidated financial statements in respect of the valuation of bearer biological assets with reference to the requirements of the Accounting Standards for Business Enterprises.</li> </ul>



### KEY AUDIT MATTERS *(Continued)*

<b>Valuation of receivables due from third parties</b>	
<p><i>Refer to Note III.9 of the significant accounting policies and accounting estimates to the financial statements, and Note VI.2, 4 and 14 to the consolidated financial statements.</i></p>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>The receivables due from third parties of Zhuangyuan Pasture Group include trade receivables relating to sales of dairy products and receivables due from third party farmers recorded in other receivables and non-current assets, which represent the loans advanced to farmers for purchasing dairy cattle. Such receivables will be repaid, in accordance with agreed repayment schedules over a period of two to three years, by deducting amounts generated from the farmers' sales of raw milk to Zhuangyuan Pasture Group.</p> <p>Receivables are assessed for impairment on an individual basis and on a collective group basis. Where impairment is assessed on an individual basis, the management will take into account debtor-specific financial conditions, credit conditions, overdue conditions and the volatility of market prices for raw milk, etc; The assessment is made collectively based on the historical loss experiences, and adjusted by the observable factors reflecting current economic conditions, all of which involve a significant degree of management judgement.</p> <p>We identified the recoverability of receivables due from third parties as a key audit matter because of their significance to the consolidated financial statements and because assessing the recoverable amount of these balances and the bad debt charge for the year involves a significant degree of management judgement.</p>	<p>Our audit procedures to assess the valuation of receivables due from third parties included the following:</p> <ul style="list-style-type: none"> <li>• understanding and assessing the design and operating effectiveness of Zhuangyuan Pasture Group's key internal controls over the credit control, the debt collection and impairment of receivables evaluation;</li> <li>• assessing whether items were correctly categorised in the trade receivable ageing report by comparing selected individual items in the trade receivable ageing report with relevant goods delivery notes;</li> <li>• obtaining an understanding of the basis of management's judgements on the recoverability of debtors and evaluating the adequacy of impairment allowance for individually significant receivables with reference to the debtors' financial condition, any identified disputes with the debtors, the ageing of overdue balances and historical and post year-end payment records;</li> <li>• evaluating the adequacy of impairment allowance for collective group based on the historical loss experience with reference to current credit and market conditions; reviewing the calculation of the impairment loss based on a collective assessment with reference to Zhuangyuan Pasture Group's policy for collective assessment;</li> <li>• considering the disclosures in the consolidated financial statements relating to the provisions for doubtful debts with reference to the requirements of the Accounting Standards for Business Enterprises.</li> </ul>

## Auditor's Report (Continued)

### OTHER INFORMATION

Zhuangyuan Pasture's management is responsible for the other information. The other information comprises all the information included in 2017 annual report of Zhuangyuan Pasture, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Zhuangyuan Pasture'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 management either intends to liquidate Zhuangyuan Pasture or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Zhuangyuan Pasture's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs 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 financial statements.

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

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Zhuangyuan Pasture'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 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 Zhuangyuan Pasture to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Zhuangyuan Pasture to express an opinion on the 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 those charged with governance 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.

## Auditor's Report (Continued)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

**KPMG Huazhen LLP**

Certified Public Accountants  
Registered in the People's  
Republic of China

Beijing, China

Gao Song (Engagement Partner)

Yan Li

28 March 2018

# Consolidated Balance Sheet

as at 31 December 2017

(Expressed in Renminbi Yuan)

	Note	2017	2016
<b>Assets</b>			
Current assets			
Cash at bank and on hand	VI.1	747,642,372.75	277,352,017.83
Accounts receivable	VI.2	24,403,065.85	14,036,182.48
Prepayments	VI.3	6,131,850.02	8,638,085.64
Other receivables	VI.4	13,290,298.02	8,459,133.76
Inventories	VI.5	71,078,079.91	75,056,150.90
Assets held for sale	VI.6	6,458,501.72	–
Other current assets		3,087,413.98	–
Total current assets		872,091,582.25	383,541,570.61
Non-current assets			
Available-for-sale financial assets	VI.7	33,720,671.00	33,720,671.00
Fixed assets	VI.8	625,799,144.70	649,886,647.22
Construction in progress	VI.9	40,475,357.07	32,991,482.70
Bearer biological assets	VI.10	175,815,804.71	126,289,066.55
Intangible assets	VI.11	20,571,548.22	18,983,266.83
Long-term deferred expenses	VI.12	1,629,589.78	1,643,755.31
Deferred tax assets	VI.13	4,877,752.80	4,108,356.81
Other non-current assets	VI.14	28,736,250.06	90,423,075.90
Total non-current assets		931,626,118.34	958,046,322.32
Total assets		1,803,717,700.59	1,341,587,892.93

The notes on pages 89 to 182 form part of these financial statements.



## Consolidated Balance Sheet (Continued)

as at 31 December 2017

(Expressed in Renminbi Yuan)

	Note	2017	2016
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Short-term loans	VI.15	406,000,000.00	300,000,000.00
Bills payable	VI.16	19,492,581.98	4,000,000.00
Accounts payable	VI.17	101,385,124.99	105,355,778.61
Advances from customers	VI.18	24,062,136.66	20,289,629.93
Employee benefits payable	VI.19	6,186,062.94	6,575,435.59
Taxes payable	VI.20	8,674,754.06	18,888,594.40
Interest payable		403,694.71	431,893.67
Other payables	VI.21	20,848,047.60	18,601,046.60
Long-term loans due within one year	VI.22	15,120,372.33	7,000,000.00
Non-current liabilities due within one year	VI.23	4,934,111.54	6,151,330.20
Total current liabilities		607,106,886.81	487,293,709.00
Non-current liabilities			
Long-term loans	VI.24	26,559,671.60	44,500,000.00
Long-term payables	VI.25	1,394,555.79	3,303,196.05
Deferred income	VI.26	40,991,391.67	46,256,278.33
Total non-current liabilities		68,945,619.06	94,059,474.38
Total liabilities		676,052,505.87	581,353,183.38

The notes on pages 89 to 182 form part of these financial statements.

## Consolidated Balance Sheet (Continued)

as at 31 December 2017  
(Expressed in Renminbi Yuan)

	Note	2017	2016
<b>Liabilities and shareholders' equity (continued)</b>			
Shareholders' equity			
Share capital	VI.27	<b>187,340,000.00</b>	140,500,000.00
Capital reserve	VI.28	<b>508,790,782.09</b>	246,127,082.09
Surplus reserve	VI.29	<b>32,051,090.62</b>	28,203,412.51
Retained earnings	VI.30	<b>399,483,322.01</b>	345,404,214.95
Total equity attributable to shareholders of the Company		<b>1,127,665,194.72</b>	760,234,709.55
Total shareholders' equity		<b>1,127,665,194.72</b>	760,234,709.55
Total liabilities and shareholders' equity		<b>1,803,717,700.59</b>	1,341,587,892.93

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

**Ma Hongfu**  
Legal Representative

**Wang Guofu**  
The person in charge of  
accounting affairs

**Chen Menggan**  
The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.

# Company Balance Sheet

as at 31 December 2017

(Expressed in Renminbi Yuan)

	Note	2017	2016
<b>Assets</b>			
Current assets			
Cash at bank and on hand		<b>685,225,413.30</b>	152,659,036.32
Accounts receivable	XIII.1	<b>17,719,619.46</b>	80,053,755.42
Prepayments		<b>1,126,929.20</b>	3,265,541.81
Other receivables	XIII.2	<b>394,958,085.86</b>	371,715,791.47
Inventories		<b>26,893,582.44</b>	25,887,032.63
Assets held for sale		<b>6,458,501.72</b>	–
Other current assets		<b>3,086,324.24</b>	–
<b>Total current assets</b>		<b>1,135,468,456.22</b>	633,581,157.65
Non-current assets			
Available-for-sale financial assets		<b>33,720,671.00</b>	33,720,671.00
Long-term equity investments	XIII.3	<b>233,013,711.60</b>	233,013,711.60
Fixed assets		<b>152,026,789.22</b>	167,564,068.89
Construction in progress		<b>31,842,871.09</b>	27,536,854.55
Intangible assets		<b>4,636,409.36</b>	11,446,621.64
Deferred tax assets		<b>3,000,352.28</b>	3,181,982.19
Other non-current assets		<b>15,066,250.06</b>	70,432,600.00
<b>Total non-current assets</b>		<b>473,307,054.61</b>	546,896,509.87
<b>Total assets</b>		<b>1,608,775,510.83</b>	1,180,477,667.52

The notes on pages 89 to 182 form part of these financial statements.

## Company Balance Sheet (Continued)

as at 31 December 2017  
(Expressed in Renminbi Yuan)

	2017	2016
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Short-term loans	<b>350,000,000.00</b>	230,000,000.00
Bills payable	<b>19,492,581.98</b>	–
Accounts payable	<b>52,302,797.03</b>	91,120,463.19
Advances from customers	<b>22,137,321.07</b>	17,480,690.08
Employee benefits payable	<b>4,620,355.61</b>	4,556,555.44
Taxes payable	<b>7,683,607.30</b>	15,930,778.73
Interest payable	<b>237,351.61</b>	224,693.33
Other payables	<b>79,270,119.36</b>	96,974,276.00
Long-term loans due within one year	<b>11,120,372.33</b>	–
Non-current liabilities due within one year	<b>3,395,041.54</b>	4,019,343.53
<b>Total current liabilities</b>	<b>550,259,547.83</b>	460,306,800.30
Non-current liabilities		
Long-term loans	<b>21,559,671.60</b>	18,000,000.00
Long-term payables	<b>1,394,555.79</b>	3,303,196.05
Deferred income	<b>14,151,100.00</b>	15,012,416.67
<b>Total non-current liabilities</b>	<b>37,105,327.39</b>	36,315,612.72
<b>Total liabilities</b>	<b>587,364,875.22</b>	496,622,413.02

The notes on pages 89 to 182 form part of these financial statements.

## Company Balance Sheet (Continued)

as at 31 December 2017

(Expressed in Renminbi Yuan)

	2017	2016
<b>Liabilities and shareholders' equity (continued)</b>		
Shareholders' equity		
Share capital	<b>187,340,000.00</b>	140,500,000.00
Capital reserve	<b>531,302,474.16</b>	268,638,774.16
Surplus reserve	<b>32,051,090.62</b>	28,203,412.51
Retained earnings	<b>270,717,070.83</b>	246,513,067.83
Total shareholders' equity	<b>1,021,410,635.61</b>	683,855,254.50
Total liabilities and shareholders' equity	<b>1,608,775,510.83</b>	1,180,477,667.52

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

**Ma Hongfu**

Legal Representative

**Wang Guofu**

The person in charge of  
accounting affairs

**Chen Menggan**

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.



# Consolidated Income Statement

for the year ended 31 December 2017

(Expressed in Renminbi Yuan)

	Note	2017	2016
I. Operating income	VI.31	<b>628,374,037.21</b>	665,823,164.22
II. Less: Operating costs	VI.31	<b>435,408,364.01</b>	440,697,574.50
Taxes and surcharges	VI.32	<b>3,578,501.45</b>	3,693,700.49
Selling and distribution expenses	VI.33	<b>71,556,173.52</b>	53,098,976.50
General and administrative expenses	VI.34	<b>55,208,809.78</b>	62,917,808.70
Financial expenses	VI.35	<b>11,140,062.88</b>	17,809,520.68
Reversal of impairment	VI.36	<b>(799,557.21)</b>	(270,707.95)
Add: Gains/(losses) from changes in fair value	VI.37	<b>8,001,875.88</b>	(15,043,786.45)
Losses from asset disposals	VI.38	<b>(276,141.49)</b>	(158,616.54)
Other income	VI.39	<b>10,786,929.40</b>	–
III. Operating profit		<b>70,794,346.57</b>	72,673,888.31
Add: Non-operating income	VI.40	<b>548,125.75</b>	17,260,755.57
Less: Non-operating expenses	VI.40	<b>286,583.66</b>	790,729.11
IV. Profit before taxation		<b>71,055,888.66</b>	89,143,914.77
Less: Income tax expense	VI.41	<b>2,704,003.49</b>	13,233,335.35
V. Net profit for the year		<b>68,351,885.17</b>	75,910,579.42
Net profit attributable to shareholders of the Company		<b>68,351,885.17</b>	75,910,579.42
VI. Total comprehensive income for the year		<b>68,351,885.17</b>	75,910,579.42
Attributable to:			
Shareholders of the Company		<b>68,351,885.17</b>	75,910,579.42
VII. Earnings per share			
Basic earnings per share	VI.42	<b>0.46</b>	0.54

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

## Ma Hongfu

Legal Representative

## Wang Guofu

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accounting affairs

## Chen Menggan

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.

# Company Income Statement

for the year ended 31 December 2017

(Expressed in Renminbi Yuan)

	Note	2017	2016
I. Operating income	XIII.4	<b>440,812,328.28</b>	462,730,864.62
Less: Operating costs	XIII.4	<b>315,162,803.03</b>	308,181,689.59
Taxes and surcharges		<b>2,277,587.76</b>	2,190,259.53
Selling and distribution expenses		<b>46,163,503.23</b>	35,206,227.44
General and administrative expenses		<b>29,181,235.00</b>	35,847,425.17
Financial expenses		<b>7,908,555.42</b>	13,408,155.58
Reversal of impairment/impairment losses		<b>(273,604.53)</b>	24,574.61
Add: Losses from asset disposals		<b>(78,378.75)</b>	(99,577.96)
Other income		<b>2,056,398.74</b>	–
II. Operating profit		<b>42,370,268.36</b>	67,772,954.74
Add: Non-operating income		<b>36,422.90</b>	7,287,105.86
Less: Non-operating expenses		<b>274,880.76</b>	762,998.72
III. Profit before taxation		<b>42,131,810.50</b>	74,297,061.88
Less: Income tax expense		<b>3,655,029.39</b>	9,467,755.97
IV. Net profit for the year		<b>38,476,781.11</b>	64,829,305.91
V. Total comprehensive income for the year		<b>38,476,781.11</b>	64,829,305.91

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

**Ma Hongfu**

Legal Representative

**Wang Guofu**

The person in charge of  
accounting affairs

**Chen Menggan**

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2017

(Expressed in Renminbi Yuan)

	Note	2017	2016
I. Cash flows from operating activities:			
Proceeds from sale of goods and rendering of services		<b>724,638,501.25</b>	798,196,590.87
Proceeds from other operating activities		<b>14,187,234.39</b>	6,965,415.40
Sub-total of cash inflows		<b>738,825,735.64</b>	805,162,006.27
Payment for goods and services		<b>(423,462,498.87)</b>	(456,870,684.88)
Payment to and for employees		<b>(49,350,895.16)</b>	(48,467,531.34)
Payment of various taxes		<b>(43,823,357.44)</b>	(51,397,804.23)
Payment for other operating activities	VI.43(1)	<b>(90,603,186.32)</b>	(74,238,906.93)
Sub-total of cash outflows		<b>(607,239,937.79)</b>	(630,974,927.38)
Net cash inflow from operating activities	VI.44(1)	<b>131,585,797.85</b>	174,187,078.89
II. Cash flows from investing activities:			
Cash received from government grants		<b>2,054,000.00</b>	7,825,000.00
Repayment of amount lending to a related party and proceeds relating to advances to third parties	VI.4, 14	<b>12,334,536.22</b>	65,237,744.56
Net proceeds from disposal of bearer biological assets		<b>26,613,673.81</b>	17,943,522.49
Net proceeds from disposal of fixed assets		<b>1,396,014.61</b>	421,549.80
Proceeds from other investing activities	VI.43(2)	<b>20,510,675.32</b>	44,658,755.88
Sub-total of cash inflows		<b>62,908,899.96</b>	136,086,572.73
Payment for acquisition of fixed assets, intangible assets and other long-term assets		<b>(49,446,611.71)</b>	(57,609,739.94)
Payment for purchase of biological assets		<b>-</b>	(75,757,180.66)
Payments for breeding cost of bearer biological assets		<b>(23,593,018.06)</b>	(27,295,697.61)
Payments for amount lending to a related party and third parties	VI.4, 14	<b>(800,000.00)</b>	(10,000,000.00)
Payment for other investing activities	VI.43(3)	<b>(24,993,838.13)</b>	-
Sub-total of cash outflows		<b>(98,833,467.90)</b>	(170,662,618.21)
Net cash outflow from investing activities		<b>(35,924,567.94)</b>	(34,576,045.48)

The notes on pages 89 to 182 form part of these financial statements.

## Consolidated Cash Flow Statement (Continued)

for the year ended 31 December 2017

(Expressed in Renminbi Yuan)

	Note	2017	2016
III. Cash flows from financing activities:			
Proceeds from investors		<b>320,926,400.00</b>	–
Proceeds from borrowings		<b>431,380,000.00</b>	320,000,000.00
Sub-total of cash inflows		<b>752,306,400.00</b>	320,000,000.00
Repayments of borrowings		<b>(335,199,956.07)</b>	(384,000,000.00)
Payment for dividends, profit distributions or interest		<b>(31,848,372.57)</b>	(29,060,937.85)
Cash paid relating to finance leases		<b>(4,800,047.83)</b>	(5,943,747.04)
Payment for other financing activities	VI.43(4)	<b>(11,723,265.00)</b>	–
Sub-total of cash outflows		<b>(383,571,641.47)</b>	(419,004,684.89)
Net cash inflow from financing activities		<b>368,734,758.53</b>	(99,004,684.89)
IV. Effect of foreign exchange rate changes on cash and cash equivalents		<b>(851,924.51)</b>	1,043,403.01
V. Net increase in cash and cash equivalents	VI.44(1)	<b>463,544,063.93</b>	41,649,751.53
Add: Cash and cash equivalents at the beginning of the year		<b>273,352,017.83</b>	231,702,266.30
VI. Cash and cash equivalents at the end of the year	VI.44(2)	<b>736,896,081.76</b>	273,352,017.83

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

**Ma Hongfu**

Legal Representative

**Wang Guofu**

The person in charge of  
accounting affairs

**Chen Menggan**

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.

# Company Cash Flow Statement

for the year ended 31 December 2017

(Expressed in Renminbi Yuan)

	2017	2016
I. Cash flows from operating activities:		
Proceeds from sale of goods and rendering of services	<b>578,379,939.50</b>	546,849,672.83
Proceeds from other operating activities	<b>10,905,046.24</b>	4,557,465.14
Sub-total of cash inflows	<b>589,284,985.74</b>	551,407,137.97
Payment for goods and services	<b>(354,868,428.05)</b>	(353,221,301.63)
Payment to and for employees	<b>(28,674,914.30)</b>	(28,867,009.62)
Payment of various taxes	<b>(35,328,324.25)</b>	(36,411,092.77)
Payment for other operating activities	<b>(52,468,150.81)</b>	(48,720,850.85)
Sub-total of cash outflows	<b>(471,339,817.41)</b>	(467,220,254.87)
Net cash inflow from operating activities	<b>117,945,168.33</b>	84,186,883.10
II. Cash flows from investing activities:		
Cash received from government grants	<b>634,000.00</b>	1,790,000.00
Repayment of amount lending to a related party and proceeds relating to advances to third parties	<b>12,334,536.22</b>	65,237,744.56
Net proceeds from disposal of fixed assets	<b>1,355,865.71</b>	22,772.00
Proceeds from other investing activities	<b>15,715,058.90</b>	69,290,356.29
Sub-total of cash inflows	<b>30,039,460.83</b>	136,340,872.85
Payment for acquisition of fixed assets, intangible assets and other long-term assets	<b>(11,949,603.62)</b>	(26,959,271.85)
Payments for amount lending to a related party and third parties	<b>(800,000.00)</b>	(10,000,000.00)
Payment for other investing activities	<b>(24,993,838.13)</b>	(49,000,000.00)
Sub-total of cash outflows	<b>(37,743,441.75)</b>	(85,959,271.85)
Net cash inflow from investing activities	<b>(7,703,980.92)</b>	50,381,601.00

The notes on pages 89 to 182 form part of these financial statements.



## Company Cash Flow Statement (Continued)

for the year ended 31 December 2017

(Expressed in Renminbi Yuan)

	2017	2016
III. Cash flows from financing activities:		
Proceeds from investors	<b>320,926,400.00</b>	–
Proceeds from borrowings	<b>375,380,000.00</b>	230,000,000.00
Sub-total of cash inflows	<b>696,306,400.00</b>	230,000,000.00
Repayments of borrowings	<b>(240,699,956.07)</b>	(308,000,000.00)
Payment for dividends, profit distributions or interest	<b>(26,652,308.38)</b>	(23,931,470.56)
Cash paid relating to finance leases	<b>(4,800,047.83)</b>	(5,943,747.04)
Payment for other financing activities	<b>(11,723,265.00)</b>	–
Sub-total of cash outflows	<b>(283,875,577.28)</b>	(337,875,217.60)
Net cash inflow from financing activities	<b>412,430,822.72</b>	(107,875,217.60)
IV. Effect of foreign exchange rate changes on cash and cash equivalents	<b>(851,924.51)</b>	1,043,403.01
V. Net increase in cash and cash equivalents	<b>521,820,085.62</b>	27,736,669.51
Add: Cash and cash equivalents at the beginning of the year	<b>152,659,036.55</b>	124,922,367.04
VI. Cash and cash equivalents at the end of the year	<b>674,479,122.17</b>	152,659,036.55

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

**Ma Hongfu**

Legal Representative

**Wang Guofu**

The person in charge of  
accounting affairs

**Chen Menggan**

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.

# Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2017

(Expressed in Renminbi Yuan)

	Note	Attributable to shareholders of the Company				Total
		Share capital	Capital reserve	Surplus reserve	Retained earnings	
I.	Balance at the beginning of the year	140,500,000.00	246,127,082.09	28,203,412.51	345,404,214.95	760,234,709.55
II.	Changes in equity during the year					
	1. Total comprehensive income	-	-	-	68,351,885.17	68,351,885.17
	Contribution by ordinary shareholders	46,840,000.00	262,663,700.00	-	-	309,503,700.00
	2. Appropriation of profits					
	(1) Appropriation for surplus reserve	-	-	3,847,678.11	(3,847,678.11)	-
	(2) Distributions to shareholders	-	-	-	(10,425,100.00)	(10,425,100.00)
III.	Balance at the end of the year	187,340,000.00	508,790,782.09	32,051,090.62	399,483,322.01	1,127,665,194.72

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

**Ma Hongfu**

Legal Representative

**Wang Guofu**

The person in charge of  
accounting affairs

**Chen Menggan**

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.

## Consolidated Statement of Changes in Shareholders' Equity (Continued)

for the year ended 31 December 2016

(Expressed in Renminbi Yuan)

	Note	Attributable to shareholders of the Company				Total
		Share capital	Capital reserve	Surplus reserve	Retained earnings	
I.	Balance at the beginning of the year	140,500,000.00	246,127,082.09	21,720,481.92	285,980,166.12	694,327,730.13
II.	Changes in equity during the year					
	1. Total comprehensive income	-	-	-	75,910,579.42	75,910,579.42
	2. Appropriation of profits	VI.30				
	(1) Appropriation for surplus reserve	-	-	6,482,930.59	(6,482,930.59)	-
	(2) Distributions to shareholders	-	-	-	(10,003,600.00)	(10,003,600.00)
III.	Balance at the end of the year	140,500,000.00	246,127,082.09	28,203,412.51	345,404,214.95	760,234,709.55

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

### Ma Hongfu

Legal Representative

### Wang Guofu

The person in charge of  
accounting affairs

### Chen Menggan

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.

# Company Statement of Changes in Shareholders' Equity

for the year ended 31 December 2017

(Expressed in Renminbi Yuan)

	Note	Attributable to shareholders of the Company				Total
		Share capital	Capital reserve	Surplus reserve	Retained earnings	
I.	Balance at the beginning of the year	140,500,000.00	268,638,774.16	28,203,412.51	246,513,067.83	683,855,254.50
II.	Changes in equity during the year					
	1. Total comprehensive income	-	-	-	38,476,781.11	38,476,781.11
	Contribution by ordinary shareholders	46,840,000.00	262,663,700.00	-	-	309,503,700.00
	2. Appropriation of profits					
	(1) Appropriation for surplus reserve	-	-	3,847,678.11	(3,847,678.11)	-
	(2) Distributions to shareholders	-	-	-	(10,425,100.00)	(10,425,100.00)
III.	Balance at the end of the year	187,340,000.00	531,302,474.16	32,051,090.62	270,717,070.83	1,021,410,635.61

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

**Ma Hongfu**

Legal Representative

**Wang Guofu**

The person in charge of  
accounting affairs

**Chen Menggan**

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.

## Company Statement of Changes in Shareholders' Equity (Continued)

for the year ended 31 December 2016

(Expressed in Renminbi Yuan)

	Note	Attributable to shareholders of the Company				Total
		Share capital	Capital reserve	Surplus reserve	Retained earnings	
I.	Balance at the beginning of the year	140,500,000.00	268,638,774.16	21,720,481.92	198,170,292.51	629,029,548.59
II.	Changes in equity during the year					
	1. Total comprehensive income	-	-	-	64,829,305.91	64,829,305.91
	2. Appropriation of profits	VI.30				
	(1) Appropriation for surplus reserve	-	-	6,482,930.59	(6,482,930.59)	-
	(2) Distributions to shareholders	-	-	-	(10,003,600.00)	(10,003,600.00)
III.	Balance at the end of the year	140,500,000.00	268,638,774.16	28,203,412.51	246,513,067.83	683,855,254.50

These financial statements were approved by the Board of Directors of the Company on 28 March 2018.

### Ma Hongfu

Legal Representative

### Wang Guofu

The person in charge of accounting affairs

### Chen Menggan

The head of the accounting department

The notes on pages 89 to 182 form part of these financial statements.



# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## I. COMPANY STATUS

Lanzhou Zhuangyuan Pasture Co., Ltd. (the “Company”) was incorporated in Gansu, Lanzhou, PRC on 25 April 2000. On 19 April 2011, the Company was converted into a joint stock company. The registered address is located in Sanjiaocheng Village, Sanjiaocheng Town, Yuzhong Country. The legal representative is Ma Hongfu and the operating cycle is from 25 April 2000 to 24 April 2050.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15 October 2015, and listed on the SME Board of Shenzhen Stock Exchange on 31 October 2017. The Company and its subsidiaries (collectively referred to as the “Group”) are primarily involved in manufacturing and selling dairy products and breeding dairy cows.

The ultimate controller of the Company is Mr. Ma Hongfu, a natural person.

The consolidation scope has no changed during the year.

## II. BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1 Statement of compliance

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises or referred to as China Accounting Standards (“CAS”) issued by the Ministry of Finance (“MOF”). These financial statements present truly and completely the consolidated financial position and financial position of the Company as at 31 December 2017, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended.

These financial statements also comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports” as revised by the China Securities Regulatory Commission (“CSRC”) in 2014. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Covering the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2 Accounting period

The accounting period is from 1 January to 31 December.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 3 Operating cycle

The Company takes the period from the acquisition of assets for processing to until the ultimate realisation of cash or cash equivalents as a normal operating cycle. The operating cycle of the Company is 12 months and the Company regards it as the mobility dividing standards of assets and liabilities.

#### 4 Functional currency

The Company's functional currency is Renminbi and these financial statements are presented in Renminbi. Functional currency is determined by the Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled.

#### 5 Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. Control exists when the investor has all of following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. The financial position, financial performance and cash flows of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' share of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily withdrawn on demand, and short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

#### 7 Foreign currency transactions

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss, unless they arise from the re-translation of the principal and interest of specific borrowings for the acquisition, and construction or production of qualifying assets. Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of available-for-sale financial assets, which are recognised in other comprehensive income.

#### 8 Financial instruments

Financial instruments include cash at bank and on hand, investments in equity securities other than those classified as long-term equity investments (see Note III.11), receivables, payables, loans and borrowings and share capital.

##### (1) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. During the year, the Group held receivables, available-for-sale financial assets and other financial liabilities.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 8 Financial instruments (Continued)

##### (1) Recognition and measurement of financial assets and financial liabilities (Continued)

Financial assets and financial liabilities are measured initially at fair value. For receivables, available-for-sale financial assets and other financial liabilities, any related directly attributable transaction costs are included in their initial costs. Subsequent to initial recognition, financial assets and liabilities are measured as follows:

– *Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method.

– *Available-for-sale financial assets*

Available-for-sale investments in equity instruments whose fair value cannot be measured reliably are measured at cost subsequent to initial recognition. Dividend income is recognised in profit or loss when the investee approves the dividends.

– *Other financial liabilities*

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Other financial liabilities are measured at amortised cost using the effective interest method.

##### (2) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- the Group currently has a legally enforceable right to set off the recognised amounts;
- the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 8 Financial instruments (Continued)

##### (3) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when one of the following conditions is met:

- the Group's contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or
- the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is discharged or cancelled or expires.

##### (4) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 8 Financial instruments *(Continued)*

##### (4) Impairment of financial assets *(Continued)*

Objective evidence that a financial asset is impaired includes but is not limited to:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (d) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;
- (e) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of an investment in an equity instrument may not be recovered by the investor;
- (f) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

For the calculation method of impairment of receivables, refer to Note III.9. The impairment of available-for-sale financial assets is measured as follows:

Available-for-sale financial assets are assessed for impairment on an individual basis and on a collective group basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from a decline in fair value that has been recognised directly in shareholders' equity is reclassified to profit or loss even though the financial asset has not been derecognised.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. The impairment loss on an investment in an unquoted equity instrument whose fair value cannot be reliably measured is not reversed.

##### (5) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 9 Impairment of receivables

Receivables are assessed for impairment on an individual basis and on a collective group basis as follows.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those not having been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting current economic conditions.

If, after an impairment loss has been recognised on receivables, there is a recovery in the value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding what the amortised cost would have been had no impairment loss been recognised in prior years at the date the impairment is reversed.

#### (a) Receivables that are individually significant and assessed individually for impairment:

Judgement basis or criteria for receivables that are individually significant

Receivables individually greater than RMB500 thousand are significant.

Method of provisioning for bad and doubtful debts for receivables that are individually significant and assessed individually

The Group shall assess the asset individually for impairment and recognize the amount of impairment in profit or loss if there is objective evidence of impairment. An impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows. If no objective evidence of impairment exists, it shall include the asset in the ageing group and recognize the impairment loss with ageing method.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 9 Impairment of receivables (Continued)

##### (b) Receivables that are individually insignificant but assessed individually for impairment:

Reasons for assessing individually for impairment of receivables that are individually insignificant      Evidence shows the receivables are difficult or have special risk to recover.

Method of provisioning for bad and doubtful debts      The Group shall assess the asset individually for impairment and recognize the amount of impairment in profit or loss if there is objective evidence of impairment. An impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows. If no objective evidence of impairment exists, it shall include the asset in the ageing group and recognize the impairment loss with ageing method.

##### (c) Receivables that are collectively assessed for impairment based on credit risk characteristics:

Receivables that have not been individually assessed as impaired in the assessments in (a) and (b) above, are included in the collective assessment of impairment for receivables sharing similar credit risk characteristics.

Method of provisioning for receivables with similar credit risk characteristics that are collectively assessed for impairment (ageing analysis method, percentage of balance method and other methods)

Related Parties Group      The Group recognize no impairment loss for Related Parties Group as the credit risks assessed as low for the year.

Ageing Group      ageing analysis method

The provisioning for groups of receivables using the ageing analysis method:

<b>Ageing</b>	<b>Provision as a percentage of accounts receivable (%)</b>	<b>Provision as a percentage of other receivables (%)</b>
	<b>Ageing Group</b>	<b>Ageing Group</b>
Within 1 year (inclusive)		
Including:		
Within 6 months	—	—
Over 6 months but within 12 months	5%	5%
Over 1 year but within 2 years (inclusive)	20%	20%
Over 2 years but within 3 years (inclusive)	50%	50%
Over 3 years	100%	100%

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 10 Inventories

Inventories include raw materials, finished goods and consumable biological assets.

##### (1) Consumable biological assets

Consumable biological assets held by the Group comprise male calves available for sale. Consumable biological assets are measured at their fair values less costs to sell at the end of the year. Any resultant gain or loss arising from changes in fair value less costs to sell is charged to the profit or loss for the period in which the gain or loss arises.

##### (2) Other inventories

Other inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditure incurred in bringing the inventories to their present location and condition. Borrowing costs directly related to the production of qualifying inventories are also included in the cost of inventories (see Note III.14). In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

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

Cost of inventories recognised is calculated using the weighted average method.

At the balance sheet date, inventories are carried at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The net realisable value of materials held for use in the production is measured based on the net realisable value of the finished goods in which they will be incorporated. The net realisable value of the inventory held to satisfy sales or service contracts is measured based on the contract price, to the extent of the quantities specified in sales contracts, and the excess portion of inventories is measured based on general selling prices.

Any excess of the cost over the net realisable value of each category of inventories is recognised as a provision for obsolete inventories, and is recognised in profit or loss.

The Group maintains a perpetual inventory system.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 11 Long-term equity investments

##### (1) Investment cost of long-term equity investments

When the Group set up a subsidiary, the long-term equity investment is initially recognised at the amount of cash paid if the Group acquires the investment by cash.

##### (2) Subsequent measurement of long-term equity investment

For investments in subsidiaries, in the Company's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method for subsequent measurement unless the investment is classified as held for sale. Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current period.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses.

For the impairment of the investments in subsidiaries, refer to Note III.18.

In the Group's consolidated financial statements, subsidiaries are accounted for in accordance with the policies described in Note III.5.

#### 12 Fixed assets

##### (1) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Group for use in production of goods or for administrative purposes with useful lives over one accounting year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets is measured in accordance with the policy set out in Note III.13.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Group in a different pattern, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 12 Fixed assets (Continued)

##### (2) Depreciation of fixed assets

The cost of a fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life.

The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

Class	Estimated useful life (years)	Residual value rate (%)	Depreciation rate (%)
Plant and buildings	30 years	3%	3.23%
Machinery and equipment	5–10 years	5%	9.50% – 19.00%
Motor vehicles	4 years	5%	23.75%
Other equipment	5 years	5%	19.00%

Useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

(3) For the impairment of the fixed assets, refer to Note III.18.

(4) For the recognition, measurement and depreciation of fixed assets acquired under finance leases, refer to Note III.25(2).

##### (5) Disposal of fixed assets

The carrying amount of a fixed asset is derecognised:

- when the fixed asset is holding for disposal; or
- when no future economic benefit is expected to be generated from its use or disposal.

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

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 13 Construction in progress

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note III.14), and any other costs directly attributable to bringing the asset to working condition for its intended use.

A self-constructed asset is classified as construction in progress and transferred to fixed asset when it is ready for its intended use. No depreciation is provided against construction in progress.

Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note III.18).

#### 14 Borrowing costs

Borrowing costs incurred directly attributable to the acquisition construction or production of a qualifying asset are capitalised as part of the cost of the asset. Other borrowing costs are recognised as financial expenses when incurred.

During the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

- Where funds are borrowed specifically for the acquisition construction or production of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.
- To the extent that the Group borrows funds generally and uses them for the acquisition construction or production of a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the initially recognised amount of the borrowings.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition construction or production that are necessary to prepare the asset for its intended use or sale are in progress, and ceases when the assets become ready for their intended use or sale. Capitalisation of borrowing costs is suspended when the acquisition construction or production activities are interrupted abnormally for a period of more than three months.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 15 Bearer biological assets

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

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

The feeding costs and other related costs such as staff costs, depreciation and amortisation expenses and utilities cost incurred for raising calves and heifers are capitalised until they begin to produce milk and transfer to the group of milkable cows. Such costs incurred for milkable cows are also capitalised while upon milking, the costs incurred to bring the raw milk are transferred to inventories (see Note III.10).

#### 16 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note III.18). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

Item	Amortisation period (years)
Land Use Right	47-50 years
Computer Software	10 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the balance sheet date, the Group does not have any intangible assets with indefinite useful lives.

#### 17 Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the benefit period. Long-term deferred expenses of the Group primarily represent the payments made on the acquisitions of the lands held under operating leases for dairy farms, with a amortization period of 3 years.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 18 Impairment of assets other than inventories and financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- long-term equity investments
- long-term deferred expenses and other non-current assets.

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of intangible assets not ready for use at least annually and the recoverable amounts of intangible assets with indefinite useful lives at each year-end, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value (see Note III.19) less costs to sell and its present value of expected future cash flows.

An asset group is composed of assets directly related to cash-generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 19 Fair value measurement

Unless otherwise specified, the Group measures fair value as follows:

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.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

#### 20 Provisions

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 21 Revenue recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following conditions are met:

##### (1) Sale of goods

Revenue is recognised when the general conditions stated above and the following conditions are satisfied:

- Significant risks and rewards of ownership of goods have been transferred to the buyer;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

The Group adopt three different sales channels, namely direct sales, sales agents and distributors. The Group are responsible for arranging delivery of products to the locations designated by the direct sales customers through third party logistic operators for direct sales model. The Group recognise revenue when the goods are delivered to our direct sales customers. Sales agents are responsible for arranging delivery of the products for sales agent model (adopted primarily in Lanzhou and Xi'ning). The sales agents are responsible for damages in transit. When sales agents collect goods from the warehouses, the Group recognise revenue at this point. For distributors model (adopted primarily outside Lanzhou and Xi'ning), when the Group are responsible for arranging delivery of products, the Group recognise revenue when the goods are delivered to these distributors; when the distributors are responsible for arranging delivery on their own and damages to products caused in transit, the Group recognise revenue when distributors collect goods from the warehouses. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable under the sales contract or agreement.

##### (2) Rendering of services

Revenue is measured at the fair value of the consideration received or receivable under the contract or agreement.

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the stage of completion based on the proportion of costs incurred to date to the estimated total costs.

Where the outcome cannot be estimated reliably, revenues are recognised to the extent of the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; otherwise, the costs incurred are recognised in profit or loss and no service revenue is recognised.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 21 Revenue recognition (Continued)

##### (3) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

#### 22 Employee benefits

##### (1) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accrued at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

##### (2) Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the People's Republic of China, the Group participated in a defined contribution basic pension insurance plan in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions payable are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or include in the cost of assets where appropriate.

##### (3) Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 23 Government grants

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Group except for capital contributions from the government in the capacity as an investor in the Group.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets.

A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as profit or loss (as non-operating income before 1 January 2017 and other income or non-operating income after 1 January 2017).

Government grants related to income to the group include interest subsidies for policy-related preferential loans and other government grants related to income. Except for interest subsidies for policy-related preferential loans, a grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in profit or loss (included in non-operating income before 1 January 2017 and non-operating income or other income after 1 January 2017) in the periods in which the expenses or losses are recognised. Or included in profit or loss (included in non-operating income before 1 January 2017 and non-operating income or other income after 1 January 2017) directly.

The interest subsidies obtained by the Group are appropriated directly by the government to the Group to compensate the incurred interest expense. The interest subsidies obtained before 1 January 2017 is included in non-operating income and offset against related interest expense after 1 January 2017.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 24 Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible tax losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the reporting date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;
- they relate to income taxes levied by the same tax authority on either: the same taxable entity; or different taxable entities which intend either to settle the current tax liabilities and current tax 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 deferred tax assets are expected to be settled or recovered.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 25 Operating leases and finance leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

##### (1) Operating lease charges

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term. Contingent rental payments are expensed as incurred.

##### (2) Assets acquired under finance leases

When the Group acquires an asset under a finance lease, the asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, each determined at the inception of the lease. At the commencement of the lease term, the minimum lease payments are recorded as long-term payables. The difference between the carrying amounts of the leased assets and the minimum lease payments is accounted for as unrecognised finance charges. Initial direct costs attributable to a finance lease that are incurred by the Group are added to the carrying amount of the leased asset. Depreciation and impairment losses are accounted for in accordance with the accounting policies described in Notes III.12(2) and III.18, respectively.

If there is reasonable certainty that the Group will obtain ownership of a leased asset at the end of the lease term, the leased asset is depreciated over its estimated useful life. Otherwise, the leased asset is depreciated over the shorter of the lease term and its estimated useful life.

Unrecognised finance charges arising from a finance lease are recognised using an effective interest method over the lease term. The amortisation is accounted for in accordance with the principles of borrowing costs (see Note III.14).

At the balance sheet date, the long-term payables arising from finance leases, net of the unrecognised finance charges, are analysed and separately presented as long-term payables or non-current liabilities due within one year.

Contingent lease payments are expensed as incurred.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 26 Assets held for sale

The Group classified a non-current asset or disposal group as held for sale when the carrying amount of a non-current asset or disposal group will be recovered through a sale transaction rather than through continuing use.

A disposal group refers to a group of assets to be disposed of, by sale or otherwise, together as a whole in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

A non-current asset or disposal group is classified as held for sale when all the following criterias are met:

- According to the customary practices of selling such asset or disposal group in similar transactions, the non-current asset or disposal group must be available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups;
- Its sale is highly probable, that is, the Group has made a resolution on a sale plan and has obtained a firm purchase commitment. The sale is to be completed within one year.

Non-current assets or disposal groups held for sale are stated at the lower of carrying amount and fair value (see Note III.19) less costs to sell (except financial assets (see Note III.8), deferred tax assets (see Note III.24)) initially and subsequently. Any excess of the carrying amount over the fair value (see Note III.19) less costs to sell is recognised as an impairment loss in profit or loss.

#### 27 Dividends distributions

Dividends or profit distributions proposed in the profit appropriation plan, which will be approved after the balance sheet date, are not recognised as a liability at the balance sheet date but are disclosed in the notes separately.

#### 28 Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Company determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 29 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.

#### 30 Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Except for accounting estimates relating to depreciation and amortisation of assets such as fixed assets, intangible assets and long-term deferred expenses (see Notes III 12, 16 and 17), fair value of biological assets (see Note III 15 and Note VIII) and provision for impairment of various types of assets (see Notes VI.2, 4 and Notes XIII 1, 2) and recognition of deferred tax assets (see Note VI.13), no other significant accounting estimates.

#### 31 Changes in significant accounting policies

##### (1) Changes in accounting policies

###### *(a) Description and reasons of changes in accounting policies*

The MOF issued the Accounting Standards for Business Enterprises No. 42 – Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations ("CAS 42") and the revised Accounting Standards for Business Enterprises No. 16 – Government Grants ("CAS 16 (2017)") respectively in April and May 2017. The effective dates of CAS 42 and CAS 16 (2017) are 28 May 2017 and 12 June 2017 respectively.

The significant accounting policies after adopting the above accounting standards are summarised in Note III.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 31 Changes in significant accounting policies (Continued)

##### (1) Changes in accounting policies (Continued)

###### (a) Description and reasons of changes in accounting policies (Continued)

In addition, the MOF issued the “Notice on Revision of the Illustrative Financial Statements” (Caikuai [2017] No.30) in December 2017. The Group has prepared financial statements for the year ended 31 December 2017 in accordance with this document.

Impacts of the adoption of the above accounting standards and regulation are as follows:

###### (i) Held for sale

Pursuant to the requirements of CAS 42 relating to the classification, measurement and presentation of non-current assets held for sale, the Group has revisited the existing non-current assets held for sale as of 28 May 2017, and applied the related accounting policies prospectively. The adoption of CAS 42 has no material effect on the financial position and financial performance of the Group.

###### (ii) Government grants

Pursuant to CAS 16 (2017), the Group has revisited the existing government grants as of 1 January 2017, and applied the related accounting policies prospectively.

The impact of adoption of CAS 16 (2017) is as follows:

- The amortisation of the deferred income for a government grant related to an asset which is previously recognised as non-operating income is reclassified as non-operating income or other income in the income statement.
- A government grant related to income previously recognised as non-operating income is reclassified as non-operating income or other income in the income statement.
- The Group has changed its accounting policies related to the interest subsidy for policy-related preferential loans under CAS 16 (2017). The interest subsidy directly appropriated to the Group by the government which is previously recognised as non-operating income is offset against the relevant loan expenses.

The adoption of CAS 16 (2017) has no material effect on the financial position and financial performance of the Group.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 31 Changes in significant accounting policies *(Continued)*

##### (1) Changes in accounting policies *(Continued)*

###### (a) *Description and reasons of changes in accounting policies (Continued)*

###### (iii) Gains from asset disposals

The Group has prepared financial statements for the year ended 31 December 2017 in accordance with Caikuai [2017] No.30. Comparative figures have been adjusted retrospectively.

According to Caikuai [2017] No.30, the Group has added a separate line item “Gains from asset disposals” in the income statement. Gains or losses from disposals of non-current assets (excluding financial instruments, long-term equity investment and investment properties) or disposal groups classified as held for sale, and gains or losses from disposals of fixed assets, construction in progress, bearer biological assets and intangible assets not classified as held for sale are included in this item. The above gains or losses were previously presented in “Non-operating income” or “Non-operating expenses”.

The adoption of Caikuai [2017] No.30 has no material effect on the financial position and financial performance of the Group.

###### (b) *Effect of changes in accounting policies on the current year financial statements*

The following tables provide estimates of the impact on each of the line items in the consolidated income statement and income statement, and the consolidated balance sheet and balance sheet for the year ended 31 December 2017 had the previous policies still been applied in the year.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 31 Changes in significant accounting policies (Continued)

##### (1) Changes in accounting policies (Continued)

(b) Effect of changes in accounting policies on the current year financial statements (Continued)

- The effects on each of the line items in the 2017 consolidated income statement and income statement are analysed as follows:

	Effect of new policy increase/ (decrease) in the line items for the year	
	The Group	The Company
Financial income	8,602,400.00	8,602,400.00
Losses from asset disposals	(276,141.49)	(78,378.75)
Other income	10,786,929.40	2,056,398.74
Non-operating income	(19,687,703.19)	(10,658,798.74)
Non-operating expenses	574,515.28	78,378.75
Profit before income tax	–	–

Such changes in accounting policies have no impacts on profit before income tax, net profit, other comprehensive income, total comprehensive income and comprehensive income attributable to the Company's shareholders.

- No effects on each of the line items in the consolidated balance sheet and balance sheet for the year ended 31 December 2017.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. TAXATION

#### 1 Main types of taxes and corresponding tax rates

Tax type	Tax basis	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	17%/13%/11%
Business tax	Based on taxable revenue before 1 May 2016. According to Caishui [2016] No. 36, jointly issued by MOF and the State Administration of Taxation, all taxpayers subject to business tax in China are included in the scope of the VAT pilot scheme. Effective from 1 May 2016, those taxpayers are required to pay VAT in lieu of business tax.	5%
City maintenance and construction tax	Based on business tax and VAT paid	7%/5%/1%
Additional education fee	Based on business tax and VAT paid	3%/2%
Corporate income tax	Based on taxable profits	25%

The income tax rate applicable to the Company and each of its subsidiaries for the year is 25%. As for tax preferences applicable to Group, please see Note IV.2.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. TAXATION (Continued)

#### 2 Tax preferences

##### (1) VAT preferences

- (a) During the year, the wholly-owned subsidiaries of the Company, Qinghai Shengya Plateau Pasture Co., Ltd., Qinghai Shengyuan Pasture Co., Ltd., Linxia County Ruiyuan Pasture Co., Ltd., Lanzhou Ruixing Farming Co., Ltd., are exempted from VAT for dairy cows breeding in accordance with Article 15 of the Provisional Regulations of the People's Republic of China on Value-added Tax.
- (b) During the year, the wholly-owned subsidiaries of the Company, Yuzhong Ruifeng Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Ningxia Zhuangyuan Pasture Co., Ltd., are exempted from VAT for sales of feed in accordance with Article 15 of the Provisional Regulations of the People's Republic of China on Value-added Tax.

##### (2) Corporate income tax preferences

- (a) In accordance with Article 27, Paragraph 1 of Corporate Income Tax Law of the People's Republic of China, Article 86, Paragraph 1 (7) of Implementation Regulations for the Corporate Income Tax Law of the People's Republic of China and Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Corporate Income Tax (for Trial Implementation) No.149 [2008] issued by the Ministry of Finance, the Company is exempted from the enterprise income tax for initial processing of dairy products, which include pasteurised milk and UHT milk, during the year.
- (b) In accordance with Article 2 of Announcement of the Ministry of Finance, the General Administration of Customs, the State Administration of Taxation on Issues Concerning Corporate Income Tax Related to Enhancing the Western Region Development Strategy (Caishui [2011] 58), the Company and its wholly-owned subsidiary Qinghai Qinghaihu Dairy Co., Ltd are entitled to a reduced corporate income tax rate of 15%.
- (c) In accordance with Article 27 (1) of Regulation on the Implementation of the Corporate Income Tax Law of the People's Republic of China, the wholly-owned subsidiaries of the Company, Qinghai Shengya Plateau Pasture Co., Ltd., Qinghai Shengyuan Pasture Co., Ltd., Yuzhong Ruifeng Pasture Co., Ltd., Linxia County Ruiyuan Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Ningxia Zhuangyuan Pasture Co., Ltd., and Lanzhou Ruixing Farming Co., Ltd. are exempted from corporate tax.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### V. CONSOLIDATED FINANCIAL STATEMENTS Detail of subsidiaries

Expressed in RMB'0000 Yuan

Name of the Subsidiary	Type	Registration place	Business nature	Registered capital	Business scope	Actual capital contribution as at 31 December 2017	Shareholding percentage (%)	Voting rights proportion (%)	Whether consolidation or not	Non-controlling interests	Non-profit of non-controlling interests
Qinghai Qinghaihu Dairy Co., Ltd. (Qinghaihu Dairy)	Wholly-owned	No.16, Dongxin Road, High-tech Development Zone, Xining, Qinghai	Dairy products production	3,000.00	Dairy products production and sale	3,000.00	100	100	Yes	N/A	N/A
Qinghai Shengyuan Plateau Pasture Co., Ltd. (Qinghai Shengyuan)	Wholly-owned	Chihai Village, Dahua Town, Huangyuan County, Xining, Qinghai	Dairy farming	3,000.00	Dairy farming	3,000.00	100	100	Yes	N/A	N/A
Qinghai Shengya Plateau Pasture Co., Ltd. (Qinghai Shengya)	Wholly-owned	Tianjiazhai New Village, Huangzhong County, Xining, Qinghai	Dairy farming	3,000.00	Dairy farming	3,000.00	100	100	Yes	N/A	N/A
Yuzhong Ruiteng Pasture Co., Ltd. (Yuzhong Ruiteng)	Wholly-owned	Shuangtiansi Village, Sanjiaocheng Town, Yuzhong County, Lanzhou, Gansu	Dairy farming	2,000.00	Dairy farming	2,000.00	100	100	Yes	N/A	N/A
Linxia County Ruiyuan Pasture Co., Ltd. (Linxia Ruiyuan)	Wholly-owned	Zhupan Village, Baiyuan Town, Ningxia County, Gansu	Dairy farming	3,000.00	Dairy farming	3,000.00	100	100	Yes	N/A	N/A

## V. CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Detail of subsidiaries (Continued)

Expressed in RMB'0000 Yuan

Name of the Subsidiary	Type	Registration place	Business nature	Registered capital	Business scope	Actual capital contribution as at 31 December 2017	Shareholding percentage (%)	Voting rights proportion (%)	Whether consolidation or not	Non-controlling interests	Non-profit of non-controlling interests
Linxia County Ruian Pasture Co., Ltd. (Linxia Ruian)	Wholly-owned	Shilou Village, Anjiapo Town, Ningxia County, Gansu	Dairy farming	2,000.00	Dairy farming	2,000.00	100	100	Yes	N/A	N/A
Wuwei Ruida Pasture Co., Ltd. (Wuwei Ruida)	Wholly-owned	Zhongzhuang Village, Heping Town, Liangzhou Zone, Wuwei, Gansu	Dairy farming	2,000.00	Dairy farming	2,000.00	100	100	Yes	N/A	N/A
Ningxia Zhuangyuan Pasture Co., Ltd. (Ningxia Zhuangyuan)	Wholly-owned	Nainiu Hexin Zone, Jinyintan Town, Tongli District, Wuzhong, Ningxia	Dairy farming	2,000.00	Dairy farming	2,000.00	100	100	Yes	N/A	N/A
Lanzhou Ruixing Farming Co., Ltd. (Lanzhou Ruixing)	Wholly-owned	Lujiaowan Village, Shiping Industrial Zone, Yongdeng County, Lanzhou, Gansu	Dairy farming	1,000.00	Dairy farming	1,000.00	100	100	Yes	N/A	N/A

There was no change in scope of consolidation for consolidated financial statements of the Company during the year.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1 Cash at bank and on hand

Item	2017	2016
Cash on hand	11,463.37	43,464.76
Deposits with banks	736,884,618.39	273,308,553.07
Other monetary funds	10,746,290.99	4,000,000.00
Total	747,642,372.75	277,352,017.83
Including: Total overseas deposits	9,995,244.85	16,059,165.53

Other monetary funds are pledged deposits with restriction of use.

As of the end of the year, details of the pledged deposits of the Group are as follows:

Item	2017	2016
Deposits of bank acceptance bills	10,746,290.99	4,000,000.00
Total	10,746,290.99	4,000,000.00



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 2 Accounts receivable

(1) Accounts receivable by customer type are as follows:

Type	2017	2016
Accounts receivable due from related party	650,000.00	–
Accounts receivable due from non-related parties	23,850,770.26	14,149,573.56
Sub-total	24,500,770.26	14,149,573.56
Less: Provision for bad and doubtful debts	(97,704.41)	(113,391.08)
Total	24,403,065.85	14,036,182.48

(2) The ageing analysis of accounts receivable is as follows:

Ageing	2017	2016
Within 1 year (inclusive)	24,327,754.92	13,986,050.75
Over 1 year but within 2 years (inclusive)	173,015.34	71,861.61
Over 2 years but within 3 years (inclusive)	–	30,982.74
Over 3 years	–	60,678.46
Sub-total	24,500,770.26	14,149,573.56
Less: Provision for bad and doubtful debts	(97,704.41)	(113,391.08)
Total	24,403,065.85	14,036,182.48

The ageing is counted starting from the date when accounts receivable are recognised.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 2 Accounts receivable (Continued)

##### (3) Accounts receivable by category

Category	Note	2017				Carrying amount	2016				Carrying amount
		Book value		Provision for bad and doubtful debts			Book value		Provision for bad and doubtful debts		
		Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Individually significant and assessed for impairment individually	(a)	-	0%	-	0%	-	-	0%	-	0%	-
Collectively assessed for impairment based on credit risk characteristics*	(b)										
Related Parties Group		650,000.00	3%	-	0%	650,000.00	-	0%	-	0%	-
Ageing Group		23,850,770.26	97%	(97,704.41)	0.4%	23,753,065.85	14,149,573.56	100%	(113,391.08)	1%	14,036,182.48
Sub-total		24,500,770.26	100%	(97,704.41)	0.4%	24,403,065.85	14,149,573.56	100%	(113,391.08)	1%	14,036,182.48
Individually insignificant but assessed for impairment individually		-	0%	-	0%	-	-	0%	-	0%	-
Total		24,500,770.26	100%	(97,704.41)	0.4%	24,403,065.85	14,149,573.56	100%	(113,391.08)	1%	14,036,182.48

Note\*: This category includes accounts receivable having been individually assessed but not impaired.

- (a) No provision for bad and doubtful debts for accounts receivable which are individually significant and assessed for impairment individually.
- (b) Accounts receivable which are collectively assessed for impairment using the ageing analysis method at the end of the year:

Ageing	Book value	Provision for bad and doubtful debts	Percentage
Within 1 year			
Including: within 6 months	22,415,728.05	-	0%
7 to 12 months	1,262,026.87	(63,101.34)	5%
Sub-total	23,677,754.92	(63,101.34)	0.3%
Over 1 year but within 2 years	173,015.34	(34,603.07)	20%
Total	23,850,770.26	(97,704.41)	0.4%

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 2 Accounts receivable (Continued)

(4) Additions, recoveries or reversals of provision for bad and doubtful debts during the year:

	Note	2017	2016
Balance at the beginning of the year		113,391.08	667,730.72
Additions during the year		80,452.10	170,667.66
Recoveries or reversals during the year	(a)	(96,138.77)	(317,697.83)
Written-off during the year	(b)	–	(407,309.47)
Balance at the end of the year		97,704.41	113,391.08

(a) No significant recoveries or reversals of provision for bad debts and doubtful debts of accounts receivable which are fully or substantially impaired during the year.

(b) No accounts receivable which are individually significant are written off during the year.

(5) Five largest accounts receivable by debtor at the end of the year

	Relationship with the Group	Amount	Ageing	Proportion of the total ending balance of accounts receivable
Client 1	Third party	2,459,185.78	Within 1 year	10%
Client 2	Third party	2,227,859.38	Within 1 year	9%
Client 3	Third party	964,493.56	Within 1 year	4%
Client 4	Third party	891,061.80	Within 1 year	4%
Client 5	Third party	733,675.98	Within 1 year	3%
Total		7,276,276.50		30%

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 3 Prepayments

(1) Prepayments by category:

Item	2017	2016
Prepayments for raw material of producing dairy products	4,612,040.82	6,296,334.32
Prepayments for equipment accessories	753,901.69	90,643.77
Others	765,907.51	2,251,107.55
Total	6,131,850.02	8,638,085.64

(2) The ageing analysis of prepayments is as follows:

Ageing	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (inclusive)	5,689,626.38	93%	7,139,243.31	83%
Over 1 year but within 2 years (inclusive)	442,223.64	7%	1,197,630.80	14%
Over 2 years but within 3 years (inclusive)	-	0%	32,159.16	0%
Over 3 years	-	0%	269,052.37	3%
Total	6,131,850.02	100%	8,638,085.64	100%

The ageing is counted starting from the date when prepayments are recognised.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 3 Prepayments (Continued)

##### (3) Five largest prepayments by debtor at the end of the year

	Relationship with the Group	Amount	Ageing	Proportion of the total ending balance of prepayments (%)
Supplier 1	Third party	3,152,507.26	Within 1 year	51%
Supplier 2	Third party	753,901.69	Within 1 year	12%
Supplier 3	Third party	239,048.00	Within 1 year	4%
Supplier 4	Third party	215,617.75	Within 1 year	4%
Supplier 5	Third party	209,310.01	Within 1 year	3%
Total		4,570,384.71		74%

#### 4 Other receivables

##### (1) Other receivables by customer type are as follows:

Customer Type	2017	2016
Other receivables due from non-related parties	14,112,840.96	10,065,547.24
Sub-total	14,112,840.96	10,065,547.24
Less: Provision for bad and doubtful debts	(822,542.94)	(1,606,413.48)
Total	13,290,298.02	8,459,133.76



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 4 Other receivables (Continued)

(2) The ageing analysis of other receivables is as follows:

Ageing	2017	2016
Within 1 year (inclusive)	13,170,036.67	6,932,314.28
Over 1 year but within 2 years (inclusive)	137,971.20	1,816,598.85
Over 2 years but within 3 years (inclusive)	57,900.00	195,597.28
Over 3 years	746,933.09	1,121,036.83
Sub-total	14,112,840.96	10,065,547.24
Less: Provision for bad and doubtful debts	(822,542.94)	(1,606,413.48)
Total	13,290,298.02	8,459,133.76

The ageing is counted starting from the date when other receivable are recognised.

#### (3) Other receivables by category

Category	Note	2017				2016					
		Book value		Provision for bad and doubtful debts		Book value		Provision for bad and doubtful debts		Carrying amount	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)		
Individually significant and assessed for impairment individually	(a)	-	0%	-	0%	-	0%	-	0%	-	
Collectively assessed for impairment based on credit risk characteristics* Ageing Group	(b)	13,123,019.51	93%	(184,873.29)	1%	12,938,146.22	8,956,211.74	89%	(578,791.99)	6%	8,377,419.75
Sub-total		13,123,019.51	93%	(184,873.29)	1%	12,938,146.22	8,956,211.74	89%	(578,791.99)	6%	8,377,419.75
Individually insignificant but assessed for impairment individually		989,821.45	7%	(637,669.65)	64%	352,151.80	1,109,335.50	11%	(1,027,621.49)	93%	81,714.01
Total		14,112,840.96	100%	(822,542.94)	6%	13,290,298.02	10,065,547.24	100%	(1,606,413.48)	16%	8,459,133.76

Note\*: This category includes other receivables having been individually assessed but not impaired.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 4 Other receivables (Continued)

##### (3) Other receivables by category (Continued)

- (a) No provision for bad and doubtful debts for other receivables which are individually significant and assessed for impairment individually at the end of the year.
- (b) Other receivables which are collectively assessed for impairment using the ageing analysis method at the end of the year:

Ageing	Book value	Provision for bad and doubtful debts	Percentage
Within 1 year			
Including: within 6 months	12,551,137.53	–	0%
7 to 12 months	282,812.34	(14,140.61)	5%
Sub-total	12,833,949.87	(14,140.61)	0%
Over 1 year but within 2 years	111,733.70	(22,346.74)	20%
Over 2 years but within 3 years	57,900.00	(28,950.00)	50%
Over 3 years	119,435.94	(119,435.94)	100%
Total	13,123,019.51	(184,873.29)	1%

- (4) Additions, recoveries or reversals of provision for bad and doubtful debts during the year:

	Note	2017	2016
Balance at the beginning of the year		1,606,413.48	1,865,611.46
Additions during the year		128,592.20	979,075.54
Recoveries or reversals during the year	(a)	(912,462.74)	(1,102,753.32)
Written-off during the year	(b)	–	(135,520.20)
Balance at the end of the year		822,542.94	1,606,413.48

- (a) No significant recoveries or reversals of provision for bad and doubtful debts of other receivables which are fully or substantially impaired during the year
- (b) No other receivables which are individually significant are written off during the year.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 4 Other receivables (Continued)

##### (5) Other receivables categorised by nature

Nature of other receivables	2017	2016
Receivables for disposal of dairy cows	7,264,704.95	4,307,834.83
Deposits	2,827,920.24	2,056,049.90
Advances to staff	2,478,654.02	1,845,181.94
Others	1,541,561.75	1,856,480.57
Sub-total	14,112,840.96	10,065,547.24
less: Provision for bad and doubtful debts	(822,542.94)	(1,606,413.48)
Total	13,290,298.02	8,459,133.76

##### (6) Five largest other receivables by debtor at the end of the year

Debtor	Nature of the receivables	Balance at the end of the year	Ageing	Percentage of total other receivables (%)	Ending balance of provision or bad and doubtful debts
Unit 1	Receivable for disposal of dairy cows	1,714,482.62	Within 1 year	12%	–
Unit 2	Deposit	1,440,913.00	Within 1 year	10%	–
Unit 3	Receivable for disposal of dairy cows	1,176,908.62	Within 1 year	8%	–
Unit 4	Receivable for disposal of dairy cows	1,154,702.79	Within 1 year	8%	–
Unit 5	Receivable for disposal of dairy cows	710,200.15	Within 1 year	5%	–
Total		6,197,207.18		44%	–

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 5 Inventories

An analysis of the movements of inventories for the year is as follows:

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Raw materials	58,382,651.28	536,158,750.84	(535,439,770.70)	59,101,631.42
Finished goods	16,648,823.56	459,998,604.25	(464,672,561.42)	11,974,866.39
Consumable biological assets	24,676.06	172,206.75	(195,300.71)	1,582.10
Sub-total	75,056,150.90	996,329,561.84	(1,000,307,632.83)	71,078,079.91
Less: Provision for impairment of inventories	–	–	–	–
Total	75,056,150.90	996,329,561.84	(1,000,307,632.83)	71,078,079.91

#### 6 Assets held for sale

2017

	Carrying amount
Fixed assets	2,152,380.47
Intangible assets	4,306,121.25
Total of assets held for sale	6,458,501.72

In December 2017, the Company signed an agreement with a third party to sell a land use right as well as the plant and buildings in the land. The contract price is RMB10,300,000.00. The sale is expected to be completed within 12 months.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 7 Available-for-sale financial assets

##### (1) Available-for-sale financial assets

Item	2017			2016		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Available-for-sale equity instruments						
– At cost	33,720,671.00	–	33,720,671.00	33,720,671.00	–	33,720,671.00
Total	33,720,671.00	–	33,720,671.00	33,720,671.00	–	33,720,671.00

Available-for-sale financial assets include RMB33,676,200.00 of equity investment cost of Xi'an Dongfang Dairy Co., Ltd. and RMB44,471.00 of equity investment cost of Gansu Yuzhong Rural Cooperative Bank.

As no significant influence on the investee, the Company accounted for this equity instrument as available-for-sale financial assets. The Company currently has no plans to dispose of such investments in the near future.

##### (2) Available-for-sale financial assets at cost at the end of the year:

Investees	Book value				Provision for impairment				Percentage of shareholding in investees (%)	Cash dividend for the year
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year		
Xi'an Dongfang Dairy Co., Ltd	33,676,200.00	–	–	33,676,200.00	–	–	–	–	18%	–
Gansu Yuzhong Rural Cooperative Bank	44,471.00	–	–	44,471.00	–	–	–	–	0.11%	–
Total	33,720,671.00	–	–	33,720,671.00	–	–	–	–		–



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 8 Fixed assets

##### (1) Fixed assets

Item	Plant and buildings	Machinery and equipment	Motor vehicles	Other equipment	Total
Cost					
Balance at the beginning of 2017	538,053,941.94	312,977,043.91	7,010,609.82	12,764,815.99	870,806,411.66
Additions during the year	2,436,145.54	23,521,097.37	1,385,964.39	276,874.69	27,620,081.99
– Purchases	2,436,145.54	22,648,468.40	1,385,964.39	276,874.69	26,747,453.02
– Transfers from construction in progress	–	872,628.97	–	–	872,628.97
Disposals or written-offs during the year	(16,005.34)	(1,693,772.55)	(40,800.00)	(257,756.84)	(2,008,334.73)
Classified as assets held for sale	(2,708,051.14)	–	–	–	(2,708,051.14)
Balance at the end of 2017	537,766,031.00	334,804,368.73	8,355,774.21	12,783,933.84	893,710,107.78
Accumulated depreciation					
Balance at the beginning of 2017	82,761,087.40	124,516,229.54	5,634,288.13	8,008,159.37	220,919,764.44
Charge for 2017	16,646,878.87	30,075,337.08	501,581.94	1,659,250.05	48,883,047.94
Disposals or written-offs during 2017	(5,789.79)	(1,035,112.49)	(40,779.60)	(254,496.75)	(1,336,178.63)
Classified as assets held for sale	(555,670.67)	–	–	–	(555,670.67)
Balance at the end of 2017	98,846,505.81	153,556,454.13	6,095,090.47	9,412,912.67	267,910,963.08
Carrying amounts					
At the end of 2017	438,919,525.19	181,247,914.60	2,260,683.74	3,371,021.17	625,799,144.70
At the beginning of 2017	455,292,854.54	188,460,814.37	1,376,321.69	4,756,656.62	649,886,647.22

The management of the Group considers that there is no impairment indicator of the fixed assets of the Group and therefore no provision for impairment of fixed assets has been recognised.

At 31 December 2017, the Group's fixed assets (plant and buildings, machinery and equipment) with an aggregate net book value of approximately RMB344,590,648.30 were pledged to secure certain bank loans of the Group.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 8 Fixed assets (Continued)

##### (2) Fixed assets acquired under finance leases

Item	2017				2016			
	Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Aseptic filling machine	26,752,758.10	(14,588,105.90)	-	12,164,652.20	26,752,758.10	(11,998,560.62)	-	14,754,197.48
Vending machine	6,982,424.62	(718,638.05)	-	6,263,786.57	6,982,424.62	(55,279.85)	-	6,927,144.77
Total	33,735,182.72	(15,306,743.95)	-	18,428,438.77	33,735,182.72	(12,053,840.47)	-	21,681,342.25

#### 9 Construction in progress

##### (1) Construction in progress

	2017	2016
Balance at the beginning of the year	32,991,482.70	34,643,616.19
Additions during the year	8,356,503.34	15,956,290.56
Transfers to fixed assets during the year	(872,628.97)	(17,608,424.05)
Balance at the end of the year	40,475,357.07	32,991,482.70

##### (2) Movements of construction projects in progress during the year

Project	Balance at the beginning of the year	Additions during the year	Transfers to fixed assets	Balance at the end of the year	Accumulated capitalised interest	Including: Interest capitalised in 2017	Interest rate for capitalisation in 2017 (%)	Sources of funding
Office Building	25,790,724.95	3,791,246.54	-	29,581,971.49	1,039,200.10	1,039,200.10	5.488%	Specific-purpose borrowing and own funds
Pasture construction and others	7,200,757.75	4,565,256.80	(872,628.97)	10,893,385.58	-	-	N/A	Own funds
Total	32,991,482.70	8,356,503.34	(872,628.97)	40,475,357.07	1,039,200.10	1,039,200.10		

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 10 Bearer biological assets

##### (1) Nature of the Group's agricultural activities

Bearer biological assets of the Group are dairy cows held to produce raw milk. The Group's dairy cows are milkable cows held for milk production and heifers and calves that have not reached the age to produce raw milk.

The number of cows owned by the Group as at 31 December 2017 is as follows:

	2017 Heads	2016 Heads
Calves	723	1,008
Heifers	3,446	1,534
Milkable cows	2,803	2,560
Total	6,972	5,102

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

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in note VII, the Group is exposed to the following operating risks:

(i) *Regulatory and environmental risks*

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

(ii) *Climate, disease and other natural risks*

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

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 10 Bearer biological assets (Continued)

##### (2) Value of the Group's bearer biological assets

	Note	Calves	Heifers	Milkable cows	Total
Beginning balance of 2017		12,506,095.95	32,913,970.57	80,869,000.03	126,289,066.55
Add: Purchase costs		–	42,000,000.00	–	42,000,000.00
Breeding costs	(a)	9,169,133.08	20,909,514.01	88,495,458.74	118,574,105.83
Transfer between groups:					
– transfer in		–	15,288,058.65	23,551,702.82	38,839,761.47
– transfer out		(15,288,058.65)	(23,551,702.82)	–	(38,839,761.47)
Transfer to inventories					
upon milking		–	–	(97,353,829.11)	(97,353,829.11)
Decrease due to disposal					
and sale		(95,050.00)	(14,602,600.00)	(6,997,764.44)	(21,695,414.44)
Gains or losses from					
changes in fair value	(b)	897,479.62	5,946,459.59	1,157,936.67	8,001,875.88
Ending balance of 2017		7,189,600.00	78,903,700.00	89,722,504.71	175,815,804.71

(a) Breeding costs incurred for dairy cows mainly include feeding costs, staff costs, depreciation and amortisation expenses and utilities costs incurred.

(b) Losses or gains from changes in fair value includes gain arising on initial recognition of milk at fair value less costs to sell upon harvest and changes in fair value less costs to sell of biological assets.

The Group's engaged the independent professional valuer to value the fair value of biological assets as at 31 December 2017. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in Note VIII.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 11 Intangible assets

##### (1) Intangible assets

Item	Land use rights	Computer software	Total
Cost			
Balance at the end of 2017	19,198,933.03	1,986,585.65	21,185,518.68
Additions during 2017	5,837,102.00	1,087,379.10	6,924,481.10
Classified as assets held for sale	(4,975,934.87)	–	(4,975,934.87)
Balance at the end of 2017	20,060,100.16	3,073,964.75	23,134,064.91
Accumulated amortisation			
Balance at the beginning of 2017	1,691,514.38	510,737.47	2,202,251.85
Charge for 2017	787,702.46	242,376.00	1,030,078.46
Classified as assets held for sale	(669,813.62)	–	(669,813.62)
Balance at the end of 2017	1,809,403.22	753,113.47	2,562,516.69
Carrying amounts			
At the end of 2017	18,250,696.94	2,320,851.28	20,571,548.22
At the beginning of 2017	17,507,418.65	1,475,848.18	18,983,266.83

The management of the Group considers that there is no impairment indicator of intangible assets of the Group as at 31 December 2017 and therefore no provision for impairment of intangible assets has been recognised.

As at 31 December 2017, the Group's intangible assets (land use rights) with an aggregate net book value of approximately RMB4,947,042.08 were pledged to secure certain bank loans of the Group.

##### (2) Land use rights pending certificates of ownership

As at 31 December 2017, the Group is applying for the certificate of ownership and registering transfer of ownership to a certain land in Yongdeng County, Gansu Province, with original amount of RMB9,032,299.00. The directors of the Company consider that the Group is entitled to use the land and the management of the Company believes that the above matters will not have any material adverse impact on the overall financial position of the Group as at 31 December 2017. In March 2018, the Group obtained the certificate of ownership of the land use right.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12 Long-term deferred expenses

Item	Balance at the beginning of the year	Additions during the year	Decreases for the year	Balance at the end of the year
Lease prepayments	1,324,132.67	658,152.00	(1,002,506.21)	979,778.46
Others	319,622.64	620,528.30	(290,339.62)	649,811.32
Total	1,643,755.31	1,278,680.30	(1,292,845.83)	1,629,589.78

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

#### 13 Deferred tax assets

Item	2017		2016	
	Deductible or taxable temporary differences	Deferred tax assets	Deductible or taxable temporary differences	Deferred tax assets
Deferred tax assets:				
Provisions for impairment of assets	<b>722,672.50</b>	<b>108,400.88</b>	1,099,736.99	164,960.55
Depreciation of fixed assets	<b>3,857,213.56</b>	<b>578,582.03</b>	3,741,865.05	561,279.76
Accrued and unpaid expenses	–	–	224,693.33	33,704.00
Deductible tax losses	<b>6,863,465.91</b>	<b>1,029,519.89</b>	–	–
Government grants	<b>21,075,000.00</b>	<b>3,161,250.00</b>	22,322,750.01	3,348,412.50
Total	<b>32,518,351.97</b>	<b>4,877,752.80</b>	27,389,045.38	4,108,356.81

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 14 Other non-current assets

Item	Note	2017	2016
Advances to farmers	(a)	8,066,250.06	21,432,600.00
Prepayments for purchase of dairy cows	(b)	20,670,000.00	62,670,000.00
Receivables for disposal of dairy cows	(c)	—	6,320,475.90
Total		28,736,250.06	90,423,075.90

- (a) Advances to farmers primarily represent payments made to certain third party farmers for them to purchase dairy cows, from which the raw milk produce will be supplied to the Group.
- (b) The amounts represented the prepayments to a third party supplier for purchasing dairy cows from overseas.
- (c) During 2016, the subsidiary of the Company, Yuzhong Ruifeng, changed its business model. The amount represented the receivables relating to disposal of certain dairy cows to certain third party farmers and the farmers bred the cows in Yuzhong Ruifeng. The farmers will repay the Group within a three years period based on agreed repayment schedules.

#### 15 Short-term loans

	2017	2016
Loans secured by mortgages	310,000,000.00	230,000,000.00
Guaranteed loans	56,000,000.00	60,000,000.00
Unsecured loans	40,000,000.00	10,000,000.00
Total	406,000,000.00	300,000,000.00

During 2017, the interest rates of the Group's short-term borrowings were 4.35% ~ 8.00% (2016: 4.35% ~ 8.00%), with no short-term borrowings not repayable on schedule.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16 Bills payable

Item	2017	2016
Bank acceptance bills	19,492,581.98	4,000,000.00
Total	19,492,581.98	4,000,000.00

#### 17 Accounts payable

(1) Details of accounts payable are as follows:

Item	2017	2016
Accounts payable for purchase of materials	86,050,523.35	79,985,686.00
Accounts payable for purchase of equipment	15,243,549.36	25,188,241.00
Others	91,052.28	181,851.61
Total	101,385,124.99	105,355,778.61

(2) Ageing analysis

Ageing	2017	2016
Within 6 months (inclusive)	81,304,051.76	89,810,991.34
Over 6 months but within 12 months (inclusive)	10,737,565.43	10,916,403.14
Over 1 year but within 2 years (inclusive)	5,195,443.88	2,019,406.53
Over 2 years	4,148,063.92	2,608,977.60
Total	101,385,124.99	105,355,778.61

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 18 Advances from customers

Details of advances from customers are as follows:

Item	2017	2016
Sales of goods	24,062,136.66	20,289,629.93
Total	24,062,136.66	20,289,629.93

#### 19 Employee benefits payable

(1) Employee benefits payable:

	Balance at the beginning of the year	Accrued during the year	Decreased during the year	Balance at the end of the year
Short-term employee benefits	6,386,365.75	47,618,674.99	(48,150,571.24)	5,854,469.50
Post-employment benefits – defined contribution plans	189,069.84	3,707,500.11	(3,564,976.51)	331,593.44
Total	6,575,435.59	51,326,175.10	(51,715,547.75)	6,186,062.94

(2) Short-term employee benefits

	Balance at the beginning of the year	Accrued during the year	Decreased during the year	Balance at the end of the year
Salaries, bonuses, allowances	6,229,452.73	43,607,490.69	(44,317,775.96)	5,519,167.46
Staff welfare	–	1,284,025.29	(1,229,025.29)	55,000.00
Social insurance	50,378.02	1,543,068.51	(1,502,156.49)	91,290.04
Medical insurance	50,165.43	1,317,412.26	(1,276,500.24)	91,077.45
Work-related injury insurance	124.18	154,608.44	(154,574.78)	157.84
Maternity insurance	88.41	71,047.81	(71,081.47)	54.75
Housing fund	106,535.00	1,184,090.50	(1,101,613.50)	189,012.00
Total	6,386,365.75	47,618,674.99	(48,150,571.24)	5,854,469.50

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 19 Employee benefits payable (Continued)

##### (3) Post-employment benefits – defined contribution plans

	Balance at the beginning of the year	Accrued during the year	Decreased during the year	Balance at the end of the year
Basic pension insurance	181,954.35	3,523,668.11	(3,386,269.57)	319,352.89
Unemployment insurance	7,115.49	183,832.00	(178,706.94)	12,240.55
Total	189,069.84	3,707,500.11	(3,564,976.51)	331,593.44

#### 20 Taxes payable

Item	2017	2016
Corporate income tax	6,922,182.62	15,132,686.25
Value-added tax	1,479,858.94	3,395,864.00
Others	272,712.50	360,044.15
Total	8,674,754.06	18,888,594.40

#### 21 Other payables

Details of other payables by nature are as follows:

	2017	2016
Conditional government grants received but not yet recognized	3,981,720.00	4,331,720.00
Deposit from third party	7,958,721.42	4,835,288.85
Payables for advertising and promotion expenses	1,006,807.22	1,431,352.91
Payable for professional service	2,200,000.00	1,502,634.27
Others	5,700,798.96	6,500,050.57
Total	20,848,047.60	18,601,046.60



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 21 Other payables (Continued)

As at 31 December 2017, the Group's other payables over one year mainly represent government grants that have been received but have not yet complied with the conditions as provided. In accordance with the relevant guidance of government, these government grants can only be recognised upon the Group complying with the conditions of certain amount of infrastructure investment on and completion of the Group's dairy farms and products production facilities.

#### 22 Long-term loans due within one year

Item	2017	2016
Loan secured by mortgages	9,000,000.00	–
Guaranteed loans	6,120,372.33	7,000,000.00
Total	15,120,372.33	7,000,000.00

There was no long-term loan that was past due at the end of the year.

#### 23 Non-current liabilities due within one year

Non-current liabilities due within one year by category are as follows:

Item	2017	2016
Long-term payables due within one year (Note VI.25)	1,908,641.54	2,566,343.53
Deferred income amortised within one year (Note VI.26)	3,025,470.00	3,230,236.67
Other long-term payables due within one year	–	354,750.00
Total	4,934,111.54	6,151,330.20

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 24 Long-term loans

##### Long-term loans by category

Item	2017	2016
Loan secured by mortgages	9,000,000.00	18,000,000.00
Guaranteed loans	32,680,043.93	33,500,000.00
Less: Long-term loans due within one year	(15,120,372.33)	(7,000,000.00)
Total	26,559,671.60	44,500,000.00

The above borrowings are borrowings with variable interest rates. The interest rate ranges during the year are 4.90% ~ 5.488% (2016: 4.90% ~ 5.39%).

#### 25 Long-term payables

Item	Note	2017	2016
Obligations under finance leases	(1)	3,303,197.33	5,869,539.58
Less: obligations under finance leases due within one year (Note VI.23)		(1,908,641.54)	(2,566,343.53)
Total		1,394,555.79	3,303,196.05

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 25 Long-term payables (Continued)

##### (1) Details of obligations under finance leases included in long-term payables

As at 31 December, the total future minimum lease payments under finance leases of the Group were as follows:

Minimum lease payments	2017	2016
Within 1 year (inclusive)	<b>2,179,698.69</b>	3,056,854.69
After 1 year but within 2 years (inclusive)	<b>1,453,133.88</b>	2,179,698.69
After 2 years but within 3 years (inclusive)	–	1,453,132.61
Sub-total	<b>3,632,832.57</b>	6,689,685.99
Less: Unrecognised finance charges	<b>(329,635.24)</b>	(820,146.41)
Total	<b>3,303,197.33</b>	5,869,539.58

The finance lease payments less unrecognised finance charges due within one year has been disclosed in Note VI.23.

#### 26 Deferred income

	2017	2016
Balance at the beginning of the year	<b>49,486,515.00</b>	50,171,749.99
Additions during the year	<b>2,054,000.00</b>	7,825,000.00
Reductions during the year	<b>(7,523,653.33)</b>	(8,510,234.99)
Balance at the end of the year (Note)	<b>44,016,861.67</b>	49,486,515.00
Less: Deferred income amortised within one year (Note VI.23)	<b>(3,025,470.00)</b>	(3,230,236.67)
Total	<b>40,991,391.67</b>	46,256,278.33

Note: As at 31 December 2017, the Group's deferred income are all government grants related to assets. For government grants recognised as deferred income by the Group, please refer to Note VI.39 (1).

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 27 Share capital

Item	Balance at the beginning of the year	Issuance of new shares	Balance at the end of the year
RMB ordinary shares	105,370,000	–	105,370,000
RMB social public shares (Note)	–	46,840,000	46,840,000
H shares	35,130,000	–	35,130,000
Total	140,500,000	46,840,000	187,340,000

Note: In October 2017, the Company issued 46,840,000 ordinary shares with nominal value per share RMB1 under public offering on the Small and Medium Enterprise Board of Shenzhen Stock Exchange. The offering price is RMB7.46 per share. The gross proceeds from listing is RMB349,426,400.00 and the net proceeds from listing is RMB320,926,400.00, deducting underwriting and sponsor fees as well as tax and surcharges RMB28,500,000.00.

The proceeds from listing, which the gross amount is RMB349,426,400.00, net of the related listing expenses of RMB39,922,700.00 (VAT exclusive), is RMB309,503,700.00. RMB46,840,000.00 is recognised in share capital and RMB262,663,700.00 is recognised in capital reserve.

#### 28 Capital reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Share premium	246,127,082.09	262,663,700.00	–	508,790,782.09
Total	246,127,082.09	262,663,700.00	–	508,790,782.09

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 29 Surplus reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Statutory surplus reserve	28,203,412.51	3,847,678.11	–	32,051,090.62
Total	28,203,412.51	3,847,678.11	–	32,051,090.62

The Company accrued the surplus reserve by 10% of the net profit.

#### 30 Retained earnings

Item	2017	2016
Retained earnings at the beginning of the year	<b>345,404,214.95</b>	285,980,166.12
Add: Net profits for the year attributable to shareholders of the Company	<b>68,351,885.17</b>	75,910,579.42
Less: Appropriation for statutory surplus reserve	<b>(3,847,678.11)</b>	(6,482,930.59)
Dividends to ordinary shares	<b>(10,425,100.00)</b>	(10,003,600.00)
Retained earnings at the end of the year	<b>399,483,322.01</b>	345,404,214.95

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

Item	2017	2016
Final dividend proposed after the end of the reporting period of RMB7.30 cents per ordinary share (2016: RMB7.42 cents per ordinary share)	<b>13,675,820.00</b>	10,425,100.00



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 30 Retained earnings (Continued)

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

Item	2017	2016
Final dividend in respect of the previous year, approved and paid during the year of, RMB7.42 cents per ordinary share (2016: RMB7.12 cents per ordinary share)	<b>11,131,030.20</b>	9,297,669.80

As approved by the shareholders of the Company at the annual general meeting (AGM) held on 16 June 2017, the Group announced that the Company would distribute a final cash dividend of RMB0.0742 per share (tax inclusive) in an aggregate amount of RMB10,425,100.00 for the year ended 31 December 2016. Such dividends has been fully paid during 2017.

The Board recommended a final dividend of RMB0.0730 per share for 2017 on 28 March 2018 with the written resolution. The total dividend amounted to RMB13,675,820.00 (approximately RMB0.0730 per share (tax inclusive), calculated based on the number of outstanding shares as at the date of the Board Meeting). The resolution will be submitted to the AGM to approve. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

#### 31 Operating income and operating costs

Item	2017		2016	
	Income	Cost	Income	Cost
Principal activities	<b>592,163,054.22</b>	<b>409,551,575.47</b>	625,232,041.76	412,728,601.66
Other operating activities	<b>36,210,982.99</b>	<b>25,856,788.54</b>	40,591,122.46	27,968,972.84
Total	<b>628,374,037.21</b>	<b>435,408,364.01</b>	665,823,164.22	440,697,574.50

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 31 Operating income and operating costs (Continued)

Details of operating income:

Item	2017	2016
Operating income from principal activities		
– Sale of goods	<b>592,163,054.22</b>	625,232,041.76
Sub-total	<b>592,163,054.22</b>	625,232,041.76
Other operating income		
– Income from sales of feed	<b>31,023,334.88</b>	34,632,929.76
– Others	<b>5,187,648.11</b>	5,958,192.70
Total	<b>628,374,037.21</b>	665,823,164.22

#### 32 Taxes and surcharges

Item	2017	2016
City maintenance and construction tax	<b>1,258,599.67</b>	885,604.87
Education surcharges	<b>1,293,624.80</b>	1,913,187.20
Others	<b>1,026,276.98</b>	894,908.42
Total	<b>3,578,501.45</b>	3,693,700.49

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33 Selling and distribution expenses

Item	2017	2016
Staff cost	<b>17,233,088.22</b>	15,995,834.94
Freight and miscellaneous charges	<b>15,461,305.53</b>	10,937,863.85
Low cost and short-lived consumable items	<b>12,321,905.66</b>	8,400,516.37
Travel expenses	<b>7,142,875.31</b>	4,108,811.70
Promotional fees	<b>6,598,305.81</b>	7,926,635.15
Rents and property management fees	<b>2,799,434.75</b>	2,258,879.83
Depreciation and amortisation	<b>2,477,951.37</b>	1,815,332.76
Others	<b>7,521,306.87</b>	1,655,101.90
Total	<b>71,556,173.52</b>	53,098,976.50

#### 34 General and administrative expenses

Item	2017	2016
Staff cost	<b>15,834,732.01</b>	21,161,016.23
Maintenance fees	<b>12,547,568.05</b>	15,655,186.73
Professional service fees	<b>8,975,821.55</b>	5,153,828.56
Travel expenses	<b>3,248,425.91</b>	3,060,091.16
Depreciation and amortisation	<b>3,245,164.65</b>	4,168,597.85
Administrative expenses	<b>4,507,243.67</b>	3,786,250.27
Auditor fees	<b>2,200,000.00</b>	2,523,000.00
Business entertainment	<b>1,307,127.83</b>	1,135,907.65
Others	<b>3,342,726.11</b>	6,273,930.25
Total	<b>55,208,809.78</b>	62,917,808.70

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 35 Financial expenses

Item	2017	2016
Interest expenses from loans and payables	<b>12,183,844.03</b>	20,033,425.20
Including: Interest expenses	<b>20,786,244.03</b>	20,033,425.20
Interest subsidies for policy-related preferential loans (Note VI.39)	<b>(8,602,400.00)</b>	–
Less: Borrowing costs capitalised	<b>(1,039,200.10)</b>	–
Interest income from deposits	<b>(2,263,128.18)</b>	(2,325,042.91)
Net exchange losses/(gains)	<b>851,924.51</b>	(1,043,403.01)
Others	<b>1,406,622.62</b>	1,144,541.40
Total	<b>11,140,062.88</b>	17,809,520.68

Note: As described in Note III.31, a government grant related to the interest subsidy for policy-related preferential loans previously recognised as non-operating income in 2016 is offset against the relevant loan expense based on CAS 16 (2017) in 2017.

#### 36 Impairment reversals

Item	2017	2016
Accounts receivable	<b>(15,686.67)</b>	(147,030.17)
Other receivables	<b>(783,870.54)</b>	(123,677.78)
Total	<b>(799,557.21)</b>	(270,707.95)

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 37 Gains/(losses) from changes in fair value

Item	Note	2017	2016
Loss arising from changes in fair value less costs to sell of biological assets	(1)	<b>(856,494.49)</b>	(23,692,643.02)
Gain arising on initial recognition of agricultural produce at value less costs to sell at the point of harvest	(2)	<b>8,858,370.37</b>	8,648,856.57
Total		<b>8,001,875.88</b>	(15,043,786.45)

(1) The bearer biological assets held by the Group, the dairy cows, are independently valued by the independent valuers at the balance sheet date. The changes in fair value are recognised in profit or loss.

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

#### 38 Losses from asset disposals

Item	2017	2016	Amount recognised in extraordinary gain and loss in 2017
Losses from disposal of fixed assets	<b>(276,141.49)</b>	(158,616.54)	<b>(276,141.49)</b>
Total	<b>(276,141.49)</b>	(158,616.54)	<b>(276,141.49)</b>



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 39 Government grants

##### (1) Government grants related to assets

Item	Balance at the beginning of 2017	Additions during the year Notes VI.26	Recognition as other income Notes VI.26	Balance at the end of 2017
Dairy farming project	27,594,263.34	900,000.00	(5,488,903.32)	23,005,360.02
Dairy product production project	9,875,666.65	–	(1,038,166.67)	8,837,499.98
Biogas project	5,313,667.01	520,000.00	(386,666.67)	5,447,000.34
Others	6,702,918.00	634,000.00	(609,916.67)	6,727,001.33
Total	49,486,515.00	2,054,000.00	(7,523,653.33)	44,016,861.67

##### (2) Government grants related to income

Subsidy items	Notes	2017 Offset against financial expense	2017 Recognition as other income	2016 Recognition as non-operating income
Interest subsidies for policy-related preferential loans	(i)	8,602,400.00	–	3,409,594.00
Financial support funds	(ii)	–	3,263,276.07	3,700,906.53
Others		–	–	1,174,733.33
Total		8,602,400.00	3,263,276.07	8,285,233.86

(i) The interest subsidy for policy-related preferential loans is recognised as non-operating income during 2016, such interest subsidy is directly appropriated to the Group by the government. In accordance with CAS 16 (2017), the interest subsidy is offset against the relevant loan expenses during 2017.

(ii) The government grants related to income received by the Group are related to the ordinary activities of the Group and compensate the Group for costs and expenses incurred are recognised as other income. The government grants related to income received by the Group are related to the ordinary activities, except the interest subsidies for policy-related preferential loans, recognised as non-operating income during 2016, is recognised as other income during 2017.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 39 Government grants (Continued)

(3) The large government grants received by the Group during the reporting period mainly include:

(a) *Interest subsidy for policy-related preferential loans*

In accordance with the circular of the interim administrative measures on interest subsidies for the loans of national trade and the production of minorities' special goods Issued by the Ministry of Finance, the State ethnic Affairs Commission and the People's Bank of China (Caijin [2012] No. 139), the entitled company will qualify for interest subsidies for policy-related preferential loans. The company is the designated enterprises for the production of commodities for ethnic minorities designated by the Ministry of Finance, the State ethnic Affairs Commission, and the people's Bank of China during the 12th Five-Year Plan period shall, in accordance with the provisions of the interim measures on the Administration of discount interest on loans for the production of ethnic Trade and ethnic Special needs, the company may enjoy a discount of 2.88% interest rates on loans that meet the requirements during the reporting period after the examination and approval by the Lanzhou Municipal Committee of ethnic and religious Affairs which is the local ethnic affairs department where the company is registered, these rates are directly subsidized to the group by the local government. The company was included in the non-operating income when receiving the discount interest on the above policy-oriented preferential loans by 2017. In accordance with the provisions of Standard No.16 (2017), the company shall directly reduce the relevant borrowing costs when receiving the above policy preferential loan discount interest since January 1st 2017. These government subsidies are related to income and are shown in the government subsidies items of the policy preferential loan discount interest in Note 39.2.

(b) *Grants for purchase of dairy cows*

In accordance with the overall arrangement of introducing superior dairy cows in farming area by Farming Office of Qinghai Province, the Group obtained government grants by purchasing superior dairy cows. Such grants related to biological assets are recognised in profit and loss when the grant is received and the Group complies with the conditions attaching to the grant. Such grants are related to assets and disclosed in Note 39 (1) Dairy Farming Project.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 40 Non-operating income and non-operating expenses

(1) Non-operating income by item is as follows:

Item	2017	2016	Amount recognised in extraordinary gain and loss in 2017
Government grants	–	16,795,468.85	–
Disposal of cowpat	<b>377,214.00</b>	201,550.00	<b>377,214.00</b>
Others	<b>170,911.75</b>	263,736.72	<b>170,911.75</b>
Total	<b>548,125.75</b>	17,260,755.57	<b>548,125.75</b>

(2) Non-operating expenses

Item	2017	2016	Amount recognised in extraordinary gain and loss in 2017
Donation and others	<b>286,583.66</b>	790,729.11	<b>286,583.66</b>
Total	<b>286,583.66</b>	790,729.11	<b>286,583.66</b>

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 41 Income tax expenses

Item	Note	2017	2016
Current tax expense for the year based on tax law and regulations		<b>3,473,399.48</b>	12,119,665.16
Changes in deferred tax assets/liabilities	(1)	<b>(769,395.99)</b>	1,113,670.19
Total		<b>2,704,003.49</b>	13,233,335.35

(1) The analysis of changes in deferred tax assets/liabilities is set out below:

Item	2017	2016
Origination and reversal of temporary differences	<b>(769,395.99)</b>	1,113,670.19
Total	<b>(769,395.99)</b>	1,113,670.19

(2) Reconciliation between income tax expenses and accounting profit:

Item	2017	2016
Profits before taxation	<b>71,055,888.66</b>	89,143,914.77
Expected income tax expenses at tax rate of 25%	<b>17,763,972.17</b>	22,285,978.69
Effect of different tax rates applied by subsidiaries	<b>(7,105,588.87)</b>	(8,914,391.48)
Effect of non-taxable income	<b>(10,630,753.27)</b>	(2,986,746.83)
Effect of non-deductible costs and expense	<b>172,947.10</b>	380,929.12
Effect of using the deductible losses for which no deferred tax asset was recognised in previous period	<b>2,503,426.36</b>	2,467,565.85
Income tax expenses	<b>2,704,003.49</b>	13,233,335.35

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 42 Basic earnings per share

##### (1) Basic earnings per share

Basic earnings per share is calculated as dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

Item	2017	2016
Consolidated net profit attributable to ordinary shareholders of the Company	68,351,885.17	75,910,579.42
Weighted average number of ordinary shares outstanding	149,226,356	140,500,000
Basic earnings per share (RMB/share)	0.46	0.54

Weighted average number of ordinary shares is calculated as follows:

	Note	2017	2016
Issued ordinary shares at the beginning of the year		140,500,000	140,500,000
Effect of shares issued	VI.27	8,726,356	–
Weighted average number of ordinary shares at the end of the year		149,226,356	140,500,000

#### 43 Cash flow statement

##### (1) Payment for other operating activities:

Item	2017	2016
Administrative and travel fees	16,205,672.72	12,091,060.78
Maintenance fees	13,210,825.97	14,414,696.62
Freight and miscellaneous	15,461,305.53	10,937,863.85
Professional service fees	10,478,455.82	8,996,947.95
Advertising and promotion fees	7,779,876.35	6,899,460.95
Others	27,467,049.93	20,898,876.78
Total	90,603,186.32	74,238,906.93



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 43 Cash flow statement (Continued)

(2) Proceeds relating to other investing activities:

Item	2017	2016
Decrease in pledged deposit	18,247,547.14	32,333,712.97
Interest received	2,263,128.18	2,325,042.91
Proceeds from receipts of wealth management products from banks	–	10,000,000.00
Total	20,510,675.32	44,658,755.88

(3) Payments relating to other investing activities:

Item	2017	2016
Increase in pledged deposit	24,993,838.13	–
Total	24,993,838.13	–

(4) Payments relating to other financing activities:

Item	2017	2016
Payments for listing fees	11,723,265.00	–
Total	11,723,265.00	–

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 44 Supplementary information on cash flow statement

##### (1) Supplement to cash flow statement

a. Reconciliation of net profit to cash flows from operating activities:

Item	2017	2016
Net profit	68,351,885.17	75,910,579.42
Add: Provisions for impairment of assets	(799,557.21)	(270,707.95)
Depreciation of fixed assets	43,223,905.86	38,869,111.89
Loss arising from changes in fair value less costs to sell of biological assets	856,494.49	23,692,643.02
Amortisation of intangible assets	723,422.81	410,353.25
Amortisation of long-term deferred expenses	482,674.97	815,656.58
Losses from disposal of fixed assets	276,141.49	158,616.54
Financial expenses	18,335,840.26	16,664,979.28
(Increase)/decrease in deferred tax assets	(769,395.99)	1,113,670.19
Amortisation of government grants	(7,523,653.33)	(8,510,234.99)
Decrease in gross inventories	3,978,070.99	11,294,146.67
(Increase)/decrease in operating receivables	(11,381,851.75)	20,568,582.09
Increase/(decrease) in operating payables	15,831,820.09	(6,530,317.10)
Net cash inflow from operating activities	131,585,797.85	174,187,078.89

b. Significant investing and financing activities not requiring the use of cash:

Item	2017	2016
Acquisition of fixed assets under finance leases	—	6,982,424.62

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 44 Supplementary information on cash flow statement (Continued)

##### (1) Supplement to cash flow statement (Continued)

c. Change in cash and cash equivalents:

Item	2017	2016
Cash and cash equivalents at the end of the year	<b>736,896,081.76</b>	273,352,017.83
Less: Cash and cash equivalents at the beginning of the year	<b>273,352,017.83</b>	231,702,266.30
Net increase in cash and cash equivalents	<b>463,544,063.93</b>	41,649,751.53

##### (2) Details of cash and cash equivalents

Item	Note	2017	2016
Cash and cash equivalents			
Including: Cash on hand		<b>11,463.37</b>	43,464.76
Bank deposits available on demand		<b>736,884,618.39</b>	273,308,553.07
Restricted bank deposits		<b>10,746,290.99</b>	4,000,000.00
Closing balance of cash and cash equivalents	VI.1	<b>747,642,372.75</b>	277,352,017.83
Including: Restricted cash at bank		<b>10,746,290.99</b>	4,000,000.00
The balance of cash and cash equivalents that can be readily realized at the end		<b>736,896,081.76</b>	273,352,017.83

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VII. RISK RELATED TO FINANCIAL INSTRUMENTS

The Group has exposure to the following main risks from its use of financial instruments in the normal course of the Group's operations:

- Credit risk
- Liquidity risk
- Interest rate risk

The following mainly presents information about the Group's exposure to each of the above risks and their sources, their changes during the year, and the Group's objectives, policies and processes for measuring and managing risks, and their changes during the year.

The Group aims to seek appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The internal audit department of the Group undertakes both regular and ad-hoc reviews of risk management controls and procedures.

#### (1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's credit risk is primarily attributable to cash at bank, receivables. Exposure to these credit risks are monitored by management on an ongoing basis.

The cash at bank of the Group is mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Group.

In respect of receivables, Management of the Group has established a credit policy under which individual credit evaluations are performed on all customers to determine the credit limit and terms applicable to the customers. These evaluations focus on the customers' financial position. Receivables are due within 30 days or no longer than 1 year from the date of billing. Debtors with balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VII. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

#### (1) Credit risk (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry, country or area in which the customers operate and therefore significant concentrations of credit risk arise primarily when the Group has significant exposure to individual customers. At the balance sheet date, 0.00% (2016: 0.00%) of the total accounts receivable and other receivables were due from the five largest customers of the Group. In addition, the debtors of the Group that are neither past due nor impaired mainly relate to a wide range of customers for whom there was no recent history of default.

For other receivables, the management of the Group manages according to the nature of other receivables. Credit risk on other receivables The Group has taken into account the carrying amount of its impairment loss and is used to disclose the balance sheet.

The maximum exposure to credit risk of the Group is the carrying amount of each financial asset in the balance sheet.

#### (2) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in meeting obligations that are settled by delivering cash or another financial asset. The Company and its individual subsidiaries are responsible for their own cash management, including short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables set out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VII. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

#### (2) Liquidity risk (Continued)

Item	2017 Contractual undiscounted cash flow					Carrying amount at balance sheet date
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
Short-term loans	414,644,100.14	-	-	-	414,644,100.14	406,000,000.00
Bills payable	19,492,581.98	-	-	-	19,492,581.98	19,492,581.98
Accounts payable	101,385,124.99	-	-	-	101,385,124.99	101,385,124.99
Interests payable	403,694.71	-	-	-	403,694.71	403,694.71
Other payables	20,848,047.60	-	-	-	20,848,047.60	20,848,047.60
Long-term loans	16,922,651.71	8,623,150.96	10,101,377.88	13,187,910.01	48,835,090.56	41,680,043.93
Long-term payables	2,179,698.69	1,453,133.88	-	-	3,632,832.57	3,303,197.33
<b>Total</b>	<b>575,875,899.82</b>	<b>10,076,284.84</b>	<b>10,101,377.88</b>	<b>13,187,910.01</b>	<b>609,241,472.55</b>	<b>593,112,690.54</b>

Item	2016 Contractual undiscounted cash flow					Carrying amount at balance sheet date
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
Short-term loans	300,000,000.00	-	-	-	300,000,000.00	300,000,000.00
Bills payable	4,000,000.00	-	-	-	4,000,000.00	4,000,000.00
Accounts payable	105,355,778.61	-	-	-	105,355,778.61	105,355,778.61
Interest payable	431,893.67	-	-	-	431,893.67	431,893.67
Other payables	18,601,046.60	-	-	-	18,601,046.60	18,601,046.60
Long-term loan due within 1 year	9,503,591.64	-	-	-	9,503,591.64	7,000,000.00
Non-current liabilities due within 1 year	6,151,330.20	-	-	-	6,151,330.20	6,151,330.20
Long-term loan	-	26,609,124.52	15,816,885.34	5,800,886.99	48,226,896.85	44,500,000.00
Long-term payables	-	2,179,698.69	1,453,132.61	-	3,632,831.30	3,303,196.05
<b>Total</b>	<b>444,043,640.72</b>	<b>28,788,823.21</b>	<b>17,270,017.95</b>	<b>5,800,886.99</b>	<b>495,903,368.87</b>	<b>489,343,245.13</b>

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VII. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

#### (3) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively. The Group determines the appropriate weightings of the fixed and floating rate interest-bearing instruments based on the current market conditions and performs regular reviews and monitoring to achieve an appropriate mix of fixed and floating rate exposure.

(a) As at 31 December, the Group held the following interest-bearing financial instruments:

*Fixed rate instruments:*

Item	2017		2016	
	Effective interest rate	Amount	Effective interest rate	Amount
Financial assets				
– Cash at bank	0.35%	747,630,909.38	0.35%	277,308,553.07
Total		747,630,909.38		277,308,553.07
Financial liabilities				
– Short-term loans	4.35% ~ 8.00%	406,000,000.00	4.35% ~ 8.00%	300,000,000.00
– Long-term payables	11.66%	3,303,197.33	11.66%	5,869,539.58
Total		409,303,197.33		305,869,539.58

*Variable rate instruments:*

Item	2017		2016	
	Effective interest rate	Amount	Effective interest rate	Amount
Financial liabilities				
– Long-term loans	5.39% ~ 5.488%	26,559,671.60	4.90% ~ 5.39%	44,500,000.00
– Long-term loans due within 1 year	4.90% ~ 5.488%	15,120,372.33	4.90% ~ 5.39%	7,000,000.00
Total		41,680,043.93		51,500,000.00

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VII. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

#### (3) Interest rate risk (Continued)

##### (b) Sensitivity analysis

As at 31 December 2017, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's equity and net profit by RMB354,280.37 (2016: RMB437,750.00).

The sensitivity analysis above indicates the instantaneous change in the net profit and equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date.

### VIII. FAIR VALUE DISCLOSURE

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at each balance sheet date on a recurring or non-recurring basis. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities;

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

#### 1 Fair value of assets measured at fair value at the end of the year

Item	Note	31 December 2017			Total
		Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
Bearer biological assets	VI.10	-	-	175,815,804.71	175,815,804.71
Total assets measured at fair value on a recurring basis		-	-	175,815,804.71	175,815,804.71

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VIII. FAIR VALUE DISCLOSURE (Continued)

#### 1 Fair value of assets measured at fair value at the end of the year (Continued)

Item	Note	31 December 2016			Total
		Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
Productive biological assets	VI.10	–	–	126,289,066.55	126,289,066.55
Total assets measured at fair value on a recurring basis		–	–	126,289,066.55	126,289,066.55

The book value of consumable biological assets at the end of the year is immaterial and close to the fair value.

#### 2 Valuation techniques used and the qualitative and quantitative information of key parameters for bearer biological assets

The quantitative fair value information at Level 3 is as follows:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers	The fair value of 14 months old heifers is determined by referring to the market price of the actively traded market.	Average market price of the local heifers of 14 months old: RMB18,800 for the year ended 31 December 2017 (year ended 31 December 2016: RMB19,000). Average market price of the imported heifers of 14 months old: RMB20,800 for the year ended 31 December 2017 (year ended 31 December 2016: RMB21,000).	The estimated fair value increases when the market price increases.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VIII. FAIR VALUE DISCLOSURE (Continued)

#### 2 Valuation techniques used and the qualitative and quantitative information of key parameters for bearer biological assets (Continued)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as of 31 December 2017 will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or finish of all lactation periods. Estimated overall culling rate for the year ended 31 December 2017 is ranged from over 5.0% up to 100% along with the increase of the number of the lactation periods (2016: 4.7% to 100%).	The estimated fair value decreases when the estimated culling rates increase.
		A milkable cow could have as many as five to six lactation periods. Estimated average raw milk production volume per head for one lactation period is ranged from 6.3 tonnes to 9.1 tonnes depending on the number of the lactation periods and the individual physical condition (2016: 5.9 tonnes to 7.7 tonnes).	The estimated fair value increases when the estimated raw milk production volume increases.
		Estimated future raw milk local market prices per tonne for the year ended 31 December 2017: RMB3,931 (2016: RMB4,266).	The estimated fair value increases when the estimated future raw milk local market price increases.
		Discount rate is 12.4% for the year ended 31 December 2017 (2016: 12.3%) calculated by using the Capital Asset Pricing Model.	The estimated fair value decreases when discount rate increases.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### VIII. FAIR VALUE DISCLOSURE (Continued)

#### 3. Sensitivity analysis on unobservable inputs for fair value measurements of bearer biological assets

The key figures used to assess the fair value of the productive biological assets are the numbers and classification of dairy cows. According to mature stages, the Group's dairy cows are divided into calves, heifers and milkable cows, and different valuation methods are used for calves, heifers and milkable cows.

The main unobservable parameters of the valuation of productive biological assets are milk prices, discount rates, and breeding cattle prices. The fair value of biological assets is positively related to the price of milk and the price of bred cattle and is negatively related to the discount rate. As at 31 December 2017, with all other variables held constant, it is estimated that a general increase/decrease of 50 basis points in price of milk, would increase/decrease the Group's equity and net profit by RMB1,030,899.69.

In 2017, there are no conversions between different levels of the Group's assets that continue to be measured at fair value.

In 2017, there has been no change in the valuation techniques used by the Group for the continuous fair value measurement.

### IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### 1 Information about the parent of the Company

The Group has no parent company and the ultimate controller is a natural person Mr. Ma Hongfu.

#### 2 Information about the subsidiaries of the Company

For information about the subsidiaries of the Company, refer to Note V.

#### 3 Information about other related parties of the Company

Name of entity	Relationship with the Company
Linxia Ruihua Pasture Co., Ltd.	Company joint controlled by the spouse of the controlling shareholder Mr. Ma Hongfu's family member
Hu Keliang	Shareholder holding more than 5% of the Company's equity during 2016
Xi'an Dongfang Dairy Co., Ltd.	Associate of the Company and company controlled by Hu Keliang
Shaanxi Duoxian Farming Co.,Ltd	Wholly-owned subsidiary of the associate of the Company and of company controlled by Hu Keliang

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### 4 Transactions with related parties

The transactions below with related parties were conducted under normal commercial terms or agreements.

The transactions with related parties during this year are as follows. The following disclosure of significant connected transactions will not be defined as transactions which cannot be exempt or continuing connected transactions as in Chapter 14A of the Listing Rules.

##### (1) Purchase of goods/receiving of services (excluding remuneration of key management personnel)

*The Group*

Name of related party	Nature of transaction	2017	2016
Xi'an Dongfang Dairy Co., Ltd.	Purchase of goods	–	15,719.91
Total		–	15,719.91

##### (2) Sale of goods/rendering of services

*The Group*

Name of related party	Nature of transaction	2017	2016
Xi'an Dongfang Dairy Co., Ltd.	Sales of goods	<b>2,599,350.00</b>	732,468.70
Xi'an Dongfang Dairy Co., Ltd.	Sales of equipment	–	434,359.02
Shaanxi Duoxian Farming Co., Ltd.	Sales of cows	–	3,013,200.00
Total		<b>2,599,350.00</b>	4,180,027.72

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### 4 Transactions with related parties (Continued)

##### (3) Loans

*The Group*

Name of related party	Nature of transaction	2017	2016
Xi'an Dongfang Dairy Co., Ltd.	Loans provided	–	10,000,000.00
Xi'an Dongfang Dairy Co., Ltd.	Loans recovered	–	(10,000,000.00)
Hu Kelian	Loans recovered	–	(50,000,000.00)
Total		–	(50,000,000.00)

##### (4) Receivables from and payables to related parties:

*The Group*

Item	Related party	2017	2016
Accounts receivables	Xi'an Dongfang Dairy Co., Ltd.	650,000.00	–

##### (5) Guarantee

(a) *The Group as the guarantee holder*

Name of guarantor	Amount of guarantee	Inception date of guarantee	Maturity date of guarantee	Guarantee expired (Y/N)
Linxia County Ruihua Pasture Co., Ltd.	50,000,000.00	23/01/2017	22/01/2018	N
	50,000,000.00			

(b) During the reporting period, the Group did not provide any guarantee to related parties other than Group.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### 4 Transactions with related parties (Continued)

##### (6) Remuneration of key management personnel

The Group

Item	2017	2016
Remuneration of key management personnel	<b>2,950,915.94</b>	3,168,837.20

##### (a) Remuneration of Directors and Supervisors

Directors' and Supervisors' remuneration during the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December 2017				Total
	Directors' and Supervisors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	
Executive Directors					
Mr. Ma Hongfu	-	126,000.00	70,939.00	11,313.36	208,252.36
Mr. Wang Guofu	-	88,130.00	160,026.00	11,313.36	259,469.36
Mr. Chen Yuhai	-	86,690.00	396,609.00	11,313.36	494,612.36
Mr. Yan Bin	-	87,650.00	75,467.00	11,313.36	174,430.36
Non-Executive Directors					
Mr. Yap Kean Chong	-	-	-	-	-
Mr. Song Xiaopeng	-	-	-	-	-
Independent Non-Executive Directors					
Ms. Liu Zhijun	20,000.00	-	-	-	20,000.00
Ms. Xin Shihua	20,000.00	-	-	-	20,000.00
Mr. Wong Cho Hang Stanley	103,816.80	-	-	-	103,816.80
Supervisors					
Mr. Wei Lin	20,000.00	-	-	-	20,000.00
Ms. Du Wei	-	53,140.00	72,448.00	11,313.36	136,901.36
Mr. Pan Jin	-	-	-	-	-
<b>Total</b>	<b>163,816.80</b>	<b>441,610.00</b>	<b>775,489.00</b>	<b>56,566.80</b>	<b>1,437,482.60</b>

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### 4 Transactions with related parties (Continued)

##### (6) Remuneration of key management personnel (Continued)

##### (a) Remuneration of Directors and Supervisors (Continued)

	Year ended 31 December 2016				Total
	Directors' and Supervisors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	
Executive Directors					
Mr. Ma Hongfu	-	126,550.00	108,222.00	10,891.20	245,663.20
Mr. Wang Guofu	-	84,810.00	195,186.00	10,891.20	290,887.20
Mr. Chen Yuhai	-	95,370.00	389,254.00	10,891.20	495,515.20
Mr. Yan Bin	-	96,330.00	116,166.00	10,891.20	223,387.20
Non-Executive Directors					
Mr. Yap Kean Chong	-	-	-	-	-
Mr. Song Xiaopeng	-	-	-	-	-
Independent Non-Executive Directors					
Ms. Liu Zhijun (appointed on June 2016)	11,662.00	-	-	-	11,662.00
Mr. Bai Yongzhi (resigned on June 2016)	20,000.00	-	-	-	20,000.00
Ms. Xin Shihua	103,417.08	-	-	-	103,417.08
Mr. Wong Cho Hang Stanley	11,662.00	-	-	-	11,662.00
Supervisors					
Mr. Wei Lin	20,000.00	-	-	-	20,000.00
Ms. Du Wei	-	52,320.00	106,655.00	10,891.20	169,866.20
Mr. Pan Jin	-	-	-	-	-
<b>Total</b>	<b>166,741.08</b>	<b>455,380.00</b>	<b>915,483.00</b>	<b>54,456.00</b>	<b>1,592,060.08</b>



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### 4 Transactions with related parties (Continued)

##### (6) Remuneration of key management personnel (Continued)

###### (b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2016: One) are directors whose emoluments are disclosed in Note IX.4 (6)(a). The aggregate of the emoluments in respect of the individuals who are not directors are as follows:

	2017	2016
Salaries, allowances and benefits in kind	156,725.00	850,000.00
Discretionary bonuses	511,431.10	1,156,000.00
Retirement scheme contributions	22,626.72	64,000.00
Total	690,782.82	2,070,000.00

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

	2017	2016
HK\$Nil – HK\$1,000,000	3	4

No emoluments were paid or payable to these employees as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2017 (2016: Nil).

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### X. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group defines "capital" as all components of equity.

The Group's capital structure is regularly reviewed and managed to achieve an optimal structure and return for shareholders. Factors for the Group's consideration include: its future funding requirements, capital efficiency, actual and expected profitability, expected cash flows, and expected capital expenditure. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group.

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

The Group's capital structure is monitored on the basis of bank loans to equity ratio (total bank loans/total equity).

Item	2017	2016
Total bank loans	447,680,043.93	351,500,000.00
Total equity	1,127,665,194.72	760,234,709.55
Bank loans to equity ratio	40%	46%

The Group is subject to externally imposed capital requirements.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XI. COMMITMENTS AND CONTINGENCIES

#### 1 Significant commitments

##### (1) Capital commitments

Item	2017	2016
Contracted for	30,479,999.95	25,379,999.95
Total	30,479,999.95	25,379,999.95

##### (2) Operating lease commitments

As at 31 December 2017 and 2016, the total future minimum lease payments under non-cancellable operating leases of properties were payable as follows:

Item	2017	2016
Within 1 year (inclusive)	3,387,122.06	1,217,779.07
After 1 year but within 2 years (inclusive)	938,440.03	3,289,882.34
After 2 years but within 3 years (inclusive)	1,124,495.81	938,440.03
After 3 years	25,147,572.15	26,110,687.96
Total	30,597,630.05	31,556,789.40

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XII. OTHER SIGNIFICANT ITEMS

#### 1 Segment reporting

Considering the framework of internal organization, requirements of management and the system of internal reporting, the Group has presented two reportable segments, which are Dairy Farming and Dairy Products Production. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and market strategies. The financial statement of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

<b>Segment</b>	<b>Principle activities</b>
Dairy farming	Breeding dairy cows to produce and sell raw milk
Dairy products production	Producing and selling Pasteurized milk, Ultra High Temperature milk, Modified milk, Yogurt and Other Dairy products

#### (1) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other non-current and current assets, such as receivable, with the exception of deferred tax assets and other unallocated corporate assets (if any). Segment liabilities include current and non-current liabilities, such as payables, bank borrowings attributable to the individual segments, but exclude deferred tax liabilities (if any).

Financial performance is operating income (including operating income from external customers and inter-segment operating income) after deducting operating costs, taxes and surcharges, selling and distribution expenses, general and administrative expenses, financial expenses and non-operating income and expenses attributable to the individual segments but exclude unallocated corporate expenses (if any). Transfer pricing of income among reportable segments is in accordance with the similar terms of transaction with external parties.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XII. OTHER SIGNIFICANT ITEMS

#### 1 Segment reporting (Continued)

##### (1) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

Item	Dairy farming		Dairy products production		Elimination among segment		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Operating income from external customers	43,763,453.60	45,363,535.42	584,610,583.61	620,459,628.80	-	-	628,374,037.21	665,823,164.22
Inter-segment operating income	145,728,587.48	117,423,626.85	134,237.22	-	(145,862,824.70)	(117,423,626.85)	-	-
Depreciation and amortisation	14,705,872.08	13,055,817.07	29,724,131.56	27,039,304.66	-	-	44,430,003.64	40,095,121.73
Interest income	693,801.83	983,957.00	1,569,326.35	1,341,085.91	-	-	2,263,128.18	2,325,042.91
Interest expense	-	-	11,144,643.93	20,033,425.20	-	-	11,144,643.93	20,033,425.20
Profit(losses) before income tax	35,769,134.70	(8,459,958.60)	35,286,753.96	97,603,873.37	-	-	71,055,888.66	89,143,914.77
Income tax expenses	-	-	2,704,003.49	13,233,335.35	-	-	2,704,003.49	13,233,335.35
Net profit (losses)	35,769,134.70	(8,459,958.60)	32,582,750.47	84,370,538.02	-	-	68,351,885.17	75,910,579.42
Total assets	689,158,133.96	668,597,923.39	1,556,154,458.20	1,112,208,712.19	(441,594,891.57)	(439,218,742.65)	1,803,717,700.59	1,341,587,892.93
Total liabilities	474,006,442.08	489,215,366.23	643,640,955.36	531,356,559.80	(441,594,891.57)	(439,218,742.65)	676,052,505.87	581,353,183.38
Other items:								
Additions on non-current assets	28,300,531.32	62,412,195.39	15,806,586.44	86,968,433.43	-	-	44,107,117.76	149,380,628.82

##### (2) Geographical information

As the Group's revenue is derived from customers located in the Mainland of China and non-current assets are mainly taken from and wholly located in Mainland China and all the branches are managed on a national basis due to their similar customer classifications or classification and similar regulatory environment in all regions, No information has been provided to the management of the Group by geographical area in mainland China.

##### (3) Major customers

In 2017 and 2016, there is no case in which revenue to a single customer exceeds 10% of the total revenue of the Group.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

#### 1 Accounts receivable

(1) Accounts receivable by customer type:

Type	2017	2016
Accounts receivable due from related parties	3,360,082.75	69,712,932.34
Accounts receivable due from non-related parties	14,450,051.44	10,368,464.65
Sub-total	17,810,134.19	80,081,396.99
Less: Provision for bad and doubtful debts	(90,514.73)	(27,641.57)
Total	17,719,619.46	80,053,755.42

(2) The ageing analysis of accounts receivable is as follows:

Ageing	2017	2016
Within 1 year (inclusive)	14,944,791.75	18,546,984.55
Over 1 year but within 2 years (inclusive)	155,259.69	7,071,752.69
Over 2 year but within 3 years (inclusive)	2,710,082.75	21,329,492.22
Over 3 years	–	33,133,167.53
Sub-total	17,810,134.19	80,081,396.99
Less: Provision for bad and doubtful debts	(90,514.73)	(27,641.57)
Total	17,719,619.46	80,053,755.42

The ageing is counted starting from the date when accounts receivable are recognised.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

#### 1 Accounts receivable (Continued)

##### (3) Accounts receivable by category:

Category	Note	2017				Carrying amount	2016				Carrying amount
		Book value		Provision for bad and doubtful debts			Book value		Provision for bad and doubtful debts		
		Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Individually significant and assessed for impairment individually	(a)	-	0%	-	0%	-	-	0%	-	0%	-
Collectively assessed for impairment based on credit risk characteristics*	(b)										
Related Parties Group		3,360,082.75	19%	-	0%	3,360,082.75	69,712,932.34	87%	-	0%	69,712,932.34
Ageing Group		14,450,051.44	81%	(90,514.73)	1%	14,359,536.71	10,368,464.65	13%	(27,641.57)	0%	10,340,823.08
Sub-total		17,810,134.19	100%	(90,514.73)	1%	17,719,619.46	80,081,396.99	100%	(27,641.57)	0%	80,053,755.42
Individually insignificant but assessed for impairment individually		-	0%	-	0%	-	-	0%	-	0%	-
Total		17,810,134.19	100%	(90,514.73)	1%	17,719,619.46	80,081,396.99	100%	(27,641.57)	0%	80,053,755.42

Note\*: This category includes accounts receivable having been individually assessed but not impaired.

- (a) No provision for bad and doubtful debts for accounts receivable which are individually significant and assessed for impairment individually.
- (b) Accounts receivable which are collectively assessed for impairment at the end of the year using the ageing analysis method:

Ageing	Book value	Provision for bad and doubtful debts	Percentage of provision
Within 1 year			
Including: within 6 months	13,105,535.86	-	0%
7 to 12 months	1,189,255.89	(59,462.79)	5%
Sub-total	14,294,791.75	(59,462.79)	0.4%
Over 1 year but within 2 years	155,259.69	(31,051.94)	20%
Total	14,450,051.44	(90,514.73)	1%

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

#### 1 Accounts receivable (Continued)

(4) Additions, recoveries or reversals of provision for bad and doubtful debts during the year:

	Note	2017	2016
Balance at the beginning of the year		27,641.57	419,066.04
Additions during the year		75,710.58	100,409.72
Recoveries or reversals during the year	(a)	(12,837.42)	(84,524.72)
Written-off during the year	(b)	–	(407,309.47)
Balance at the end of the year		90,514.73	27,641.57

(a) No significant recoveries or reversals of provision for bad debts and doubtful debts of accounts receivable which are fully or substantially impaired during the year.

(b) No accounts receivable which are individually significant are written off during the year.

(5) Five largest accounts receivable by debtor at the end of the year:

	Relationship with the Group	Amount	Ageing	Proportion of the total ending balance of accounts receivable
Client 1	Third party	2,227,859.38	Within 1 year	13%
Client 2	Third party	891,061.80	Within 1 year	5%
Client 3	Related party	650,000.00	Within 1 year	4%
Client 4	Third party	583,644.07	Within 2 years	3%
Client 5	Third party	572,815.08	Within 1 year	3%
Total		4,925,380.33		28%

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

#### 2 Other receivables

(1) Other receivables by customer type:

Customer type	2017	2016
Other receivables due from subsidiaries	<b>391,809,816.88</b>	369,773,724.00
Other receivables due from non-related parties	<b>3,565,389.22</b>	2,695,665.41
Sub-total	<b>395,375,206.10</b>	372,469,389.41
Less: Provision for bad and doubtful debts	<b>(417,120.24)</b>	(753,597.94)
Total	<b>394,958,085.86</b>	371,715,791.47

(2) The ageing analysis of other receivables is as follows:

Ageing	2017	2016
Within 1 year (inclusive)	<b>243,536,331.76</b>	303,496,438.67
Over 1 year but within 2 years (inclusive)	<b>122,037,812.50</b>	68,431,513.37
Over 2 year but within 3 years (inclusive)	<b>29,433,024.40</b>	89,472.37
Over 3 years	<b>368,037.44</b>	451,965.00
Sub-total	<b>395,375,206.10</b>	372,469,389.41
Less: Provision for bad and doubtful debts	<b>(417,120.24)</b>	(753,597.94)
Total	<b>394,958,085.86</b>	371,715,791.47

The ageing is counted starting from the date when other receivables are recognised.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

#### 2 Other receivables (Continued)

##### (3) Other receivables by category:

Category	Note	2017				Carrying amount	2016				Carrying amount
		Book value		Provision for bad and doubtful debts			Book value		Provision for bad and doubtful debts		
		Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Individually significant and assessed for impairment individually	(a)	-	0%	-	0%	-	-	0%	-	0%	-
Collectively assessed for impairment based on credit risk characteristics*	(b)										
Related party Group		391,809,816.88	99%	-	0%	391,809,816.88	369,773,724.00	99%	-	0%	369,773,724.00
Ageing Group		3,119,289.22	1%	(70,325.24)	2%	3,048,963.98	2,169,100.41	1%	(286,832.94)	13%	1,882,267.47
Sub-total		394,929,106.10	100%	(70,325.24)	0%	394,858,780.86	371,942,824.41	100%	(286,832.94)	0%	371,655,991.47
Individually insignificant but assessed for impairment individually		446,100.00	0%	(346,795.00)	78%	99,305.00	526,565.00	0%	(466,765.00)	89%	59,800.00
Total		395,375,206.10	100%	(417,120.24)	0%	394,958,085.86	372,469,389.41	100%	(753,597.94)	0%	371,715,791.47

Note\*: This category includes other receivables having been individually assessed but not impaired.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

#### 2 Other receivables (Continued)

##### (3) Other receivables by category: (Continued)

- (a) No provision for bad and doubtful debts for other receivables which are individually significant and assessed for impairment individually at the end of the year.
- (b) Other receivables which are collectively assessed for impairment using the ageing analysis method at the end of the year:

Ageing	Book value	Provision for bad and doubtful debts	Percentage of provision
Within 1 year			
Including: within 6 months	2,789,667.53	–	0%
7 to 12 months	185,860.30	(9,293.02)	5%
Sub-total	2,975,527.83	(9,293.02)	0%
Over 1 year but within 2 years	83,723.95	(16,744.78)	20%
Over 2 year but within 3 years	31,500.00	(15,750.00)	50%
Over 3 year	28,537.44	(28,537.44)	100%
Total	3,119,289.22	(70,325.24)	2%

##### (4) Additions, recoveries or reversals of provision for bad and doubtful debts during the year:

	Note	2017	2016
Balance at the beginning of the year		753,597.94	756,628.32
Additions during the year		49,380.24	327,132.93
Recoveries or reversals during the year	(a)	(385,857.94)	(318,443.32)
Written-off during the year	(b)	–	(11,719.99)
Balance at the end of the year		417,120.24	753,597.94

- (a) No significant recoveries or reversals of provision for bad debts and doubtful debts of other receivables which are fully or substantially impaired during the year.
- (b) No other receivables which are individually significant are written off during the year.



## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

#### 2 Other receivables (Continued)

##### (5) Other receivables by nature

Nature of receivables	2017	2016
Receivables due from subsidiaries	391,809,816.88	369,773,724.00
Advances to key management personnel	–	95,965.00
Employees' loans	794,835.99	598,611.25
Deposits receivable due from third parties	732,235.00	740,673.34
Others	2,038,318.23	1,260,415.82
Sub-total	395,375,206.10	372,469,389.41
Less: Provision for bad and doubtful debts	(417,120.24)	(753,597.94)
Total	394,958,085.86	371,715,791.47

##### (6) Five largest other receivables by debtor at the year end:

Debtor	Nature of receivables	Balance at the end of the year	Ageing	Percentage of total other receivables (%)	Provision for bad and doubtful debts at year-end
Lanzhou Ruixing	Advance to subsidiary	98,038,647.69	Within 2 years	25%	–
Qinghai Shengya	Advance to subsidiary	69,081,790.98	Within 3 years	17%	–
Yuzhong Ruifeng	Advance to subsidiary	68,978,435.05	Within 1 year	17%	–
Linxia Ruiyuan	Advance to subsidiary	51,131,324.71	Within 2 years	13%	–
Linxia Ruian	Advance to subsidiary	45,653,298.33	Within 2 years	12%	–
Total		332,883,496.76		84%	–

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

#### 3 Long-term equity investments

(1) Long-term equity investments by category:

Item	2017			2016		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Investments in subsidiaries	233,013,711.60	-	233,013,711.60	233,013,711.60	-	233,013,711.60
Total	233,013,711.60	-	233,013,711.60	233,013,711.60	-	233,013,711.60

(2) Investments in subsidiaries:

Subsidiary	Balance at the end of 2017	Balance at the end of 2016
Qinghaihu Dairy	53,013,711.60	53,013,711.60
Qinghai Shengya	30,000,000.00	30,000,000.00
Qinghai Shengyuan	30,000,000.00	30,000,000.00
Yuzhong Ruifeng	20,000,000.00	20,000,000.00
Linxia Ruiyuan	30,000,000.00	30,000,000.00
Linxia Ruian	20,000,000.00	20,000,000.00
Wuwei Ruida	20,000,000.00	20,000,000.00
Ningxia Zhuangyuan	20,000,000.00	20,000,000.00
Lanzhou Ruixing	10,000,000.00	10,000,000.00
Total	233,013,711.60	233,013,711.60

For information about the subsidiaries of the Company, refer to Note V.

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIII. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

#### 4 Operating income and operating costs

Item	2017		2016	
	Income	Costs	Income	Costs
Principal activities	438,098,110.25	313,876,093.04	458,297,903.90	306,732,630.85
Other operating activities	2,714,218.03	1,286,709.99	4,432,960.72	1,449,058.74
Total	440,812,328.28	315,162,803.03	462,730,864.62	308,181,689.59

Breakdown of operating income:

Item	2017	2016
Operating income from principal activities		
– Sale of goods	438,098,110.25	458,297,903.90
Sub-total	438,098,110.25	458,297,903.90
Other operating income		
– Other income	2,714,218.03	4,432,960.72
Total	440,812,328.28	462,730,864.62

## Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### XIV. EXTRAORDINARY GAINS AND LOSSES

Item	2017	2016
(1) Disposal of non-current assets	(276,141.49)	(158,616.54)
(2) Government grants recognised through profit or loss (excluding those having close relationships with the Group's operation and enjoyed in fixed amount or quantity according to uniform national standard)	19,389,329.40	16,795,468.85
(3) Fund usage fees received/receivable from non-financial institutions recognised in profit or loss	–	685,728.83
(4) Other non-operating income and expenses besides items above	261,542.09	(325,442.39)
(5) Income tax effect	(1,711,621.14)	(2,000,490.57)
Total	17,663,108.86	14,996,648.18
Including: Extraordinary gains and losses effect on net profit attributable to the shareholders of the Company	17,663,108.86	14,996,648.18

### XV. RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with “Regulation on the Preparation of Information Disclosures by Companies Issuing Securities No. 9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share” (2010 revised) issued by the CSRC and relevant accounting standards, the Group's return on net assets and earnings per share are calculated as follows:

2017	Weighted average return on net assets (%)	Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	8%	0.46	0.46
Net profit excluding extraordinary gain and loss attributable to the Company's ordinary equity shareholders	6%	0.34	0.34
2016	Weighted average return on net assets (%)	Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	11%	0.54	0.54
Net profit excluding extraordinary gain and loss attributable to the Company's ordinary equity shareholders	8%	0.43	0.43

# Financial Summary

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

	Years ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Operating income	<b>628,374</b>	665,823	626,153	598,181	494,024
Profit for the year	<b>68,352</b>	75,910	73,246	65,409	34,639
Attributable to equity shareholders of the Company	<b>68,352</b>	75,910	73,246	65,409	34,639
Earnings per share (RMB) <sup>(1)</sup>	<b>0.46</b>	0.54	0.65	0.62	0.33
Proposed dividend per share (RMB)	<b>7.30 cents</b>	7.42 cents	7.12 cents	–	–
Total assets	<b>1,803,718</b>	1,341,588	1,340,782	1,201,489	1,060,998
Total liabilities	<b>676,053</b>	581,353	646,454	706,074	630,992
Total equity attributable to equity shareholders of the Company	<b>1,127,665</b>	760,235	694,328	495,415	430,006

<sup>(1)</sup> Please refer to Note VI. 42 on page 153 for calculation of earnings per share.