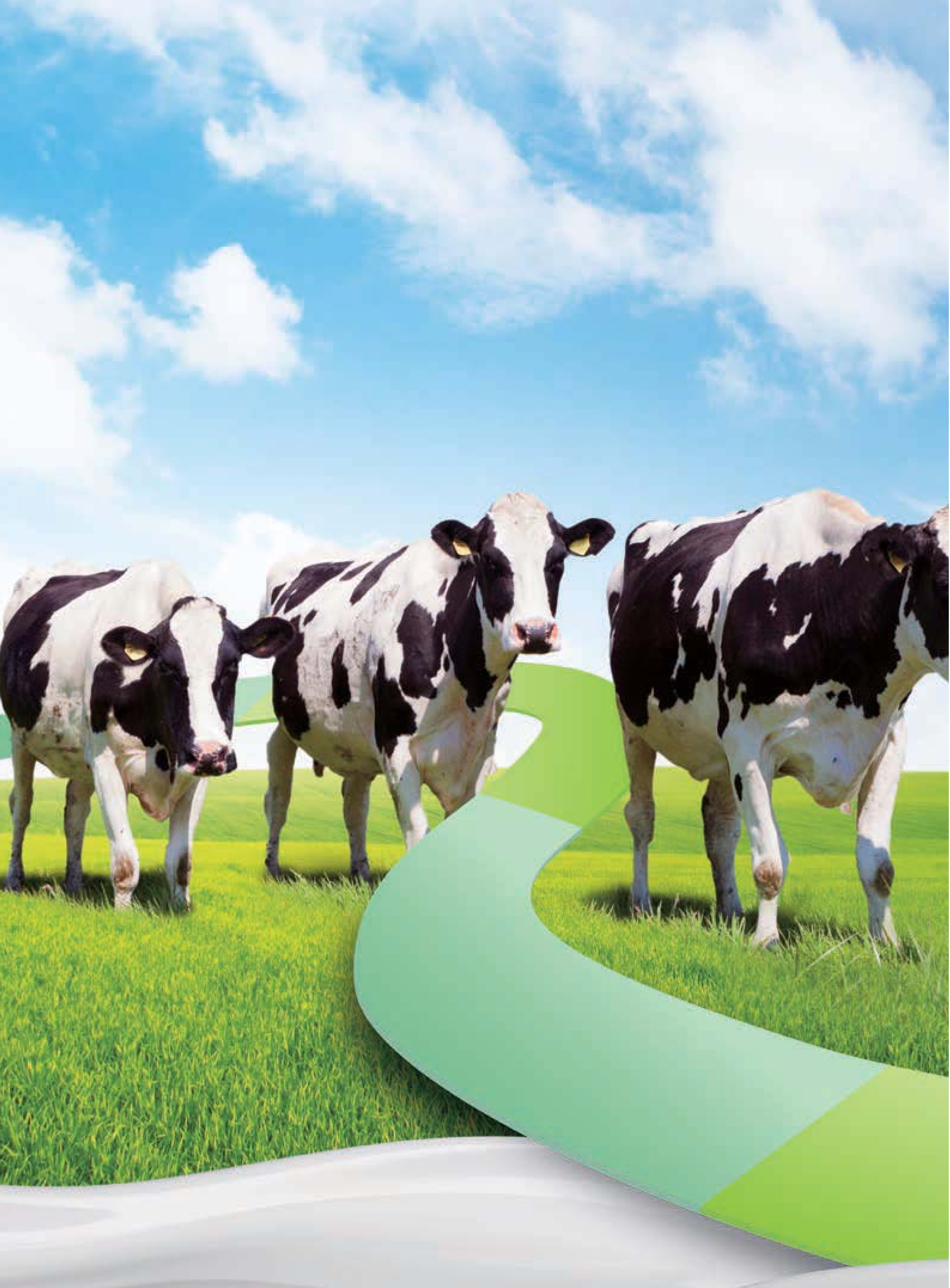
CHINA SHENGMU ORGANIC MILK LIMITED
中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1432

2017 ANNUAL REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. YAO Tongshan
Mr. WU Jianye
Ms. GAO Lingfeng
Mr. CUI Ruicheng

Non-executive Directors

Mr. SHAO Genhuo
(Chief Executive Officer and Chairman)
Mr. WEN Yongping
Mr. FAN Xiang
Mr. CUI Guiyong
Mr. SUN Qian
Mr.ZHANG Jiawang

Independent Non-executive Directors

Mr. LI Changqing
Ms. GE Xiaoping
Mr. FU Wenge
Mr. WANG Liyan
Mr. LI Xuan

JOINT COMPANY SECRETARIES

Mr. CUI Ruicheng
Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. CUI Ruicheng
Mr. AU Wai Keung

AUDIT COMMITTEE

Ms. GE Xiaoping *(Chairman)*
Mr. LI Changqing
Mr. WANG Liyan

REMUNERATION COMMITTEE

Mr. LI Changqing *(Chairman)*
Mr. SUN Qian
Mr. LI Xuan

NOMINATION COMMITTEE

Mr. FU Wenge *(Chairman)*
Mr. SHAO Genhuo
Mr. YAO Tongshan
Mr. LI Changqing
Mr. WANG Liyan

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 606-607
6/F, China Merchants Building
152-155 Connaught Road Central
Hong Kong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Food Industry Park, Deng Kou County
Bayannur City
Inner Mongolia Autonomous Region
PRC

STOCK CODE

The Main Board of The Stock Exchange of Hong Kong Limited
1432

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1112
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China Limited (Hohhot Zhongshan Branch)
China Construction Bank Corporation
(Operation Department, Inner Mongolia Autonomous Region Branch)
Bank of Communications Co., Ltd. (Hohhot, Ulan Branch)
China Minsheng Bank Co., Ltd. (Hohhot Branch)
Baoshang Bank Co., Ltd. (Hohhot Branch)
Hengfeng Bank Co., Ltd. (Xi'an Branch)
China CITIC Bank Co., Ltd. (Hohhot Branch)

AUDITOR

Ernst & Young

LEGAL ADVISOR

As to Hong Kong Law

King & Wood Mallesons
Linklaters

As to Cayman Islands Law

Maples and Calder

WEBSITE

http://www.youjimilk.com

LOCATION MAP OF ORGANIC PRODUCTION BASE

SHAO Genhuo
Chairman

Dear Shareholders,

I, hereby on behalf of the board of the Company (the "**Board**"), present the annual report of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended December 31, 2017.

With increasing global competition in the dairy industry and the sluggish upstream of milk industry in China, China Shengmu recorded a negative growth in its results of operations for the first time in 2017, which represented a considerably severe operational challenge. In response to the challenge, China Shengmu, by leveraging on its unique desert-based grass-to-glass organic raw milk based on its unique "desert-based grass-to-glass organic production model", and by benefitting from its innovative grass-to-glass organic liquid milk products for many years and its leading and differentiated downstream product marketing and sales channel building strategy, preliminarily delivered a high brand image of "Shengmu" brand into the minds of Chinese consumers, improved its market awareness and reputation to some extent, and formed a relatively stable consumer group that keeps growing, thus laying a solid foundation for improved results of operations in 2018.

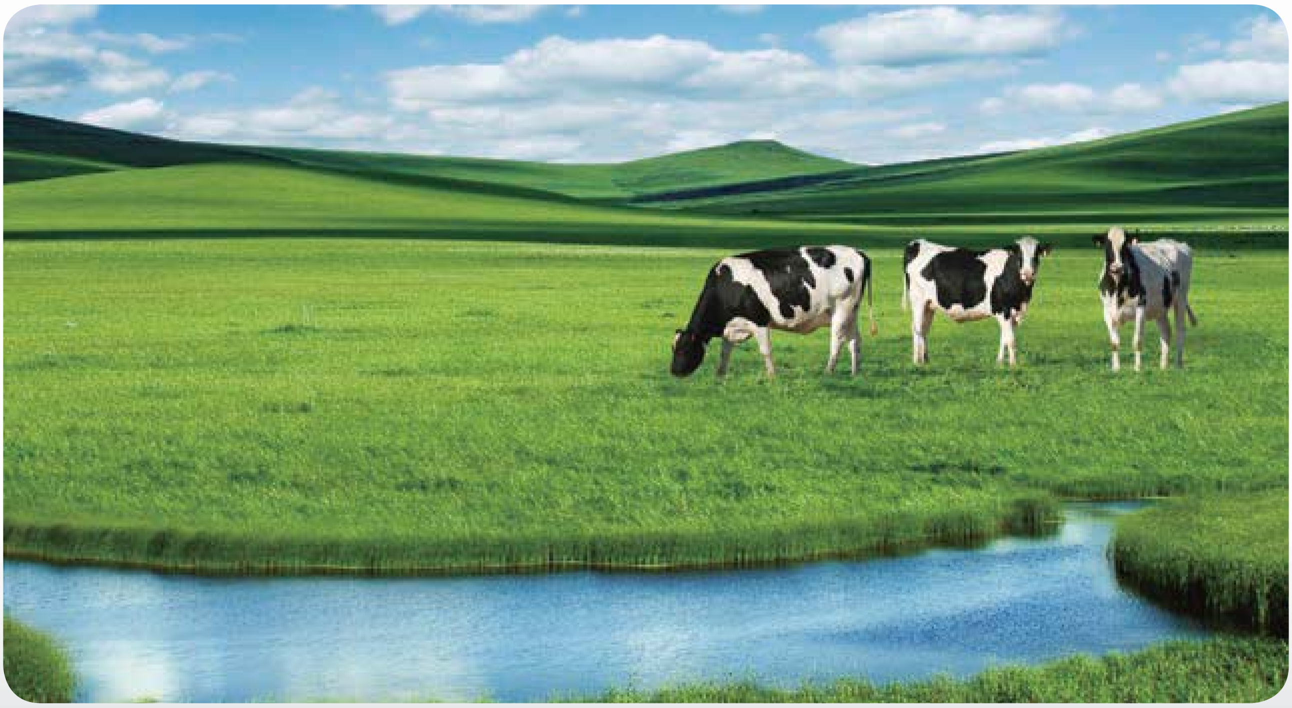
At the 4th Inner Mongolia Brand Summit (第四屆內蒙古品牌大會), Shengmu, with a brand value of RMB16.906 billion, ranked No. 5 on the "Inner Mongolia Top 100 Brands List 2017 (2017內蒙古名片百強品牌榜)". It recorded a growth rate of 51% in terms of brand value as compared with that of 2016, representing a significant increase. In the 11th BIOFACH CHINA Organic Trade Fair (中國國際有機食品博覽會), organic dairy products of Shengmu were awarded the Gold Medal for the seventh time.

In 2017, China Shengmu reported a growth of more than 100% in e-commerce sector by further innovating sales model and expanding sales channels. Comparing with its competitors, China Shengmu has been in the leading position in terms of the development of e-commence sales mode, which guided new development direction for the channels development of high-end liquid milk markets.

In 2017, China Shengmu continued to deploy its unique vertically integrated "desert-based grass-to-glass organic production model"with scientific planning in Ulan Buh Desert in line with international standards. The green ecofriendly production model is the core business model and philosophy of China Shengmu as well as the foundation for China Shengmu to produce quality organic products, enabling it to provide consumers with premium quality and safe grass-to-glass organic dairy products. China Shengmu has persisted with the aims of "being a green industry, it creates value and gives back to the society and benefits the nation and people" for many years. As at the end of 2017, Shengmu Forage and Shengmu have successfully transformed and greened 300 thousand mu of soil in the hinterland of Ulan Buh Desert and planted more than 90 million of trees for sand fixation, which not only actively benefits the national desert treatment and ecological civilization construction, but also significantly reduces the wind and sand encroachment that has been suffered by people living in the surrounding cities for many years. While achieving economic benefits and improving the natural environment, Shengmu has not forgotten to contribute to the society. Shengmu makes effort to support public welfare undertakings to send health, warmth and love to hundreds of armies covering navy, land forces, and air forces nationwide, and people at all levels of society in 2017, which has been well received and highly praised by all sectors of society.

Shengmu Group recognizes "creating desertification control mode at industrial scale, establishing eco-civilization construction demonstration area and enabling national people to enjoy dairy products of highest quality worldwide" as its mission. As a dreamer to develop organic business and ecological business, I am proud of my choice, and all personnel in Shengmu are proud of our common ideal. In the future, we will continue to make the desert-based grass-to-glass organic production bigger and more prosperous, thus rewarding our shareholders and the investors with high achievement.

SHAO Genhuo
March 29, 2018



MARKET OVERVIEW

With the improvement of people's income and living standard, consumers have higher standards on the healthiness, safety and nutrition of food. In particular, due to the heavily polluted environment and rising incidence of serious diseases, consumers have become increasingly concerned about food safety. By contrast with developed countries, organic food takes few shares in domestic market, representing a good opportunity as well as vast potential for the development of the industry.

This dairy products industry in the PRC is still in the stage of rapid development in view of its later start. In recent years, the increasing per capita income of the PRC has laid foundations for upgrading the consumption in this industry. The consumers' consumption custom about dairy products has gradually matured. The general consumption volume of dairy products in the PRC will maintain an increasing trend in the future years.

China's No.1 Central Document in 2017 specifies that the government shall guide companies to strive for international organic certification of agricultural products and improve the authority and influence of domestic green and organic certification. Given the rising popularity of nutritious and healthy food, the organic food sector is expected to be a "sunrise industry" in China.

On January 9, 2017, five ministries and commissions including the Ministry of Agriculture, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Commerce, and China Food and Drug Administration jointly issued the "National Development Plan for Dairy Industry (2016-2020)" (《全國奶業發展規劃 (2016-2020年)》(the "13th Five-Year Plan for Dairy Industry"). The Plan explicitly states that it will accelerate the transforming of production model in the dairy industry and enhance integrated development of the dairy industry so that the dairy industry will make an obvious progress in the modernization and enter the global advanced ranks in its entirety by 2020.

Yu Kangzhen (于康震), vice minister of the Ministry of Agriculture, said that parties including the government, the associations and enterprises shall collaborate sufficiently with each other to proactively respond to and resolve the issue. First, "grow good forage", to enhance the supply of premium forage for dairy cows; second, "raise good cows", to enhance the standardized farming of scale for dairy cows; third, "produce premium milk", to improve the quality safety of dairy products; fourth, "procure integration", to enhance the integrated development of the dairy industry; and fifth, "strengthen promotion", to enhance the influence of China's dairy industry.

The dairy industry in the PRC is experiencing a special period of comprehensively transforming from a traditional industry to a modern one and from a weak industry to an efficient one. At such point of transforming and upgrading, the dairy industry in the PRC will certainly obtain trust in the wave of upgrading consumption and expand broader development space by grasping the trend of consumers' demand, providing high-value consumption experience, implementing deep layout of industry chain, and possessing capacity and strength to make the products differential against the backdrop of upgrading consumption.

BUSINESS REVIEW

China Shengmu is the largest organic dairy company in the PRC in terms of the herd size of organic dairy cows and the production volume of organic raw milk for the year ended December 31, 2017. China Shengmu is the only vertically integrated grass-to-glass organic dairy company in the PRC that meets the E.U. organic standards. It is also the only dairy company in the PRC that offers branded organic dairy products that are 100% processed from raw milk produced by self-owned certified organic dairy farms and the only sizeable dairy company in the PRC to operate the "desert-based grass-to-glass organic production model"(沙漠全程有機產業體系). Starting with the selection of milk sources, Shengmu has created a grass-to-glass organic production model from forage planting to herd farming, then to product processing and finally to market for sales. It has created the first complete desert-based revolving industry chain for organic milk in the world. The entire five processes including organic environment, organic planting, organic farming, organic processing, and organic market are all controllable and form Shengmu's unique complete revolving organic ecological circle.

In response to the rising competition in the dairy market, the Group established a development strategy of "brand upgrade, price stabilization, channel expansion and innovative development", under which, the Group heightened the expansion of new channels while focusing on the key markets for efficient operation. In 2017, the revenue of the Group amounted to RMB2,706.8 million and its gross profit amounted to RMB1,084.4 million, of which the revenue of grass-to-glass organic liquid milk under its self-owned brand amounted to RMB1,400.3 million, accounting for 51.7% of the total revenue of the Group.

In 2017, the Group has determined to carry out its new strategic approach, which delivered an excellent brand image, market recognition and reputation of "Shengmu" brand among consumers, paving a solid foundation for the Group to "battle 2018". The employees in China Shengmu are confident in the future development prospects.

Stabilize Price, Expand Channels, Explore New Marketing Models, and Create High-end Brand

Despite the fierce market competition in 2017, China Shengmu explicitly defined its market position as a supplier of high-end and premium products with high value. Being committed to maintaining a good brand image, the Group has proactively optimized its product structure and improved the price of its end products.

For the development of channels, the Group continued to give strong support to its distributors and sub-distributors. A modern supermarket (stores in class A) channel plan has been implemented in the national market. By the end of 2017, its products have been introduced to approximately 4,300 modern supermarkets, with Shengmu organic liquid milk products covering various large-scale chain supermarkets, such as RT-Mart and Auchan. On the other hand, under the "blue ocean" channel strategy, the Group has established 120,000 super-community stores, which were categorized into class B and class C and each under separate management. These super community stores enabled the Group to narrow its distance with consumers and be close to the people's life.

The Group made great progress in the field of e-commerce, which achieved 100% sales growth in 2017. By immediately following the development trend of e-commerce, the proportion of Shengmu organic milk's sales through the channel of e-commerce has increased in a stable way, currently outperforming its peers. In July 2017, China Shengmu and Suning Commerce Group Co., Ltd. signed a strategic cooperative agreement by which Shengmu officially participated in the Suning 818 shopping gala. During the year, Shengmu has established a proprietary farm for Suning whose members are specially provided with dairy products produced from such farm. Thus, Suning has become the first e-commerce platform owning a proprietary farm. Moreover, China Shengmu and Suning will cooperate deeply in many aspects such as marketing resources, brand reactivity and diversified cooperation. They will also cooperate in public welfare. They plan to carry out a crowdfunding activity to green desert through purchasing of Shengmu's products together with "11 Sunning" activity of Suning. The upgraded cooperation between China Shengmu and Suning aims to meet consumers' demands and produce organic milk beneficial for the health of people.

In 2017, China Shengmu started cooperation with Yunji, an emerging e-commerce company, and made remarkable achievements. With the established platform of Yunji, the largest and leading social marketing enterprise in China, Shengmu interacted with its customers through diversified marketing activities and invited popular on-line shop-owners to visit its industrial chain base, which, unlike the traditional sales channels, impressed the wide consumers greatly. An aggregate revenue of RMB100 million was recorded through Yunji in 2017.

In respect of special sales activities, China Shengmu and Easy Joy at gas stations of Sinopec have cooperated in 2017 and achieved excellent performance during the year. Various promotion and marketing activities were organized and attracted over two million fans. Such frequent promotion and marketing activities increase the number of re-purchases and effectively boosted product sales.

Creating a Green GDP Model to Control Desertification by "Industry" is beneficial to the Country and the People and has Won Recognition among Professionals at Home and Abroad

Shengmu has established a complete revolving organic ecological circle in the hinterland of Ulan Buh Desert through unremitting efforts for many years, providing a new sample and creating a new model for desertification control. Shengmu has planted tens of millions of sandy trees in Ulan Buh Desert and made desert reclamation of over 400,000 mu. In the future, pursuing a model of desert control through industry development, the Group will prevent and control desertification while developing its business, aiming to turn a desert of 1,000 square kilometers into oasis during the course of creating a global-leading organic dairy brand.

In 2017, Shengmu put more efforts in organizing the special mega-event "Shengmu Desert Organic Journey". The number of visitors increased by nearly one time compared with that of 2016. Shengmu invited numbers of consumers

from all over the country to visit Ulan Buh Desert and the organic farm base and experience the mode of desert control through organic industry development, enabling them to understand the safety of Shengmu's products, so as to enhance the reputation and brand awareness of Shengmu.

Shengmu's grass-to-glass organic liquid milk products have received wide recognition and popularity. In the BIOFACH CHINA Organic Trade Fair (中國國際有機食品博覽會) held in May 2017, China Shengmu was awarded Gold Medal jointly by the China Green Food Development Center (中國綠色食品發展中心) and the NürnbergMesse Group for the seventh time. And at the 18th China Green Food Exposition in August 2017, Shengmu's grass-to-glass organic milk won the gold prize due to its "zero pollution", "zero addition" and "complete nature".

"Organic" Dairy Farms, Adhere to Sustainable Development and Produce Premium Milk in the Desert

Premium milk derives from good planting. Starting with the source, Shengmu has created a grass-to-glass organic production model from grass-planing to dairy-farming, then to dairy-processing, and finally to the dining tables of consumers.

Farming Business

In order to establish safe base for milk sources, organic dairy farms are essential. The Ulan Buh Desert is a natural isolation area free from epidemics, and the sand beds in the desert provide dairy cows with comfortable living conditions. Sufficient sunlight provides guarantee for dairy cows' synthesis of calcium. Free sand baths make every dairy cow own lustrous and shiny fur. Bright sands can prevent dairy cows from suffering from mastitis. High comfort can allow dairy cows to produce healthy milk.

Shengmu owns 23 organic dairy farms. With sufficient living space of an average of 60 square meters for each cow, standard nutrition formulation management and professional healthcare system, as well as the unique environmental system, all dairy cows can enjoy cozy living conditions. Advanced facilities and standard milking process ensure high quality raw milk with better nutritive and hygienic index than its peers. Besides, established quality tracking system is also in place, with unique identity code on the ear of each cow, which ensures that the entire process can be traceable.

Herd Size and Production

As at December 31, 2017, the Group had 23 organic dairy farms in operation, and 12 non-organic farms in operation. The organic and non-organic herd size of the Group have changed from 94,815 and 34,514 dairy cows as at December 31, 2016 to 95,181 and 29,161 dairy cows as at December 31, 2017, respectively.

	As at December 31									
	2017					2016				
	Number of dairy farms	Calves and heifers	Milkable cows	Beef cattle	Subtotal	Number of dairy farms	Calves and heifers	Milkable cows	Beef cattle	Subtotal
Organic	23	41,247	53,934	6,944	102,125	23	45,534	49,281	—	94,815
Non-organic	12	10,136	19,025	731	29,892	12	13,908	20,606	—	34,514
Total	35	51,383	72,959	7,675	132,017	35	59,442	69,887	—	129,329

The Group produced 452,857 tonnes of organic raw milk and 156,328 tonnes of premium non-organic raw milk in 2017, and produced 421,023 tonnes of organic raw milk and 177,356 tonnes of premium non-organic raw milk in 2016.

Organic Forage Planting

Forage is an essential raw material in organic dairy farming. Pursuant to a long-term strategic cooperation agreement entered into with us, Shengmu Forage continues to supply organic forage to us. Currently, Shengmu Forage owns developed grassland of over 200,000 mu. Abundant organic manure from organic farming and mature management model for standard organic planting facilitate alfalfa and corn planting in the desert.

Legume forage, such as medicago, can facilitate effective circulation of substances. A large number of creatures living in the soil under a corn can increase organic matter of the soil and prevent the soil from hardening. Corn's abundant roots can fix surface soil to avoid loss of topsoil and enhance soil's capability to keep water and fertility. Therefore, a sustainable green ecological cycle is formed. As a portion of the cycle, quality organic forage improves the quality of dairy, thus playing a key rule in the process of dairy farming in organic dairy farms.

Liquid Milk Business

All the raw milk of Shengmu used to produce self-owned brand grass-to-glass organic liquid milk is resourced from self-owned organic dairy farms of Shengmu. The Group has invested heavily to construct world-leading A3 aseptic filling equipment imported from Sweden. At the same time, it introduced the most advanced Tetra Pak production system worldwide to follow the processing flow of organic milk, which has no chemical additives such as preservatives, colorants, etc. and thus is natural and healthy. Every bag of the organic milk is stamped with spray code, the organic traceability code authorized by CNCA.

The formation of comprehensive organic milk model by Shengmu also marks the progress made in industrial technology capability in dairy industry in China, which effectively promoted the supply capability of domestic organic dairy products, satisfied the needs of Chinese people for high-quality diary milk, embarked on a new milestone of domestic grass-to-glass organic traceable liquid milk, and improved the product quality in the industry and market competitiveness, thus enabling dairy industry to achieve sustainability in a real sense.

There is an aggregate of 16 production lines of liquid milk operated by the Group during the year, and the production volume of organic liquid milk products under its self-owned brand which were entirely processed from raw milk produced by self-owned certified organic dairy farms stood at 151,070 tonnes as compared to 197,276 tonnes for the year of 2016.

FINANCIAL REVIEW

In 2017, the Group's revenue decreased by 21.9% from RMB3,466.5 million in 2016 to RMB2,706.8 million. Gross profit of the Group decreased by 35.3% from RMB1,675.4 million in 2016 to RMB1,084.4 million in 2017. (Loss)/profit attributable to owners of the parent decreased by 244.8% from profit attributable to owners of the parent of RMB680.6 million in 2016 to loss attributable to owners of the parent of RMB985.8 million in 2017.

ANALYSIS ON CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Unit: RMB in thousands, except percentages

	Dairy farming business				Liquid milk business				
For the year ended December 31,	Segment revenue	Inter-segment sales(1)	External sales	External sales as % of total revenue	Segment revenue	Inter-segment sales	External sales	External sales as % of total revenue	Total revenue
2017	2,502,230	1,223,040	1,279,190	47.3%	1,439,172	11,520	1,427,652	52.7%	2,706,842
2016	2,662,954	1,302,553	1,360,401	39.2%	2,106,143	—	2,106,143	60.8%	3,466,544

(1) Represents self-produced raw milk sold to the Group's liquid milk business.

Given the rising competition existing in the dairy market, the Group required the market terminals to stabilize prices globally to improve the brand image of Shengmu. In 2017, the sales volume of the Group's own organic liquid milk products decreased by approximately 21.7%. Meanwhile, the Group strengthened its support to distributors and sub-distributors by reducing the price of liquid milk products moderately. The revenue of the Group's own organic liquid milk products in 2017 was affected by the price stabilization actions of the Group, and amounted to RMB1,400.3 million, representing a decrease of approximately 31.8% against 2016. Further, the selling price of raw milk in 2017 significantly decreased against last year due to market competition, which was another main reason for the decrease in the Group's revenue against 2016.

Dairy Farming Business

	For the year ended December 31,							
	2017				2016			
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/ Tonne)	Revenue as % of dairy farming segment revenue	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/ Tonne)	Revenue as % of dairy farming segment revenue
Organic raw milk								
External sales	815,492	211,027	3,864	32.6%	784,631	166,986	4,699	29.5%
Inter-segment sales(1)	1,167,334	222,755	5,240	46.6%	1,222,020	228,761	5,342	45.9%
Subtotal	1,982,826	433,782	4,571	79.2%	2,006,651	395,747	5,071	75.4%
Premium non-organic raw milk								
External sales	463,698	137,412	3,375	18.6%	575,770	156,455	3,680	21.6%
Inter-segment sales(2)	55,706	14,736	3,780	2.2%	80,533	18,765	4,292	3.0%
Subtotal	519,404	152,148	3,414	20.8%	656,303	175,220	3,746	24.6%
Dairy farming segment	2,502,230	585,930	4,271	100.0%	2,662,954	570,967	4,664	100.0%

(1) Represents self-produced organic raw milk sold to the Group's organic liquid milk business.

(2) Represents self-produced premium non-organic raw milk sold to the Group's high-end non-organic liquid milk business.

In 2017, total sales volume of the Group's raw milk increased slightly relative to 2016. However, affected by the current condition of domestic dairy industry, the selling price of raw milk dropped significantly relative to 2016, which led to a decrease in revenue from the dairy farming segment from RMB2,663.0 million in 2016 to RMB2,502.2 million in 2017. The inter-segment sales volume to organic liquid milk processing plant maintained a high proportion over the total sales volume of organic raw milk, enabling the Group to develop the dairy farming business in a sustainable manner through the development, construction and consolidation of the market of its own liquid dairy products from "grass-to-glass organic production model" amid the prolonged "chill" of the dairy industry.

Liquid milk business

In 2017, affected by the increase in price of the market terminals, the sales in the market decreased significantly and revenue from liquid milk business of the Group decreased by 32.2% from RMB2,106.1 million in 2016 to RMB1,427.7 million. Revenue from liquid milk business maintained at a high level in 2017, accounting for 52.7% of total revenue of the Group. In addition, revenue from organic business (comprising organic raw milk business and organic liquid milk business) accounted for 81.9% of total revenue of the Group in 2017.

Organic liquid milk business

	For the year ended December 31,		
	2017	2016	Decrease
Revenue (RMB'000)	1,400,277	2,054,292	(31.8%)
Sales volume (Tonnes)	145,949	186,393	(21.7%)
Average selling price (RMB/Tonne)	9,594	11,021	(12.9%)

Revenue from Organic/Non-Organic Business and Percentages

Unit: RMB in thousands, except percentages

	For the year ended December 31,			
	2017		2016	
	Amount	Percentage	Amount	Percentage
Organic products				
Organic liquid milk	1,400,277	51.7%	2,054,292	59.3%
Organic raw milk	815,492	30.2%	784,631	22.6%
Subtotal of organic products	2,215,769	81.9%	2,838,923	81.9%
Non-organic products				
Premium non-organic raw milk	463,698	17.1%	575,770	16.6%
High-end non-organic liquid milk	27,375	1.0%	51,851	1.5%
Subtotal of non-organic products	491,073	18.1%	627,621	18.1%
Total	2,706,842	100.0%	3,466,544	100.0%

Cost of Sales, Gross Profit and Gross Margin

	For the year ended December 31,					
	2017			2016		
	Cost of sales Amount	Gross profit Amount	Gross margin	Cost of sales Amount	Gross profit Amount	Gross margin
	(RMB in thousands, except percentages)					
Dairy farming business						
Organic raw milk						
Before elimination	1,056,926	925,900	46.7%	965,276	1,041,375	51.9%
After elimination(1)	513,155	302,337	37.1%	407,299	377,332	48.1%
Premium non-organic raw milk						
Before elimination	375,463	143,941	27.7%	434,862	221,441	33.7%
After elimination(3)	338,055	125,643	27.1%	388,292	187,478	32.6%
Subtotal of dairy farming business						
Before elimination	1,432,389	1,069,841	42.8%	1,400,138	1,262,816	47.4%
After elimination	851,210	427,980	33.5%	795,591	564,810	41.5%
Liquid milk business						
Organic liquid milk business						
Before elimination	1,287,657	124,140	8.8%	1,615,850	438,442	21.3%
After elimination(2)	748,783	651,494	46.5%	969,298	1,084,994	52.8%
High-end non-organic liquid milk business						
Before elimination	27,552	(177)	(0.6%)	51,702	149	0.3%
After elimination(3)	22,481	4,894	17.9%	26,244	25,607	49.4%
Subtotal of liquid milk business						
Before elimination	1,315,209	123,963	8.6%	1,667,552	438,591	20.8%
After elimination	771,264	656,388	46.0%	995,542	1,110,601	52.7%
Total	1,622,474	1,084,368	40.1%	1,791,133	1,675,411	48.3%

(1) Represents gross profit after elimination of internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in our liquid milk business and (ii) the production costs for such organic raw milk calculated as the product of (a) total cost of sales of organic raw milk plus (b) the volume of organic raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.

(2) Represents gross profit after adding back the internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is arrived at by calculating the difference of (i) the inter-segment sales of organic raw milk used in this segment and (ii) the production costs for such organic raw milk, calculated using the formula in note (1) above.

(3) Premium non-organic raw milk after elimination is calculated using the formula in note (1) above, and the premium non-organic liquid milk after elimination is calculated using the formula in note (2) above.

Cost of sales of the Group decreased from RMB1,791.1 million in 2016 to RMB1,622.5 million in 2017. Gross profit decreased from RMB1,675.4 million in 2016 to RMB1,084.4 million in 2017. Gross profit margin decreased from 48.3% in 2016 to 40.1% in 2017.

Cost of sales of the Group decreased by 9.4% in 2017 against 2016. Such decrease in cost of sales was mainly attributable to reduced sales volume of the Group. Gross profit of the Group decreased by 35.3% in 2017 against 2016, higher than the decrease of revenue of the Group, primarily because (1) the Group required the market terminals to stabilize prices globally to improve the brand image of Shengmu, given the rising competition existing in the dairy market. In 2017, the Group's own organic liquid milk products decreased significantly in sales volume; (2) the Group increased its support to distributors and sub-distributors by reducing the price of liquid milk products appropriately in 2017; and (3) the significant decrease in the production of organic liquid milk products in 2017 against 2016 led to a higher unit price of the organic liquid milk products than 2016.

Overall, against the backdrop of unfavourable conditions of and fierce competition in the dairy industry, the Group's overall gross margin declined significantly, while gross margin of the organic business on the whole remained high.

Other Income and Losses

Other income and losses of the Group increased from RMB87.1 million in 2016 to RMB732.9 million in 2017, mainly attributable to the provision for impairment of trade receivables referring to the recoverability of individual account receivables and aging analysis by the Group.

Selling and Distribution Expenses

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, warehouse fees and relevant employees' remunerations. In 2017 and 2016, selling and distribution expenses of the Group amounted to RMB317.4 million and RMB287.9 million, accounting for 11.7% and 8.3% of revenue, respectively. The much higher cost of sales to revenue ratio against last year was mainly attributable to the significant decrease in revenue in 2017 relative to 2016 and the Group's stronger support to the promotion expenses incurred by the distributors and sub-distributor.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees. In 2017 and 2016, administrative expenses of the Group were RMB102.5 million and RMB141.7 million, accounting for 3.8% and 4.1% of revenue, respectively. The lower administrative expense to revenue ratio in 2017 against 2016 was mainly due to the equity-settled share option expense included in the administrative expenses in 2016. Excluding this, administrative expenses in 2017 and 2016 accounted for 3.8% and 2.8% of revenue respectively. Such higher ratio was mainly attributable to the significant decrease in revenue in 2017 against 2016.

Losses Arising from Changes in Fair Value Less Cost of Sales of Biological Assets

Losses arising from changes in fair value less cost of sales of biological assets represents fair value changes in the dairy cows, due to the changes in physical attributes and market prices of the dairy cows and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases, as the discounted cash flow from milkable cow is higher than the selling price of heifer. Further, when a milkable cow is ousted and sold, its value decreases.

In 2017 and 2016, the Group recorded losses arising from changes in fair value less cost of sales of biological assets of RMB595.5 million and RMB15.7 million. The significant increase in losses arising from changes in fair value less cost of sales of biological assets in 2017 against 2016 was mainly attributable to the facts that (i) the Group controlled the numbers of its dairy cows, given the weak demand of raw milk in the market; and (ii) the price of raw milk dropped.

Share of Profits and Losses of Associates

The Group's associates include (a) the companies that were jointly established by the Group and its premium distributors in its key distribution cities to distribute the liquid milk products with the Group's self-owned brand; (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary ("**Shengmu Forage**") in which the Group invested and held minority interests; and (c) Food Union Shengmu Dairy Co., Ltd. ("**Food Union Shengmu**") and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司) in which the Group invested and held minority interests and which produces dairy products with the raw milk to be purchased by it from the Group. In 2017 and 2016, the Group recorded share of losses of associates of RMB6.9 million and RMB16.2 million respectively.

Income Tax Credit

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required.

In accordance with "The Notice of Tax Policies Relating to the Implementation of the Western China Development Strategy" jointly issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation (Cai Shui [2011] No.58) (財政部、海關總署、國家稅務總局《**關於深入實施西部大開發戰略有關稅收政策問題的通知**》(財稅[2011]58號)), the Group's taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Income tax credit of the Group was RMB7.5 million and RMB11.1 million in 2017 and 2016 respectively. Income tax credit of the Group in 2017 was due to the provision of deferred income tax assets for net loss of the liquid milk business and unrealised profit or loss from internal sales.

(Loss)/Profit Attributable to Owners of the Parent and Profit Attributable to Non-Controlling Interests

Profit attributable to non-controlling interests mainly represents the profit attributable to the non-controlling interests in the Group's dairy farms held by the dairy farmers with whom we cooperate in relation to dairy farm management. In 2017, loss attributable to owners of the parent was RMB985.8 million, compared with profit attributable to owners of the parent of RMB680.6 million in 2016. Profit attributable to non-controlling interests in 2017 and 2016 was RMB161.5 million and RMB276.2 million respectively.

(Loss)/profit attributable to owners of the parent in 2017 decreased greatly as compared to 2016 and recorded a substantial loss, which was mainly due to the following reasons: (1) pursuant to the provision policy for asset impairment established by the Group based on its actual production and operation conditions, the Group determined the receivable group by using aging as a credit risk characteristic and, by aging analysis, made provisions for bad debts in respect of account and other receivables, and also estimated the provisions for asset impairment with reference to the recoverability of individual account receivables and customer creditworthiness on a prudent basis, which was RMB657.3 million in 2017; (2) affected by ① the Group's control over the number of dairy cows in response to week demand for raw milk in the market; and ② drop of the price of raw milk, changes in the Group's fair value less cost of sales of biological assets recorded a great loss of RMB595.5 million in 2017; and (3) due to intensified competition in domestic dairy market, both sales volume and selling price of the Group's own liquid milk products decreased greatly against last year, and the average price of raw milk also recorded a large decline against last year.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at December 31, 2017, the total current assets of the Group were RMB3,604.3 million (RMB3,665.3 million as at December 31, 2016), primarily consisting of inventories of RMB860.8 million (RMB928.8 million as at December 31, 2016), biological assets of RMB33.5 million, trade and bills receivables of RMB1,100.0 million (RMB1,108.7 million as at December 31, 2016), prepayments, deposits and other receivables of RMB898.8 million (RMB393.6 million as at December 31, 2016) and cash and bank balances, available for sale investments and pledged deposits of RMB711.2 million (RMB1,234.2 million as at December 31, 2016).

Trade and Bills Receivable

Unit: RMB in thousands, except percentages

	As at	
	December 31, 2017	December 31, 2016
Trade and bills receivables	1,840,492	1,194,299
Impairment	(740,486)	(85,512)
Total	1,100,006	1,108,787

	As at			
Aging	December 31, 2017		December 31, 2016	
	Amount	Percentage	Amount	Percentage
Within 6 months	820,352	74.6%	815,914	73.6%
7 to 12 months	272,596	24.8%	268,863	24.2%
Over 1 year	7,058	0.6%	24,010	2.2%
Total	1,100,006	100.0%	1,108,787	100.0%

The original value of trade and bills receivables of the Group increased substantially against last year, mainly attributable to the Group's stronger support to the sales of the self-owned brand liquid milk products, taking into consideration the recovery days of the receivables from terminal supermarkets and department stores and aiming to increase and consolidate its share in organic liquid milk market.

Pursuant to the provision policy for asset impairment established by the Group based on its actual production and operation conditions, the Group determined the receivable group by using aging as a credit risk characteristic and, by aging analysis, made provisions for bad debts in respect of account and other receivables, and also estimated the provisions for asset impairment with reference to the recoverability of individual account receivables and customer creditworthiness. In 2017, the Group made a total provision of RMB657.3 million for the impairment of account receivables.

Current Liabilities

As at December 31, 2017, total current liabilities of the Group amounted to RMB4,300.9 million (RMB2,292.3 million as at December 31, 2016), primarily consisting of trade and bills payables of RMB1,189.0 million (RMB920.6 million as at December 31, 2016), receipts in advance of RMB14.7 million (RMB13.2 million as at December 31, 2016), other payables and accruals of RMB441.7 million (RMB438.5 million as at December 31, 2016), interest-bearing bank and other borrowings of RMB2,654.0 million (RMB918.4 million as at December 31, 2016), and income tax payable of RMB1.5 million (RMB1.6 million as at December 31, 2016). The large increase in current liabilities as at December 31, 2017 relative to December 31, 2016 was mainly because the rights attached to the corporate bonds in a principal of RMB1,000.0 million issued by the Group on cum-right basis in 2015 may be exercised by the creditors by the end of the third year (i.e. end of 2018), such corporate bonds were accounted as non-current liabilities due within one year. Besides, the Group issued super short-term notes in a principal of RMB400.0 million in 2017.

Non-Current Liabilities

As at December 31, 2017, the total non-current liabilities of the Group amounted to RMB803.0 million (RMB1,859.9 million as at December 31, 2016), primarily consisting of interest-bearing bank and other borrowings of RMB720.2 million (RMB1,752.0 million as at December 31, 2016) and long-term payables of RMB82.8 million (RMB107.9 million as at December 31, 2016).

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and substantially all transactions are conducted in RMB. As at December 31, 2017, the Group did not have significant foreign currency exposure from its operations, except interest-bearing bank borrowings equivalent to approximately RMB322.9 million which were denominated in Euros, bank balances equivalent to approximately RMB5.4 million, RMB174.9 million and RMB4.5 million which were denominated in Hong Kong dollars, United States dollars and Euro, respectively. In 2017, the Group did not enter into any arrangements to hedge against any fluctuation in foreign exchange.

Credit Risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. As the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

Charge on Assets

As at December 31, 2017, the Group had pledged deposits of approximately RMB128.9 million (RMB66.8 million as at December 31, 2016) to banks in the PRC as deposits for the issuance of letters of credit and bank drafts.

Liquidity, Financial Resources and Capital Structure

In 2017, the Group financed its daily operations mainly from internally generated cash flows and bank and other borrowings. As at December 31, 2017, the Group had (a) cash and bank balances of RMB582.3 million (RMB1,047.4 million as at December 31, 2016), and (b) interest-bearing bank and other borrowings of RMB3,374.2 million (RMB2,670.4 million as at December 31, 2016), of which, RMB656.7 million were repayable within one to five years and RMB63.5 million repayable within five to eight years, while the remaining interest-bearing bank and other borrowings were repayable within one year. The gearing ratio (calculated as total debt (total interest-bearing bank and other borrowings) divided by total equity) was 62.3% as at December 31, 2017 (42.1% as at December 31, 2016). Except bank and other borrowings equivalent to RMB322.9 million which are denominated in Euros and bear fixed interest rates, the Group's remaining bank and other borrowings are denominated in RMB and bear fixed interest rates. In 2017, the annual interest rate of bank and other borrowings was 1.55% to 6.98% (2016: 1.55% to 5.87%).

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC in 2017.

CAPITAL COMMITMENTS

As at December 31, 2017, the Group's capital commitments amounted to RMB214.6 million (RMB352.6 million as at December 31, 2016). The Group has sufficient internal and financial resources to fund its capital expenditures.

HUMAN RESOURCES

As at December 31, 2017, the Group had a total of 3,803 employees (3,849 employees as at December 31, 2016). Total staff costs in 2017 (including the emoluments of Directors and senior management of the Company) amounted to RMB285.9 million (excluding equity-settled share option expenses) (RMB280.2 million in 2016).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

The Group has also approved and adopted a pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") and a share option scheme (the "**Share Option Scheme**"). The purpose of the Pre-IPO Share Option Scheme and the Share Option Scheme is to attract, retain and motivate the Directors, senior management and employees of the Group and other participants.

CONTINGENT LIABILITIES

As at December 31, 2017, the Group provided guarantees with amount of RMB160,000,000 (2016: RMB300,000,000) and RMB102,880,000 (2016: RMB51,450,000) for the bank borrowings of Shengmu Forage and Food Union Shengmu, respectively.

MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not make any material acquisitions and disposals of subsidiaries and associated companies in 2017.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS AND EXPECTED SOURCE OF FUNDING

Save as disclosed above in connection with capital commitments under the paragraph headed "Capital Commitments" and in the prospectus under the section headed "Future Plans and Use of Proceeds", the Group does not have any plan for material investments or acquisition of capital assets as at the date of this announcement.

OUTLOOK

The Group's long-term objective is to become a leading organic dairy company in the world.

Build Garden-like Organic Dairy Farms to Produce Milk of Best-Quality

The Group endeavors to build world-class comfortable garden-like organic dairy farms, so as to further improve the herd growing environment and staff working environment and the whole environment of the dairy farms, striking to provide the organic dairy cows in the desert with the best living welfare, and turn them into "happy cows and healthy cows", thus ensuring the producing of milk with best quality.

Increase Investment in Research and Development to Improve Research and Development Capability

For the purpose of improving its research and development ability, the Group proactively explores the establishment of a diversified investment mechanism for research and development. Next, the Group will establish Shengmu Research Institute (聖牧研究院) in cooperation with international and domestic leading scientific research institutes and agricultural colleges, and increase investment in research and development to improve its research and development capability in developing new products and technologies leading the market.

Improve Business Capability of Its Partners

The Group cannot make success without the success of its partners. In 2018, the Group will bring its partners into the group cadre echelon by establishing the Partner Training Institute (事業夥伴培訓學院) and providing them opportunities to study in Tsinghua University and Zhejiang University systematically, aiming to improve their business capability in the aspects of business skills, operating management and entrepreneurship, and build a well disciplined partner team with great mission and vision and strong capability.

Strengthen Brand Building

Brand is deemed as the most valuable wealth of Shengmu organic milk undertakings. In 2018, the Group will continue to firmly build brand awareness through the following three aspects: (1) delivering Shengmu's commitments to top quality, high-end position and ecological welfare to consumers in an omnibearing three-dimensional manner; (2) believing that the Ulan Buh Desert is the best billboard, and bringing the desert scenario to the market and consumers to desert and Shengmu's organic base; and (3) designing and implementing shopping guides, KA counters and display environment in favor of brand image building, so as to fully enhance the brand image of Shengmu.

Intensify Hit Products and Exploit Innovative Channels

In 2018, the Group will carry out all-around product planning, optimize product structure, and upgrade product quality and package. Besides, the Group will mainly engaged in hit products such as gift pack, business pack and children's pack both online and offline. Meanwhile, the Group will exploit innovative sales channels by focusing on the development of new mode channels such as supermarkets and department stores.

Root the Concept of "Great 2B" in Mind

By fully consolidating superior resources, the Group will share its organic achievements with platform such as Tmall, JD.COM, Suning.com, Yunji, as well as enterprises such as PetroChina, Starbucks, Holiland and Xibei, etc. in the form of strategic cooperation and customizing exclusive products flexibly.

Establish "Base" Market to Realize Market Transformation Quickly

In 2018, the Group will centralize superior resources and delegate regional responsibility-owner to establish the "base" market and benchmarking market for the output of "model, sales, talents, efficiency and brand" to generate returns quickly.

Conform to International Standards to Build International Brand Image

Food Union Shengmu, a company jointly established by the Group and Food Union (Dairy) Hong Kong Limited ("**Food Union**"), is expected to commence production in the second half of 2018, which will further enrich Shengmu series products. Targeting at children, high-end low temperature liquid milk products that are suitable for children will be launched to satisfy internationalized and popular demand, so as to facilitate China Shengmu's interconnecting with the international communities. This strategic cooperation, by introducing global-leading process, will accelerate the Company's internationalization and create an international brand image.

REPORT OF THE DIRECTORS

The Board hereby submits annual report together with the audited consolidated financial statements of the Group for the year ended December 31, 2017. Save as stated otherwise in this report, the defined terms herein shall have the same meaning as in the prospectus (the "**Prospectus**") dated June 30, 2014.

BUSINESSES REVIEW

The Group's principal businesses consist of the dairy farming business and the liquid milk business. For details of the principal subsidiaries of the Group, please refer to Note 1 to the financial statements.

The Group's income is mainly derived from its business activities in the PRC. For operating segment information of the Group for the year ended December 31, 2017, please refer to Note 4 to the financial statements. Further details of the Group's business review of the financial year are set out in the section headed "Management Discussion and Analysis" of this annual report.

RESULTS

The Group's consolidated results for the year ended December 31, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income in the financial statements.

FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Summary" in this annual report.

PROPERTY, PLANT AND EQUIPMENT

For details of the changes in the properties, plant and equipment of the Group during the year, please refer to Note 14 to the financial statements.

DONATIONS

The Group made donations with a total amount of RMB10,595,000 (2016: RMB56,233,000) during the year of 2017.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of final dividend for the year ended December 31, 2017 (2016: Nil).

DISTRIBUTABLE RESERVES

The Company's distributable reserves amounted to RMB2,955.7 million as at December 31, 2017. For details of the changes in the Company's reserves in 2017, please refer to Note 43 to the financial statements.

SHARE CAPITAL

For details of the changes in the Company's share capital in 2017, please refer to the consolidated statement of changes in equity in the financial statements and Note 31 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

There were no significant subsequent events for disclosure since the end of reporting period of the Group and up to the latest practicable date prior to the issue of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended December 31, 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

ANNUAL GENERAL MEETING

The 2018 annual general meeting will be held on or before June 30, 2018. A notice convening the 2018 annual general meeting will be published on the website of the Stock Exchange and the Company and dispatched to the Shareholders in due course.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the laws of the Cayman Islands, where the Company is incorporated, contains any provisions relating to pre-emptive rights.

MAJOR CUSTOMERS AND SUPPLIERS

In 2017, the five largest customers of the Group in aggregate accounted for 53.6% of the Group's total revenue and the largest customer accounted for 30.6% of the Group's total income. In 2017, the five largest suppliers of the Group accounted for 30.8% of the Group's total amount of purchases and the largest supplier accounted for 16.2% of the Group's total amount of purchases.

In 2017, to the knowledge of the Directors, except for Shengmu Forage, an associate of the Company, none of any of shareholders or any of Directors or any of their close associates who owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers of the Group.

In 2017, we did not experience any material disputes with our customers or suppliers.

DIRECTORS

For the year ended December 31, 2017, the Company's Directors were as follows:

Executive Directors

Mr. YAO Tongshan
Mr. WU Jianye
Ms. GAO Lingfeng
Mr. CUI Ruicheng

Non-executive Directors

Mr. SHAO Genhuo (Chairman and chief executive officer)
Mr. WEN Yongping (appointed on July 18, 2017)
Mr. FAN Xiang
Mr. CUI Guiyong
Mr. SUN Qian
Mr. ZHANG Jiawang

The former non-executive Director, Mr. DONG Xianli, resigned with effect from July 18, 2017 due to his other business commitments.

Independent Non-executive Directors

Mr. LI Changqing
Ms. GE Xiaoping
Mr. FU Wenge
Mr. WANG Liyan (appointed on June 28, 2017)
Mr. LI Xuan (appointed on June 28, 2017)

The former independent non-executive director, Mr. WONG Kun Kau, Mr. YUAN Qing retired with effect from June 28, 2017 since each of them did not offer himself for re-election at the 2017 AGM.

BIOGRAPHICAL DETAILS OF DIRECTORS AND MEMBERS OF OUR SENIOR MANAGEMENT

Biographical details of Directors and members of our senior management are set out in the section headed "Directors and Senior Management" in this annual report.

PERMITTED INDEMNITY PROVISION

During the financial year, the Company has maintained adequate liability insurances cover in respect of potential legal actions against its Directors.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years starting from the respective appointment date and shall retire and retire by rotation at the general meeting according to the requirements of the Articles of Association of the Company. The Board may appoint any person as a Director from time to time and at any time either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. None of our Directors has entered into any service contract or appointment letter which cannot be terminated within one year without payment of compensation (other than statutory compensation) with 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 financial year.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Mr. YAO Tongshan, an executive Director of the Company, has ceased to act as the chairman of the Board since June 29, 2017 and has also ceased to act as the chief executive officer of the Company since December 15, 2017. Mr. SHAO Genhuo, a non-executive Director of the Company, has been appointed as the chairman of the Board since June 29, 2017, and as the chief executive officer of the Company with effect from December 15, 2017.

Mr. CUI Ruicheng, an executive Director of the Company, has ceased to act as the chief financial officer of the Company since December 15, 2017.

Mr, WEN Yongping, a non-executive Director of the Company, has been appointed as the vice president and the general manager of the milk sources business department of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司) since September 1, 2017.

Ms. GE Xiaoping, an independent non-executive Director of the Company, has been appointed as an independent non-executive director of Fujian SBS Zipper Science & Technology Co., Ltd. (福建潯興科技拉鍊科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002098) since February 10, 2017.

Save as disclosed herein, as at December 31, 2017, there was no change to the information required to be disclosed by the Directors pursuant to paragraph (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. WEN Yongping, a non-executive Director of the Company, has been appointed as the vice president and the general manager of the milk sources business department of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司), a subsidiary of China Mengniu Dairy Company Limited ("**China Mengniu**"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 2319). Since March 29, 2017, Mr. WEN Yongping has been a non-executive director of China Modern Dairy Holdings Ltd. ("**China Modern Dairy**"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1117). For further information on the businesses of China Mengniu and the potential competition between those businesses with the businesses of the Group, please refer to the section headed "Relationship with Controlling Shareholders – Directors' Interests in Competing Business" in the Prospectus.

As at December 31, 2017, Mr. DONG Xianli, a former non-executive Director (resigned on July 18, 2017), is also the chief financial officer of China Modern Dairy.

China Modern Dairy is primarily engaged in (i) dairy farming business, under which it mainly produces and sells raw milk to customers; and (ii) liquid milk products business under its own brands. As the Board is independent of the board of directors of China Modern Dairy, and businesses of the Group and businesses controlled by China Modern Dairy are managed by independent entities under independent management and administration respectively, businesses of the Group and businesses controlled by China Modern Dairy are independent of each other and are conducted separately in arm's length.

Save as disclosed above, all Directors have confirmed that for the year ended December 31, 2017 and as at the date of this report, they and their close associates have not engaged in or held any interest in any business which is or may be, directly or indirectly, in competition with our business.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the criteria set out in Rule 3.13 of the Listing Rules, the Company considers that Mr. LI Changqing, Ms. GE Xiaoping, Mr. FU Wenge, Mr. WANG Liyan and Mr. LI Xuan are independent parties and has received from them written confirmations on their independence.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended December 31, 2017 and as at the date of this report, there was no material acquisition or disposal of subsidiaries or associated companies of the Company by the Group.

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

So far as is known to any Director or chief executive of the Company, as at December 31, 2017, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or the interests or short positions which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or the interests or short positions which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), to be immediately notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
SHAO Genhuo	Interest of a controlled corporation(1)	1,301,651,000(1)	20.48%
YAO Tongshan	Beneficial Owner	380,876,700	5.99%
WU Jianye	Beneficial Owner	170,836,261	2.68%
GAO Lingfeng	Beneficial Owner	129,285,680	2.04%
CUI Ruicheng	Beneficial Owner	53,501,500	0.85%

(1) Mr. SHAO Genhuo (邵根夥) holds the entire equity interests of Beijing Zhi Nong Investment Co., Ltd. ("**Beijing Zhi Nong**"), which in turn holds the entire equity interests of Nong You Co., Ltd ("**Nong You**"). Therefore, Mr. Shao is deemed to be interested in the Shares held by Nong You.

For details of changes of share numbers held by the executive directors of the Company, please refer to the section of "PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME" of this report.

(ii) Long position in the shares of associated corporation

Name	Name of associated corporation	Percentage of interest
YAO Tongshan (姚同山)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	1.45%
WU Jianye (武建鄴)	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司) ("**Shengmu Pangu**")	45.00%
	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	6.83%
GAO Lingfeng (高凌鳳)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	14.52%

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2017, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at December 31, 2017, the following persons (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested or deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
Greenbelt Global Limited	Beneficial Owner	395,235,200(L)	6.22% (L)
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Salata Jean	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial Owner	378,320,000(L)	5.95% (L)
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SC China Holding Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
Sequoia Capital China Advisors Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
Sequoia Capital China Growth 2010, L.P.	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SNP China Enterprises Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SHEN Nanpeng (沈南鵬)	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
The Goldman Sachs Group, Inc.	Beneficial Owner	405,551,200 (L) 9,647,000(S)	6.38% (L) 0.15% (S)
Nong You Co., Ltd.	Beneficial Owner	1,301,651,000(L)	20.48%
Beijing Zhi Nong Investment Co., Ltd.	Interest of a controlled corporation	1,301,651,000(L)	20.48%

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS OF ANY MEMBER OF THE GROUP (OTHER THAN THE COMPANY)

Name	Name of member company	Percentage of interest
Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司)	Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司)	30.00%
Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. (內蒙古聖牧沙草業有限公司) ("**Shengmu Sand and Grass**")	Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司)	35.00%[1]
Shengmu Sand and Grass	Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司)	45.00%[2]
Shengmu Sand and Grass	Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司)	35.00%[3]
Shengmu Sand and Grass	Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司)	35.00%[4]
Shengmu Sand and Grass	Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司)	35.00%[5]
Shengmu Sand and Grass	Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司)	26.00%[6]
YUAN Lun (院輪)	Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司)	9.00%[6]
Shengmu Sand and Grass	Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司)	35.00%[7]
Shengmu Sand and Grass	Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司)	15.48%[8]
Shengmu Sand and Grass	Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司)	35.00%[9]
Shengmu Sand and Grass	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司)	23.40%[10]
GUO Yongfeng (郭永豐)	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司)	11.60%[10]
Shengmu Sand and Grass	Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司)	26.00%[11]
REN Junming (任俊明)	Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司)	9.00%[11]
Shengmu Sand and Grass	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	26.00%[12]
YU Gong (於工)	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	9.00%[12]

Notes:

1. In August 2017, CHEN Qingjun transferred all shares of Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司) held by him to Shengmu Sand and Grass.

2. In August 2017, LI Yongqiang transferred all shares of Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司) held by him to Shengmu Sand and Grass.

3. In August 2017, LI Yundong transferred all shares of Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司) held by him to Shengmu Sand and Grass.

4. In August 2017, WANG Qiang transferred all shares of Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司) held by him to Shengmu Sand and Grass.

5. In August 2017, LI Ruijun transferred all shares of Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司) held by him to Shengmu Sand and Grass.

6. In August 2017, YUAN Lun transferred 26.00% shares of Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司) to Shengmu Sand and Grass.

7. In August 2017, WANG Lixin transferred all shares of Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司) held by him to Shengmu Sand and Grass.

8. In August 2017, CHANG Zhiba transferred all shares of Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司) held by him to Shengmu Sand and Grass.

9. In August 2017, HOU Liubin transferred all shares of Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司) held by him to Shengmu Sand and Grass.

10. In August 2017, GUO Yongfeng transferred 23.40% shares of Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司) to Shengmu Sand and Grass.

11. In August 2017, REN Junming transferred 26.00% shares of Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司) to Shengmu Sand and Grass.

12. In August 2017, YU Gong transferred 26.00% shares of Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司) to Shengmu Sand and Grass.

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who, as at December 31, 2017, was interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The Company has approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of the Shareholders passed on April 30, 2014. The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate the Directors, as well as the senior management of the Group and Shengmu Forage, to provide a means of compensation through the grant of options under the Pre-IPO Share Option Scheme for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. Participants of the Pre-IPO Share Option Scheme include (a) the executive Directors, (b) senior management of the Group, (c) management of the subsidiaries of the Company, and (d) management of Shengmu Forage.

The Pre-IPO Share Option Scheme provides that, within two (2) years (being the period from May 4, 2015 to May 4, 2017) after the Vesting Date, a grantee shall not sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrants, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over (either directly or indirectly, conditionally or unconditionally) any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme.

According to the Pre-IPO Share Option Scheme, options granted (and vested on the Vesting Date) must be exercised by the relevant grantee within six (6) months after the Vesting Date. Options not exercised within such six (6) months shall lapse immediately afterwards. Save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

As the options to subscribe for 488,484,000 Shares were fully vested to 181 grantees on the Vesting Date (i.e. May 4, 2015), they will lapse if not being exercised on or before November 4, 2015.

Pursuant to a resolution approved by the Shareholders at the extraordinary general meeting on November 3, 2015, the Pre-IPO Share Option Scheme was amended as follows:

(1) All the Shares issued pursuant to the exercise of options during the Amended Exercise Period (as defined hereunder) would not be subject to any restriction applicable during the Lock-up Period (being the period from May 4, 2015 to May 4, 2017) provided under the Pre-IPO Share Option Scheme. Grantees are entitled to sell or otherwise dispose of any interest in the Shares after they exercise the options during the Amended Exercise Period (as defined hereunder).

(2) The exercise period provided under the Pre-IPO Share Option Scheme (from May 4, 2015 to November 4, 2015) was varied to the "Amended Exercise Period" in the following manner:

Amended Exercise Period	Maximum percentage of options exercisable during the respective Amended Exercise Period
From May 4, 2016 to May 4, 2017	50% of the options vested
From November 4, 2016 to May 4, 2017	50% of the options vested

If the grantee ceases employment with the Group or Shengmu Forage before May 4, 2016, 100% of the options held by him/her shall lapse immediately, and if the grantee ceases employment with the Group or Shengmu Forage on or after May 4, 2016 but before November 4, 2016, 50% of the options held by him/her shall lapse immediately.

Apart from the above amendments, the other terms of the Pre-IPO Share Option Scheme remain the same. The Pre-IPO Share Option Scheme was conditionally approved and adopted pursuant to shareholders' resolutions passed on April 30, 2014. On the same date, all options under the Pre-IPO Share Option Scheme were granted to the respective grantees. The Pre-IPO Share Option Scheme will remain in force for a period of four years commencing on the date on which an option is granted pursuant to the scheme, and will accordingly expire on April 30, 2018.

The table below sets out the particulars of changes of options granted under the Pre-IPO Share Option Scheme from January 1, 2017 to December 31, 2017:

	Number of options [1]						
Number of options Name or category of participant	As at January 1, 2017	Exercised during the period	Lapsed/ Cancelled during the period	As at December 31, 2017	Date of grant of options	Exercise period of options (both dates inclusive)	Exercise price of options (HK$)
Directors of the Company							
YAO Tongshan	70,419,200	Nil	70,419,200	—	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% [1]	HK$1.56
WU Jianye	64,876,800	Nil	64,876,800	—	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% [1]	HK$1.56
GAO Lingfeng	31,992,000	Nil	31,992,000	—	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% [1]	HK$1.56
CUI Ruicheng	31,992,000	Nil	31,992,000	—	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% [1]	HK$1.56
Directors of subsidiaries of the Company not mentioned above	111,708,600	Nil	111,708,600	—	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% [1]	HK$1.56
Other grantees who are employees of the Group	93,978,400	Nil	93,978,400	—	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% [1]	HK$1.56
Other 6 grantees who are employees of Shengmu Forage	3,868,800	Nil	3,868,800	—	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% [1]	HK$1.56
Total:	408,835,800 options eligible to subscribe for 408,835,800 shares of the Company	Nil	Total of 408,835,800 options (with rights to subscribe for 408,835,800 shares of the Company) have lapsed (1)	—			

Note:

(1) As at May 4, 2017, a total of 144 grantees held a total of 408,835,800 options granted under the Pre-IPO Share Option Scheme to subscribe for 408,835,800 shares had been fully vested. As none of such 408,835,800 options were exercised on or prior to May 4, 2017, all such options had lapsed in accordance with the terms of the Pre-IPO Share Option Scheme as amended by way of shareholders' approval on November 3, 2015.

As illustrated in the table above, during the financial year, all outstanding options granted under the Pre-IPO Share Option Scheme have lapsed in their entirety. Pursuant to the terms of the Pre-IPO Share Option Scheme, no further share options may be granted under the Pre-IPO Share Option Scheme.

A detailed summary of the terms (including the terms of the scheme and conditions) of the Pre-IPO Share Option Scheme and list of grantees has been set out in the section headed "Appendix IV – Statutory and General Information – D. Pre-IPO Share Option Scheme" in the Prospectus and the announcement of the Company dated October 2, 2015.

Share Option Scheme

On June 18, 2014, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. The participants of the Share Option Scheme are any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of our Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to our Group. The basis of eligibility of any of the class of the participants to the grant of any options under the Share Option Scheme shall be determined by the Board from time to time on the basis of their contribution to the development and growth of our Group and any invested entity.

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares of the Company in issue on the Listing Date, being a total of 635,440,000 Shares, which also represents 10% of the issued share capital of the Company as at the date of this annual report.

The total number of Shares issued and to be issued upon exercise of the options granted to each eligible participant under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. Any further grant of options to an eligible participant under the Share Option Scheme which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the above said limit shall be subject to our Shareholders' approval in general meeting with such participant and his associates (as defined under the Listing Rules) abstaining from voting.

The amount of HK$1.00 is payable as consideration for each grant of options under the Share Option Scheme, upon acceptance of such grant. The subscription price in respect of Shares upon exercise of options under the Share Option Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant, and (c) the nominal value of a Share.

An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme.

No share option has been granted under the Share Option Scheme since the adoption date of the Share Option Scheme and up to the latest practicable date prior to the publication of this annual report. A summary of the terms of the Share Option Scheme has been set out in the section headed "Appendix IV – Statutory and General Information – E. Share Option Scheme" in the Prospectus.

The Share Option Scheme was approved by shareholders' resolutions of the Company passed on June 18, 2014, and will remain in force for a period of 10 years following such date.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering of the Company were approximately RMB801.2 million. The relevant net proceeds are intended to be or have been used in accordance with the proposed usages as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus of the Company dated June 30, 2014.

As at December 31, 2017, the net proceeds were applied as follows:

	Funds utilized as at December 31, 2017 RMB'000
Constructing six additional organic dairy farms	182,525
Acquiring dairy cows domestically and from overseas	145,644
Sales and marketing activities and expansion of distribution network	40,102
Expanding the Group's liquid milk production capacity	120,306
Repayment of loans	120,306
Additional working capital and general corporate purposes	80,204
Total:	689,087

CONTRACT OF SIGNIFICANCE WITH DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as the related party disclosures set out in Note 38 to the financial statements and as disclosed in the section headed "Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted for the year ended December 31, 2017.

CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions

The Company's continuing connected transactions during the year of 2017 are as follows:

1 On November 22, 2016, Shengmu Pangu and Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司) ("**Shengmu Holding**") entered into a framework agreement in relation to the purchase of organic raw milk by the Group (excluding Shengmu Pangu) from Shengmu Pangu (the "**Milk Supply Framework Agreement**"). As at the date of this agreement, Shengmu Pangu was a 55% indirectly owned subsidiary of the Company and the remaining 45% equity interest in Shengmu Pangu is owned by Mr. WU Jianye, an executive Director. As a result, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. Pursuant to the Agreement, the organic raw milk of Shengmu Pangu is subject to our centralised sales. Shengmu Pangu shall sell all of its organic raw milk to us on a priority basis to satisfy our demand. Excessive organic raw milk can be sold to third parties as permitted and managed by Shengmu Holding. The term of the Agreement is from January 1, 2017 to December 31, 2019. For each of the years ended December 31, 2017, 2018 and 2019, under the Milk Supply Framework Agreement, (I) the total annual amount of purchases made by the Group (excluding Shengmu Pangu) from Shengmu Pangu may not exceed RMB333.1 million, RMB421.5 million and RMB454.2 million, respectively. For the year ended December 31, 2017, total purchase of raw fresh milk made by the Group from Shengmu Pangu was RMB150.1 million. Reasons for and benefits of the transactions under the Milk Supply Framework Agreement are that we manage our sales of raw milk under a centralised system. As a subsidiary of the Group, Shengmu Pangu is also subject to such centralised sales system. Details of the Milk Supply Framework Agreement are set out in the announcement of the Company dated November 22, 2016 with respect to continuing connected transactions of the Company.

2 On November 22, 2016, Shengmu Pangu and Shengmu Holding entered into a framework agreement in relation to the purchase of cows by the Group (excluding Shengmu Pangu) from Shengmu Pangu (the "**Framework Agreement for Sale and Purchase of Cows**"). As at the date of this agreement, Shengmu Pangu was a 55% indirectly owned subsidiary of the Company and the remaining 45% equity interest in Shengmu Pangu is owned by Mr. WU Jianye, an executive Director. As a result, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. Pursuant to the Framework Agreement for Sale and Purchase of Cows, the parties thereto will sell and purchase cows from the other, such that the calves and heifers of the parties will be raised on a centralised basis and separately from milkable cows. The term of the agreement is from January 1, 2017 to December 31, 2019. For each of the years ended December 31, 2017, 2018 and 2019, under the Framework Agreement for Sale and Purchase of Cows, (I) the total annual amount of purchases of cows made by the Group (excluding Shengmu Pangu) from Shengmu Pangu may not exceed RMB95.9 million, RMB 94.1 million and RMB16.0 million, respectively; and (II) the total revenue of sales of cows made by the Group (excluding Shengmu Pangu) to Shengmu Pangu may not exceed RMB94.3 million, RMB67.2 million and RMB34.5 million, respectively. For the year ended December 31, 2017, purchase of cows made by the Group from Shengmu Pangu was RMB14.9 million and total sales of cows was RMB11.5 million. Reasons and benefits of the transactions under the Framework Agreement for Sale and Purchase of Cows are that the Group manages the dairy farming business on a centralised basis. The majority of the calves and heifers are raised by Shengmu Farming, another subsidiary of the Company, separately from milkable cows on other farms. Shengmu Farming further sells pregnant heifers to the other farms of the Group to replenish their herds. As a subsidiary of the Group, Shengmu Pangu is also subject to such centralised management. Details of the Framework Agreement for Sale and Purchase of Cows are set out in the announcement of the Company dated November 22, 2016 with respect to continuing connected transactions of the Company.

3 On November 22, 2016, Shengmu Holding and Shengmu Pangu entered into a framework agreement in relation to the provision of financial assistance (in the form of guarantees) by the Group (excluding Shengmu Pangu) for the commercial loans and borrowings of Shengmu Pangu on normal commercial terms, based on the requests of Shengmu Pangu from time to time (the "**Financial Assistance Agreement**"). As at the date of this agreement, Shengmu Pangu was a 55% indirectly owned subsidiary of the Company and the remaining 45% equity interest in Shengmu Pangu is owned by Mr. WU Jianye, an executive Director. As a result, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. The term of the Financial Assistance Agreement is from January 1, 2017 to December 31, 2019. Under the Financial Assistance Agreement, the maximum daily balance of financial assistance to be provided by the Group (excluding Shengmu Pangu) to Shengmu Pangu may not exceed RMB60.0 million for each of the years ended December 31, 2017, 2018 and 2019 respectively. For the year ended December 31, 2017, the maximum daily balance of financial assistance provided by the Group to Shengmu Pangu was RMB32.0 million. Reasons and benefits of the transactions under the Financial Assistance Agreement are that Shengmu Pangu, as a relatively newly established subsidiary of the Group, has been obtaining commercial loans and borrowings with the guarantees provided by the other more established subsidiaries of the Group, such as Shengmu Holding and Shengmu Farming. Without such guarantees, it would incur higher finance costs to obtain such commercial loans and borrowings. As such, it is commercially beneficial to the Group to continue to provide financial assistances to Shengmu Pangu, which will also lower the overall finance costs of the Group. Details of the Financial Assistance Agreement are set out in the announcement of the Company dated November 22, 2016 with respect to continuing connected transactions of the Company.

4 On November 22, 2016, Shengmu Holding and Inner Mongolia Sijichun Co. Ltd. (內蒙古四季春飼料有限公司) ("**Sijichun**") entered into a framework agreement in relation to purchase of feed by the Group from Sijichun (the "**Feed Supply Framework Agreement**"). As Sijichun is an indirectly wholly-owned subsidiary of Beijing Dabeinong Technology Group Co., Ltd. ("**Dabeinong Group**") in which, a non-executive Director of the Company, Mr. SHAO Genhuo holds more than 30% equity interest, the transactions under the Feed Supply Framework Agreement constitute continuing connected transactions of the Company. The term of the Feed Supply Framework Agreement is from January 1, 2017 to December 31, 2019. Under the Feed Supply Framework Agreement, the total annual purchase amount by the Group from Sijichun under the Feed Supply Framework Agreement shall not exceed RMB31.8 million, RMB30.4 million and RMB30.5 million for each of the years ended December 31, 2017, 2018 and 2019, respectively. For the year ended December 31, 2017, no purchase of feed was made by the Group from Sijichun. Reasons and benefits of the transactions under the Feed Supply Framework Agreement are that Sijichun grows high quality feed and it is commercially beneficial to the Group to purchase feed from Sijichun in view of its stable and reliable supply of good quality feed. Details of the Feed Supply Framework Agreement are set out in the announcement of the Company dated November 22, 2016 with respect to continuing connected transactions of the Company.

The Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions referred to above are entered into during the ordinary course of the Group's business on normal or better commercial terms and under agreements of such transactions, the terms of which are fair and reasonable and in the interests of the Shareholders of listed companies as a whole. The Company's auditor has confirmed that: (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors; (ii) nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum annual cap as set by the Company.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in Note 38 to the financial statements. The related party transactions mainly comprise: (1) sale of products to certain entities which have been accounted for as associates of the Company as the Group holds interests in such entities. None of the connected person of the Company holds interests in or position with such entities, and such entities are not considered connected person under the Listing Rules; (2) purchase of feed from Sijichun in accordance with the Feed Supply Framework Agreement; (3) payment of emoluments to key management of the Group; and (4) provision of guarantee for certain of the Group's bank loans by the Company and some of its key management..

EMPLOYEES

As at December 31, 2017, the Group had a total of 3,803 employees (3,849 employees in total as at December 31, 2016). Total staff costs for 2017 (including the emoluments of Directors and senior management of the Company) amounted to RMB285.9 million (excluding equity-settled share option expenses) (RMB280.2 million in 2016).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

The Group has also approved and adopted a pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") and a share option scheme (the "**Share Option Scheme**"). The purpose of the Pre-IPO Share Option Scheme and the Share Option Scheme is to attract, retain and motivate the Directors, senior management and employees of the Group and other participants.

RETIREMENT BENEFIT PLANS

The Group has participated in a number of fixed contribution retirement plans for eligible employees within the Group in accordance with applicable laws and regulations.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

The remunerations of Directors and senior management are determined based on their working experience, industry expertise, educational background and skills as well as the Group's performance and operating results and with reference to the remuneration policies of other companies in the industry and prevailing market rates. Directors and employees also participate in performance incentive arrangements relating to the performance of the Group and individuals.

For the year of 2017, no emoluments were paid by the Group to any Director or any of the five highest paid individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments for the year ended December 31, 2017.

For details of remuneration paid to the Directors and the five highest paid individuals which are required to be disclosed pursuant to Appendix 16 of the Listing Rules, please refer to Notes 9 and 10 to the financial statements.

SUFFICIENT PUBLIC FLOAT

Based on the public information available to the Company and so far as all Directors are aware, the Company had maintained the public float as required by the Listing Rules throughout the period up to the latest practicable date prior to the publication of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For details of the Company's corporate governance practices, please refer to the section headed Report on Corporate Governance Practices in this annual report.

AUDITORS

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

All references in this part of the annual report (Report of the Directors) to other parts, sections of or notes in the annual report, form part of the Report of the Directors.

By Order of the Board of
China Shengmu Organic Milk Limited
Shao Genhuo
Chairman

Hong Kong, March 29, 2018

EXECUTIVE DIRECTORS

Mr. **YAO Tongshan (姚同山)**, aged 61, is the founder and executive Director of the Group. He is also a member of the nomination committee of the Company. He is primarily responsible for the Company's strategic planning and long term business planning, overall business, market development and operation management, annual budgets, business plan, and other significant matters arising from ordinary business operation. Mr. YAO was appointed to the Board in February 2014. For positions with other members of the Group, Mr. YAO is also a director of Shengmu Holding, Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司) ("**IMU-Shengmu Dairy**"), Inner Mongolia Shengmu Holding Co. Ltd. (內蒙古聖牧控股有限公司) ("**Shengmu Farming**"), Inner Mongolia Shengmu High-tech Dairy Co., Ltd. (內蒙古聖牧高科奶業有限公司) ("**Shengmu Dairy**"), Shining Investment Industry Limited ("**Shining Investment**"), China Mengniu Investment Company Limited (中國蒙牛投資有限公司) ("**Mengniu Investment**"), Saint Investment HK Limited ("**Saint Investment**"), Flourish Treasure Holdings Limited ("**Flourish Treasure**"), Horizon King Investments Limited ("**Horizon King**"), Fortune Globe Limited ("**Fortune Globe**"), Saint Investment (Cayman) Limited ("**Saint Investment (Cayman)**"), Credence Global Investments Limited ("**Credence Global**") and Elite Noble Investment Limited ("**Elite Noble**"). He has over 15 years of experience in the dairy industry, with extensive industry and management experiences. In March 2014, Mr. YAO was honored as one of the Top 10 Economic Figures in Inner Mongolia (內蒙古經濟年度十大人物) of 2013 for his contribution to the development of local economy jointly by Inner Mongolia Daily (內蒙古日報社), Inner Mongolia Federation of Industry and Commerce (General Chamber of Commerce) (內蒙古自治區工商聯(總商會)) and Inner Mongolia Association of Entrepreneurs (內蒙古企業家聯合會).

In December 2016, Mr. YAO was honored as one of the 50 business leaders influencing the Inner Mongolia economy in the 50 Business Leaders Influencing the Inner Mongolia Economy (影響內蒙古經濟的50位商界領袖) campaign held by Inner Mongolia Financial Network (內蒙古金融網) jointly with such institutions as Inner Mongolia Association of Financiers and Entrepreneurs (內蒙古金融家與企業家聯合會).

Mr. YAO was the chief financial officer and executive director of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司), a company listed on the Stock Exchange (stock code:2319), from July 2008 to March 2010. Mr. YAO served as the chief financial officer, financial vice president and director of Inner Mongolia Mengniu, a subsidiary of China Mengniu Dairy Company Limited and which is principally engaged in the manufacturing of liquid milk, ice cream and other dairy products, between October 2001 and January 2010. Mr. YAO gained relevant finance and investment experience by serving as project manager (primarily responsible for identifying appropriate investment opportunities) of Inner Mongolia Investment Consultancy Company (內蒙古投資諮詢公司), a subsidiary of China Construction Bank and which is principally engaged in investment business between July 1988 and January 1991; and head of the International Credit Department and manager of the Credit Department of China Construction Bank (Inner Mongolia branch) between January 1991 and July 1999. Mr. YAO was also the general manager of Inner Mongolia Jingtong Investment Consultancy Company (內蒙古景通投資顧問公司) (principally engaged in providing finance advisory) from September 1999 to September 2001, mainly responsible for providing finance and accounting advice.

Mr. YAO graduated from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) with a bachelor's degree in power engineering in August 1982 and Tianjin University (天津大學) with a master's degree in engineering in June 1988. Mr. YAO was awarded as a senior economist (高級經濟師) by the People's Construction Bank of China (formerly known as China People's Construction Bank) in December 1995.

Save as disclosed above, Mr. YAO did not hold any directorship in any public listed companies in the last three years.

Mr. **WU Jianye (武建鄴)**, aged 44, is the president and executive Director of the Company. He is primarily responsible for the management and operation of the Group, and facilitating the realization of the key performance indicators of Shengmu Farming and Shengmu Dairy. Mr. WU was appointed to the Board on March 26, 2014. For position with other members of the Group, Mr. WU is also the director of Shengmu Holding, IMU-Shengmu Dairy and Shengmu Pangu. He has over 13 years of management experience in various different industries. Mr. WU joined the Group in September 2010 as an assistant to chief executive officer and was designated as the president of Shengmu Holding in August 2013.

Prior to joining the Group in September 2010, he was the chairman and president (mainly responsible for operational management) of Inner Mongolia Pangu Group Co., Ltd. (內蒙古盤古集團有限責任公司) (principally engaged in agricultural business) between May 2003 and August 2010. Mr. WU was the general manager of Inner Mongolia Pangu Cashmere Co., Ltd (內蒙古盤古羊絨製品有限公司) (principally engaged in the manufacturing of cashmere) between January 2000 and May 2003, mainly responsible for overall management and sales.

Mr. WU graduated from the University of Inner Mongolia (內蒙古大學) in July 1995 and was awarded a college graduate certificate (專科) majoring in Chinese and further obtained a bachelor of laws degree (distance learning) from the University of Inner Mongolia (內蒙古大學) in January 2007. Mr. WU also received his executive master of business administration (EMBA) degree from Tsinghua University in July 2009.

Save as disclosed above, Mr. WU did not hold any directorship in any public listed companies in the last three years.

Ms. **GAO Lingfeng (高凌鳳)**, aged 47, is the vice president and executive Director of the Company. She is primarily responsible for setting up and implementing key performance indicators for various business units, production chain's quality management and organic certification management. In addition, Ms. GAO is primarily responsible for the production, operation and management of processed products and procurement business of the Group, and manages the Group's overall administrative operation and the coordination between various business departments, and is also principally responsible for overseeing the management of Shengmu Farming. Ms. GAO was appointed to the Board on March 26, 2014. For position with other members of the Group, Ms. GAO is also the director of Shengmu Holding, IMU-Shengmu Dairy, Shengmu Agriculture and Shengmu Farming. She has over 18 years of experience in the dairy industry and 19 years of management experience in production and product quality.

Ms. GAO joined the Group since its establishment in October 2009 as vice president of Shengmu Holding. Prior to joining the Group, Ms. GAO held various management positions with Inner Mongolia Mengniu, including head of quality control department between October 1999 and April 2009.

Ms. GAO received her master of business administration degree from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) in January 2011.

Save as disclosed above, Ms. GAO did not hold any directorship in any public listed companies in the last three years.

Mr. **CUI Ruicheng (崔瑞成)**, aged 35, is an executive Director. Mr. CUI was appointed to the Board on March 26, 2014. For position with other members of the Group, Mr. CUI is also the director of Shengmu Holding. He has over 13 years of experience in the dairy industry and financial management.

Mr. CUI joined the Group since its establishment in October 2009. He has been appointed as a Joint Company Secretary of the Company since December 4, 2015. He once served as the vice president (finance) and had been the chief financial officer of Shengmu Holding from January 2014 to December 15, 2017. Prior to joining the Group, Mr. CUI held various financial and accounting positions with Inner Mongolia Mengniu, including accountant and listing administrator between July 2003 and August 2006, and was the finance department head with Inner Mongolia Mengniu Shengwu Zhineng Company Limited (內蒙古蒙牛生物質能有限公司) between August 2006 and September 2009.

Mr. CUI passed the accounting final exams (self-learning) with Inner Mongolia University of Finance and Economics (內蒙古財經大學) (formerly known as Inner Mongolia Finance and Economics College (內蒙古財經學院)) and was awarded a college graduate certificate (專科) in December 2005 and obtained a bachelor's degree in business administration (on-line study) from China University of Geosciences (中國地質大學) in July 2009. Mr. CUI has been a qualified accountant in the PRC since May 2006.

Save as disclosed above, Mr. CUI did not hold any directorship in any public listed companies in the last three years.

NON-EXECUTIVE DIRECTORS

Mr. **SHAO Genhuo** (**邵根夥**), aged 52, is the chairman of the Board, chief executive officer and non-executive director of the Company. He is also a member of the nomination committee of the Company. He was appointed to the Board on September 26, 2016.

Mr. SHAO Genhuo is currently the chairman of the board of directors and president of Da Bei Nong Group, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (stock code: 2385). Mr. SHAO is primary responsible for the strategic planning and overall management of Da Bei Nong Group. Mr. SHAO founded Da Bei Nong Group in October 1994 and has served as its chairman and general manager since then.

Mr. SHAO received his bachelor's degree from Zhejiang University (浙江大學) (formerly known as Zhejiang Agricultural University (浙江農業大學)) in 1986. Mr. SHAO received his master's and doctoral degree from China Agricultural University (中國農業大學) (formerly known as Beijing Agricultural University (北京農業大學)) in 1988 and 1991, respectively.

Save as disclosed above, Mr. SHAO did not hold any directorship in any public listed companies in the last three years.

Mr. **WEN Yongping** (**溫永平**), aged 43, is the vice president and the general manager of the milk sources business department of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業 (集團) 股份有限公司), a subsidiary of China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 2319). Mr. Wen joined Mengniu in 1999 and has held various managerial positions since then. Since 29 March 2017, Mr. Wen has been a non-executive director of China Modern Diary Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1117).

Mr. WEN obtained a master's degree of agriculture study (major: agriculture marketing) in 2009 from Inner Mongolia Agricultural University (內蒙古農業大學). Mr. WEN obtained an EMBA degree from Peking University (北京大學) in 2011.

Save as disclosed above, Mr. WEN did not hold any directorship in any public listed companies in the last three years.

Mr. **FAN Xiang** (**范翔**), aged 41, is a non-executive Director of the Company. He was appointed to the Board on March 26, 2014. For position with other members of the Group, Mr. FAN is also the director of Shengmu Holding since December 2013. In addition to his role with the Company, Mr. FAN is currently the chairman and general manager of Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd. (北京高盛寬街博華股權投資管理有限公司), a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (高盛集團有限公司) (collectively "**Goldman Sachs**") since January 2013. Prior to the relocation to Beijing in January 2013, Mr. FAN was with the Hong Kong principal investment area and the New York investment banking division of Goldman Sachs as managing director and executive director from August 2007 to December 2012. Mr. FAN was with KKR Asia Limited as manager from March 2006 to July 2007.

Mr. FAN graduated with a bachelor of arts degree from Yale University in the United States in May 1999 and received his master of business administration degree from the Wharton School, University of Pennsylvania in the United States in May 2004.

Save as disclosed above, Mr. FAN did not hold any directorship in any public listed companies in the last three years.

Mr. **CUI Guiyong (崔桂勇)**, aged 55, is a non-executive Director of the Company. He was appointed to the Board on March 26, 2014. For position with other members of the Group, Mr. CUI is also the director of Shengmu Holding since December 2013. In addition to his role with the Company, Mr. CUI is currently the managing director of Baring Private Equity Asia Limited since January 2012. Mr. CUI served as a managing director at HOPU Investment Management Co. Ltd. since May 2008 and a partner in October 2009. Prior to joining HOPU Investment Management Co., Ltd., Mr. CUI was an investment banker for 14 years, during which he served as the managing director of Morgan Stanley Asia Limited between April 2007 and April 2008, managing director of GIBA-Resources and Energy of HSBC Markets (Asia) Limited between March 2004 and April 2007, head of Investment Banking Division of ICEA Capital Limited from June 2002 to August 2003 and assumed various positions in N M Rothschild & Sons (Hong Kong) Limited from September 1994 to June 2002, including the position of the chief representative of China in its Beijing Office before he left the company in 2002.

Mr. CUI obtained his Doctor of Philosophy degree from the University of Oxford in the United Kingdom in May 1995, and Bachelor of Engineering and Master of Engineering degrees from the University of Science and Technology of Beijing (北京科技大學) in April 1982 and June 1987, respectively.

Mr. CUI has served as a non-executive director of COFCO Meat Holdings Limited which is listed on the Stock Exchange (stock code: 1610), since May 2016. He has served as a non-executive director of AAG Energy Holdings Limited which is listed on the Stock Exchange (stock code: 2686), since January 2015.

Save as disclosed above, Mr. CUI did not hold any directorship in any public listed companies in the last three years.

Mr. **SUN Qian (孫謙)**, aged 44, is a non-executive Director of the Company. He was appointed to the Board on March 26, 2014 and he is a member of the remuneration committee. Mr. SUN currently is a partner of Sequoia Capital China.

Mr. SUN received a bachelor's degree in applied mathematics from Harvard University in the United States in June 1997, and a master's degree in business administration from Harvard University and a juris doctor's degree from Harvard Law School in the United States both in June 2003.

Mr. SUN was a director of Bona Film Group Limited (principally engaged in film distribution business), a company listed on NASDAQ, from 2007 to 2011 and a director of 500.com Limited (principally engaged in online sports lottery services) since October 2013. Mr. SUN has been a non-executive director of Dongpeng Holdings Company Limited, a company listed on the Stock Exchange (stock code: 3386) (delisted from the Stock Exchange at four p.m. on June 22, 2016), from December 2013 to June 2016.

Save as disclosed above, Mr. SUN did not hold any directorship in any public listed companies in the last three years.

Mr. **ZHANG Jiawang (張家旺)**, aged 39, is a non-executive Director of the Company. He was appointed to the Board on September 26, 2016.

Mr. ZHANG Jiawang is currently a vice president and manager of strategy and development of Da Bei Nong Group. Mr. ZHANG joined Da Bei Nong Group in August 2001 and has held various positions, including outreach director, development and investment manager and president's assistant since then.

Mr. ZHANG received a bachelor's degree in horticulture from Inner Mongolia Agricultural University (內蒙古農業大學) in July 2001 and an EMBA degree from People's University of China (中國人民大學) in January 2010.

Save as disclosed above, Mr. ZHANG did not hold any directorship in any public listed companies in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. **FU Wenge (付文革)**, aged 51, is an independent non-executive Director of the Company. He was appointed to the Board on September 26, 2016. He is the chairman of the nomination committee.

Mr. FU Wenge is currently a professor and doctoral supervisor at the Economic Management School of China Agricultural University (中國農業大學) (formerly known as Beijing Agricultural University (北京農業大學)). Mr. FU has been working in Agricultural University since July 1997 and held various positions including associate professor and the director of MBA education center.

Mr. FU worked in Kaifeng Education College (開封師範高等專科學校), now known as Henan University (河南大學), as a lecturer from July 1986 to September 1994. Mr. FU received an associate degree in English from Kaifeng Education College in June 1986 and master's degree in economics from Henan University in June 1997. Mr. FU received his doctor's degree in economics in Renmin University of China in June 2004.

Save as disclosed above, Mr. FU did not hold any directorship in any public listed companies in the last three years.

Mr. **LI Changqing (李長青)**, aged 61, is an independent non-executive Director of the Company. He was appointed to the Board on June 18, 2014. He is a member of the audit committee and the nomination committee and chairman of the remuneration committee.

Mr. LI is currently a professor and tutor of doctoral students and has been appointed as the director of the academic committee of Inner Mongolia University of Technology (內蒙古工業大學), since 2010. Mr. LI started his career with Inner Mongolia University of Technology (內蒙古工業大學) in 1982, and has held various positions including the director of business management department, deputy director of management engineering department, dean of school of international business school and founding dean of the college of management between 1996 and 2010. Mr. LI also served as a vice chairman to the Inner Mongolia Academy of Management (內蒙古管理學會) since 2006 and a director to the Inner Mongolia Management Modernization Research Center (內蒙古管理現代化研究中心) since 2007, respectively.

Mr. LI is widely recognized for his research and has received numerous awards in recognition of his exemplary work including the title of National Outstanding Teacher (全國優秀教師) awarded in September 2014, Inner Mongolia Outstanding Talent Award (內蒙古自治區傑出人才獎) by Inner Mongolia Autonomous Region Government in September 2012 and the first-class award of Inner Mongolia Science and Technology Progress (內蒙古自治區科學技術進步一等獎) by Inner Mongolia Autonomous Region Government in January 2009, Wuyi-Worker Medal of the Autonomous Region (全區五一勞動獎章) by Inner Mongolia Autonomous Region General Worker Union (內蒙古自治區總工會) in April 2012 and received special allowance from the State Council in March 2009 in recognition of his outstanding contribution in the education sector.

Mr. LI graduated with a bachelor's degree in engineering from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) in January 1982, received a master's degree in engineering from Tianjin University (天津大學) in April 1995, and received his doctorate in management science from Huazhong University of Science and Technology (華中科技大學) in the PRC in June 2005.

Save as disclosed above, Mr. LI did not hold any directorship in any public listed companies in the last three years.

Ms. **GE Xiaoping (葛曉萍)**, aged 54, is an independent non-executive Director of the Company. She was appointed to the Board on June 18, 2014. She is the chairman of the audit committee. Ms. GE has over 33 years of experience in auditing and accounting, she is a certified public accountant in PRC and certified public valuer in the PRC.

Ms. GE is currently a partner and branch chief representative (Xiamen branch) for BDO China Shu Lun Pan Certified Public Accountants LLP ("BDO") (立信會計師事務所 (特殊普通合夥)) since March 2010. Ms. GE was the accounting lecturer for the People's Liberation Army Necessities and Finance College (中國人民解放軍軍需財經高等專科學校) between June 1989 and January 1997, and she held various positions (including accountant) with Hubei Electronic Engines Factory (湖北電機廠) (principally engaged in manufacture of electronic engines) between December 1980 and June 1989.

Ms. GE received numerous awards and appointments in recognition of her exemplary work including a member of the eleventh and twelfth Xiamen Chinese People's Political Consultative Conference (廈門市政協第十一屆、十二屆委員) (with a term from 2007 to 2016), Outstanding Member of the People's Political Consultative Conference (2010-2011) (2010-2011年度優秀政協委員) and the vice president of the Certified Public Accountant Association (Xiamen branch) since October 2013.

Ms. GE received a bachelor's degree in financial accounting from Zhongnan University of Economics and Law (中南財經政法大學) (formerly known as Zhongnan University of Economics (中南財經大學)) in the PRC in July 1995.

Ms. GE has been an independent director of Tsann Keun China Enterprise Co., Ltd. (廈門燦坤實業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 200512), from May 2008 to May 2014 and since May 2017. She has been an independent director of Fujian SBS Zipper Sci & Tech Co.,Ltd. (福建潯興拉鏈科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002098), since January 2017.

Save as disclosed above, Ms. GE did not hold any directorship in any public listed companies in the last three years.

Mr. **WANG Liyan** (**王立彥**), aged 60, is an independent non-executive director of the Company, and member of the audit committee and nomination committee. He is currently a professor of the Department of Accounting, a doctoral advisor, and a director of Center for Responsibility and Social Value, of Guanghua School of Management in Peking University and a certified public accountant in the PRC. He obtained his doctor's degree from Peking University, and is a visiting scholar at University of Hertfordshire in England and Hong Kong University of Science and Technology, a visiting professor at Menlo College in California, US. and a visiting scholar at the World Resources Institute. His major research area lies in accounting information and corporate value, overseas listing, dual financial report and corporate governance system. He also serves as the chief editor of China Accounting Review and China Management Accounting. Mr. Wang has been an independent director of Huaxin Cement Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600801), since April 23, 2015 and an independent director of Unigroup Guoxin Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002049), since March 23, 2017.

Save as disclosed above, Mr. WANG did not hold any directorship in any public listed companies in the last three years.

Mr. **LI Xuan** (**李軒**), aged 49, is an independent non-executive director of the Company and member of the remuneration Committee. He obtained a doctor of laws degree from China University of Political Science and Law and currently serves as a university teacher. He is the Head of the LL.M Education Centre of Central University of Finance and Economics, the General Secretary of Case Study Committee of China Law Society (中國案例法學研究會) and a lawyer of ZiLue Law Offices (北京市資略律師事務所). He has been an independent director of the BOE Technology Group Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: A: 000725; B: 200725), since August 19, 2016 and an independent supervisor of China National Building Material Company Limited (中國建材股份有限公司), a company listed on the Stock Exchange of Hong Kong Limited ((stock code: 3323), since 27 May 2016.

Save as disclosed above, Mr. LI did not hold any directorship in any public listed companies in the last three years.

SENIOR MANAGEMENT

Mr. **SHAO Genhuo (邵根夥)**, aged 52, is the chairman, chief executive officer and non-executive Director of the Company. His biographical details are set out under the section "Non-Executive Directors" above.

Mr. **WU Jianye (武建鄴)**, aged 44, is the president and executive Director of the Company. His biographical details are set out under the section "Executive Directors" above.

Ms. **GAO Lingfeng (高凌鳳)**, aged 47, is the vice president and executive Director of the Company. Her biographical details are set out under the section "Executive Directors" above.

Mr. **WANG Yuehua (王躍華)**, aged 43, is the chief financial officer of the Company. He received his bachelor's degree in economics from Taiyuan Heavy Machinery Institute（太原重型機械學院）(now known as Taiyuan University of Science and Technology (太原科技大學)) in 1996. Mr. WANG joined the Company in 2017 as an assistant to the chairman and the head of audit. Before joining the Company, he held various positions in Da Bei Nong Group with last position as senior vice president of the group feed production department and chief financial officer. Save as disclosed above, Mr. WANG did not hold any directorship in any public listed companies in the last three years.

Mr. **CUI Ruicheng (崔瑞成)**, aged 35, is an executive Director and Joint Company Secretary of the Company. His biographical details are set out under the section "Executive Directors" above.

Mr. **AU Wai Keung (區偉強)**, aged 46, is a Joint Company Secretary of the Company. Mr. AU was appointed on March 27, 2014. Mr. AU has more than 18 years of experience in the area of accounting. Currently, Mr. AU is a director of Arion & Associated Limited (亞利安會計事務所有限公司), a corporate secretarial and accounting services provider in Hong Kong. He is now also the company secretary of Honworld Group Limited (老恒和釀造有限公司) (stock code: 2226), Xin Point Holdings Limited (stock code: 1571), China Digital Video Holdings Limited (stock code: 8280), and SDM Group Holdings Limited (stock code: 8363). Mr. AU obtained a bachelor's degree in social sciences from the Chinese University of Hong Kong in December 1993 and a master's degree in business administration from the City University of Hong Kong in November 1999. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

For details of Directors' interests (as defined in Part XV of the Securities and Futures Ordinance) in shares of the Company, please refer to the section headed "Report of the Directors – Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company" in this annual report.

Save as disclosed above, no further information of our Directors or senior management is required to be disclosed pursuant to Rules 13.51(2) (h) to (v) under the Listing Rules.

REPORT ON CORPORATE GOVERNANCE PRACTICES

CORPORATE GOVERNANCE PRACTICES

The Company ensures that the Company and its subsidiaries are committed to achieving and maintaining high standards of corporate governance. The Board understands the influence and importance of high standards of corporate governance on the value of the Company, and that good corporate governance is in the interest of the Group and shareholders as a whole.

We have adopted, applied and complied with the code provisions contained in the Code on Corporate Governance and Corporate Governance Report (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (as amended from time to time) for the year ended December 31, 2017, except for provision A2.1 of the Corporate Governance Code as disclosed below.

Pursuant to provision A2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. SHAO Genhuo currently performs these two roles (chairman and acting chief executive officer). The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning and implementation for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

BOARD OF DIRECTORS

The Board is the decision-making body of the Company, and is responsible for formulating overall strategies and policies of the Group and approving its implementation plans to ensure that the Group achieves its goal swiftly. For the year ended December 31, 2017, the responsibilities performed by the Board include: formulation of strategies of the Company; formulation of development goals, guidelines and policies and implementation plans of the Company; control of and assessment on the fulfillment of the Company's financial and operating goals; review and approval of annual financial budgets, final accounts plans, profit distribution plans and compensation plans of the Company; establishment of effective internal control systems for risks assessment; and review and approval of the Company's material contracts and transactions, information disclosure, connected transactions and other matters required to be handled by the Board.

Moreover, the functions of Corporate Governance of the Broad include: formulation and review of corporate governance policies and practices of the Company; review and monitor of the training and continuous professional development of the Directors and senior management; review and monitor of the Company's policies and practices on compliance with legal and regulatory requirements; formulation, review and monitoring of the code of conducts for staff and the Directors; and review of the Company's compliance with other provisions contained in the Listing Rules from time to time and disclosure in the Corporate Governance Report.

Delegation by the Board

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to several committees under the Board (including the Audit Committee, Remuneration Committee and Nomination Committee) and senior management. All Board committees perform respective functions and duties within their terms of reference (which are available for inspection by the public on the websites of the Company and the Stock Exchange).

With the leadership of the chief executive officer, the senior management is delegated by the Board with authorities and duties on the daily operation and management of the Group. The delegated functions and work progress will be reviewed regularly. Approval from the Board shall be obtained by the Company before entering into of any material transactions.

Composition of the Board

For the year ended December 31, 2017, the Board was comprised of fifteen Directors, including four executive Directors (Mr. YAO Tongshan, Mr. WU Jianye, Ms. GAO Lingfeng and Mr. CUI Ruicheng); six non-executive Directors (Mr. SHAO Genhuo, Mr. WEN Yongping, Mr. FAN Xiang, Mr. CUI Guiyong, Mr. SUN Qian and Mr. ZHANG Jiawang); and five independent non-executive Directors (Mr. LI Changqing, Ms. GE Xiaoping, Mr. FU Wenge, Mr. WANG Liyan and Mr. LI Xuan.). The Chairman of the Board of the Company is Mr. SHAO Genhuo. Mr. WEN Yongping was appointed as a non-executive Director of the Company on July 18, 2017. Each of Mr. WANG Liyan and Mr. LI Xuan was appointed as an independent non-executive Director of the Company on June 28, 2017.

There was no financial, business, family or other material relationship among the directors of the Company.

Biographical details of the existing Directors are set out in the section headed "Directors and Senior Management" in this annual report.

Appointment, Re-election and Dismissal of Directors

Each of the Directors (including independent non-executive Directors) has signed a service agreement or an appointment letter with the Company for a term of three years. The Directors shall be subject to retirement from office by rotation or re-election at the forthcoming annual general meeting of the Company pursuant to Article 16 of the Articles of Association of the Company.

Pursuant to Article 16.2 of the Articles, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for the re-election. Pursuant to Article 16.3 of the Articles, any Director appointed by ordinary resolution to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

According to Article 16.18 of the Articles, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Board Diversity Policy

The Board implements a policy of diversified composition of the Board. For the purpose of sustained and balanced development, the Company recognises that the Board diversity is critical for facilitating its strategic goals and maintaining its sustainable development. All appointments to the Board are in the principle of talents priority plus benefits of the diversified Board composition taken into account. The selection of Board members is initially based on multiple factors from the point of the Board diversity, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and terms of service. Then, we will make decisions according to our specific requirements for talents at different stages of business development and strategic planning.

Independent Non-executive Directors

During the reporting period, the Company complied with Rule 3.10(1) and 3.10(2) of the Listing Rules which requires the Company to maintain at least three independent non-executive directors and have an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. Ms. GE Xiaoping, one of the independent non-executive Directors of the Company has an experience of over 33 years in the auditing and accounting and is a PRC certified public accountant.

The Company has received the letter of confirmation issued by each of the independent non-executive Directors as to his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent.

Board Meeting

The Board convenes a meeting on a regular basis and at least four meetings each year. In 2017, the Board held four meetings at which the operating results, investment issues, etc. of the Company were considered and discussed.

Attendance record is as below:

Members	Meetings attended/ meetings held since respective appointment date	Attendance
Executive Directors		
Mr. YAO Tongshan	4/4	100%
Mr. WU Jianye	4/4	100%
Ms. GAO Lingfeng	4/4	100%
Mr. CUI Ruicheng	4/4	100%
Non-executive Directors		
Mr. SHAO Genhuo (Chairman)	2/4	50%
Mr. WEN Yongping	2/2	100%
Mr. FAN Xiang	3/4	75%
Mr. CUI Guiyong	3/4	75%
Mr. SUN Qian	3/4	75%
Mr. ZHANG Jiawang	4/4	100%
Independent non-executive Directors		
Mr. LI Changqing	4/4	100%
Ms. GE Xiaoping	3/4	75%
Mr. FU Wenge	4/4	100%
Mr. WANG Liyan	2/3	66.7%
Mr. LI Xuan	2/3	66.7%

Notes:

(1) Mr. WEN Yongping was appointed as a non-executive director with effect from July 18, 2017. He was entitled to attend the relevant Board meetings convened after his appointment.

(2) Mr. WANG Liyan and Mr. LI Xuan were appointed as independent non-executive directors with effect from June 28, 2017. They were entitled to attend the relevant Board meetings convened after their appointment.

DIRECTOR TRAINING

The Company provides an introduction and related documents necessary for all new Directors upon joining the Board to ensure a broad understanding of the Company's business and operation model as well as the laws, regulations and various rules pertaining to the Company.

The Company encourages and supports all the Directors (i.e. Mr. YAO Tongshan, Mr. WU Jianye, Ms. GAO Lingfeng, Mr. CUI Ruicheng, Mr. SHAO Genhuo, Mr. WEN Yongping, Mr. FAN Xiang, Mr. CUI Guiyong, Mr. SUN Qian, Mr. ZHANG Jiawang, Mr. LI Changqing, Ms. GE Xiaoping, Mr. FU Wenge, Mr. WANG Liyan and Mr. LI Xuan) to receive training and encourages their continuous professional development, so as to develop and keep abreast of their knowledge and skills better and serve the Company more efficiently. The Company offers training opportunities for all the Directors from time to time. During the year, the legal advisors of the Company have provided training on among others, directors' duties, inside information provisions, the Takeovers Code, market misconduct and continuing duties under the Companies Ordinance and the Listing Rules for all Directors.

BOARD COMMITTEES

The Company has three Board committees, namely the Remuneration Committee, the Nomination Committee and the Audit Committee. Each committee performs its work in accordance with the terms of reference approved by the Board.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary functions of the Remuneration Committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages for the Directors and senior management members. As at December 31, 2017, the Remuneration Committee comprised two independent non-executive Directors (Mr. LI Changqing and Mr. LI Xuan) and one non-executive Director (Mr. SUN Qian) and was chaired by Mr. LI Changqing.

According to the terms of reference of the Remuneration Committee of the Company, the Remuneration Committee convenes at least one meeting in each year. In 2017, the Remuneration Committee convened one meeting, whereby the overall remuneration policy and structure for Company's Directors and senior management members and proposals on the establishment of standard and transparent procedures for the formulation of remuneration policies were reviewed.

NOMINATION COMMITTEE

The Company established the Nomination Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Nomination Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. As at December 31, 2017, the Nomination Committee comprised three independent non-executive Directors (Mr. FU Wenge, Mr. LI Changqing and Mr. WANG Liyan), one executive Director (Mr. YAO Tongshan) and one non-executive Director (Mr. SHAO Genhuo) and was chaired by Mr. FU Wenge.

The Nomination Committee recommends potential candidates to appointments on the Board based on merits of such candidates, having regard for the benefits of diversity of the members of the Board and the necessity of ensuring a balanced composition of expertise appropriate for the businesses of the Group. The selection of potential candidates is based on a range of diverse factors, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills, knowledge, and leadership qualities, and ultimately, the contribution that such candidates will be able to bring to the Board, to complement the abilities of existing Directors.

According to the terms of reference of the Nomination Committee of the Company, the Nomination Committee convenes at least one meeting in each year. In 2017, the Nomination Committee convened one meeting, whereby the members discussed the structure and composition of the Board of the Company, advised on the proposed changes to the Board for the purpose of the Company's corporate strategies and assessed the independence of independent non-executive Directors.

AUDIT COMMITTEE

The Company established the Audit Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Company modified the terms of reference of the Audit Committee on January 1, 2016. As at December 31, 2017, the Audit Committee comprised three independent non-executive Directors (Ms. GE Xiaoping, Mr. LI Changqing and Mr. WANG Liyan) and was chaired by Ms. GE Xiaoping.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the annual results, interim results and quarterly results for 2017.

According to the terms of reference of the Audit Committee of the Company, the Audit Committee convenes at least two meetings in each year. In 2017, the Audit Committee convened a total of two meetings, whereby the members discussed various matters, including the 2016 annual results and 2017 interim results of the Company and its subsidiaries.

The attendance record of Directors at meetings of the Audit Committee, the Remuneration Committee and the Nomination Committee is as follows:

	Number of attendances/meetings		
Directors	Remuneration Committee	Nomination Committee	Audit Committee
SHAO Genhuo	NA	1/1	NA
YAO Tongshan	NA	1/1	NA
GE Xiaoping	NA	NA	2/2
LI Changqing	1/1	1/1	2/2
WANG Liyan	NA	1/1	1/1
SUN Qian	1/1	NA	NA
LI Xuan	1/1	NA	NA
FU Wenge	NA	1/1	NA
CUI Guiyong[1]	NA	NA	0/1

Note:

Mr. CUI Guiyong ceased to be a member of the Audit Committee with effect from 29 June 2017.

GENERAL MEETINGS

For the year ended December 31, 2017, the attendance record of each Director at General Meetings is as follows:

Directors	Number of attendances/ meetings Annual General Meeting
YAO Tongshan	1/1
WU Jianye	1/1
GAO Lingfeng	1/1
CUI Ruicheng	1/1
SHAO Genhuo	0/1
WEN Yongping[1]	0/0
FAN Xiang	0/1
CUI Guiyong	0/1
SUN Qian	0/1
ZHANG Jiawang	1/1
LI Changqing	0/1
GE Xiaoping	0/1
FU Wenge	0/1
WANG Liyan[2]	0/0
LI Xuan[2]	0/0

Notes:

(1) Mr. WEN Yongping was appointed as a non-executive director with effect from 18 July, 2017, after the annual general meeting.

(2) Mr. WANG Liyan and Mr. LI Xuan were appointed as independent non-executive directors with effect from 28 June, 2017, at the annual general meeting.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the year ended December 31, 2017.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's accounts and other financial disclosures required under the Listing Rules, meanwhile, the senior management should provide relevant and sufficient information and explanation to the Board to enable it to make informed assessment of the financial and other decisions.

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

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended December 31, 2017 is set out in the "Independent Auditor's Report" contained in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Group has complied and implemented relevant necessary risk management and internal control in accordance with the Corporate Governance Code and Corporate Governance Report (the "**Code**") as set out in Appendix 14 to the Listing Rules during the year.

The Board acknowledges its responsibility to maintain sound and effective risk management and internal control systems of the Company, which are designed to provide reasonable but not absolute assurance against material misstatement or loss, and to manage rather than eliminate risks of failure to achieve business objectives.

The Board is also responsible for monitoring our risk management and internal control systems of the Group and reviewing the effectiveness of such systems. The Board conducted a review of the effectiveness of the Group's risk management and internal control systems, including all material controls, including financial, operational and compliance controls in 2017.

The internal control management center of the Group is established to act as the management institution of risk management and internal control, responsible for the evaluation of the establishment, optimization and implementation of internal control system throughout the industrial chain of the Group as to whether the internal control system of the Group is reasonably designed, free from risk and implemented effectively, as well as providing management support for the improvement and refinement of such defects and risks identified, if any, in the progress of evaluation. Meanwhile, the internal control management center is also responsible for diagnosing material risk control matters in each segment throughout the industrial chain of the Group, analyzing, assessing and selecting risk management object for review so as to provide solutions to risk control and related requirements, and tracking the progress and result of risk control for acceptance for the purpose of effective risk management and control.

During the year, each operating and management department of the Group continued to work in system improvement and process optimization to realize the management goal in a more effective and consistent way.

The Group conducts risk management and internal control in different aspects in line with different level of corporate governance, and aims to provide necessary adjustment, restriction, assessment and control measures for the economics, efficiency and effectiveness of the implementation of the Group's operational goals, to keep the assets of the Group safe and intact and to ensure the correctness and reasonableness of accounting data, the compliance with relevant laws, regulations and rules, and such that all operational procedures are free from fraud or error, as it is reasonably able. All employees are committed to continually enhancing the risk management and internal control systems of the Company, linking such systems to our corporate strategies as well as integrating such systems into our day-to-day operation.

With respect to the dissemination of inside information, the Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Listing Rules and the overriding principle (that inside information should be announced as soon as possible when it is the subject of a decision). The Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website. Unauthorised use of confidential or inside information is strictly prohibited by the internal policies of the Group, and the Group has also established and implemented procedures for responding to external enquiries about the Group's affairs.

The Group maintains an internal audit function. Internal audit reports are presented to and reviewed by the audit committee, who reports the findings to the Board. Based on the assessment by the Audit Committee, senior management members and the internal audit department, we did not identify any material internal control flaw or deficit, nor was any major issue raised for improvement, as at December 31, 2017.

JOINT COMPANY SECRETARIES

Mr. CUI Ruicheng (崔瑞成), one of our joint company secretaries, is a full-time employee of the Company. Mr. CUI does not possess the qualification as stipulated in Rule 3.28 of the Listing Rules. We have appointed and engaged Mr. AU Wai Keung (區偉強), who possesses the qualification required under Rule 3.28, to act as another joint company secretary. Mr. CUI Ruicheng, the executive director of the Company, is the usual contact person to liaise with Mr. AU.

Mr. AU and Mr. CUI cooperate with each other to jointly discharge the duties and responsibilities of company secretaries. Meanwhile, Mr. CUI joins relevant training and familiarizes himself with the Listing Rules and the duties required for a company secretary of a company listed on the Stock Exchange.

In 2017, Mr. CUI and Mr. AU, who are the Company's joint company secretaries, confirmed that they had complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules by taking at least 15 hours of relevant professional training.

EXTERNAL AUDITOR AND ITS EMOLUMENTS

The Group's external auditor is Ernst & Young. For the year ended December 31, 2017, the emoluments paid or payable for the audit and non-audit services provided by Ernst & Young was as follows:

	Amount (RMB)
Audit Services	2,890,000
Non-audit Services	200,000
Total	3,090,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

We adopt active policies to welcome shareholders and investors to put forward valuable advice and suggestions. We assign dedicated staff members to maintain investor relations and regularly or occasionally communicate or coordinate with institutional investors, with an aim to enhance communication and mutual understanding in a timely manner. We will also update the investor relations website in a timely manner, so as to ensure that the shareholders and investors can have timely access to and understand the Company's latest data, information and reports.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Shareholders can also send enquiries and proposals to be put forward at general meetings for shareholders' consideration to the Board or senior management by email at zgsm@smorganic.cn or by mail to the principal place of business of the Company in Hong Kong at Room 606-607, 6/F, China Merchants Building, 152-155 Connaught Road Central, Hong Kong Special Administrative Region.

PROCEDURES FOR THE CONVENING OF EXTRAORDINARY GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to the provisions set out in the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

For the year ended December 31, 2017, there was no change in or amendment to the Company's constitutional documents.

1. CORPORATE CULTURE AND VALUES

Our mission

To create a business model of desert control and to build a demonstration zone of eco-civilization so that people in China can really enjoy the highest-quality dairy products in the world.

Our vision

Relying on our business, to turn the 1,000 square kilometres of the Ulan Buh Desert into an oasis and to build a top brand in the global organic dairy industry.

2. HONOURS AND AWARDS

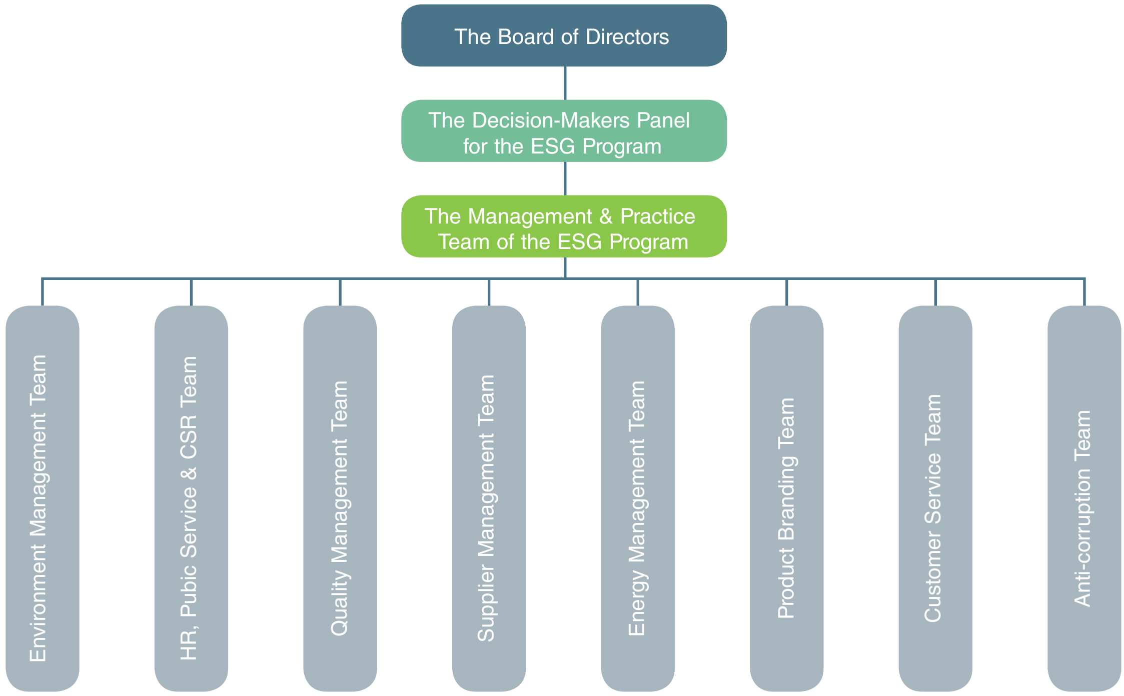
Time	Awards	Presenter(s)
December 2017	2017 China Agriculture (Boao) Forum –"Shennong Cup" Person of the Year in Agriculture	China Agriculture (Boao) Forum Organising Committee
November 2017	Inner Mongolia's Business Cards: Top 100 Brands	The Fourth Inner Mongolia Brand Conference
September 2017	Gold Award at China Agriculture Trade Fair (CATF)	The 15th CATF Organising Committee
August 2017	Gold Award at the 18th China Green Food Expo	The 18th China Green Food Expo
August 2017	2017 (Fifth) Famous, Quality and Special Agricultural Products of Inner Mongolia	Inner Mongolia Association of Agricultural Leading Enterprises
July 2017	Medal for Caring Enterprises	Ministry of Agriculture of China, Dairy Association of China
July 2017	Outstanding Brand Award, Gold Award for Quality, and Award for Good Reputation Among Consumers at China Children and Women Industry Expo	China Children and Women Industry Expo
May 2017	Gold Award (Medal) at the 11th BIOFACH China Organic Trade Fair	BIOFACH China Organising Committee

3. SUSTAINABLE DEVELOPMENT MANAGEMENT

3.1 Philosophy of Sustainable Development

In recent years, Shengmu has always adhered to the "desert-based grass-to-grass organic production model". With scientific planning and layout in the Ulan Buh Desert of Inner Mongolia, while producing organic products, Shengmu has transformed more than 200,000 mu of hinterland in the Ulan Buh Desert into an oasis, maximising its economic, social and environmental value. Shengmu always keeps in mind its purpose of "being a green industry, creating value, giving back to society, and benefiting the nation and its people." It seeks common development with the industry chain and its employees, harmonious coexistence with the environment, and shared benefits with the community.

The Group actively carries out various activities to fulfil its social responsibilities. It established and improved its ESG work system, and has made the ESG concept a fully integrated part of the company's management and operations. In 2017, the Group established an ESG management structure. It set up an ESG project decision-making group and project management and implementation groups. It also invited a third party to deliver training on the *ESG Guide of the Hong Kong Stock Exchange* and complied the *China Shengmu ESG Information Management Handbook* to raise employees' knowledge and capabilities.



3.2 *Stakeholder Engagement*

Stakeholders are closely related to the Company's operations. The Company places great emphasis on stakeholders' opinions and feedback in strategic decision making and management effectiveness assessment. The Company actively communicates with stakeholders via a variety of channels to understand their needs in depth and respond in a timely manner.

Stakeholder issues and communications channels

Key Stakeholders	Issues of Concern	Communications Channel	Main Responses
Shareholders	› Consistent and stable return on investment › Timely disclosure of information › Compliance operations	› Shareholders' meetings › Annual Report and corporate announcements	› Improving business operations and consolidating the Group's leading position in the industry › Regular disclosure of information › Improving internal compliance systems
Employees	› Creating space for personal career development › Adequate compensation and benefits › Improving health security and safety protection	› Intranet › Enterprise journal › General Manager mailbox › Transparent communication meetings	› Improving internal management schemes such as employee recruitment and promotion › Enriching employee life › Providing diverse job opportunities and life security
Suppliers	› Fair and open procurement process › Fulfilling contracts and agreements on time › Driving business growth and achieving win-win results	› Public notices on procurement and bidding › Regular communication of quality requirements › Supplier conference	› Ensuring the transparency of the procurement process › Guarantees of timely payment › Promoting communication with suppliers › Supporting supplier growth

Key Stakeholders	Issues of Concern	Communications Channel	Main Responses
Dealers	High-quality products and services Responding to customer requests in a timely manner	Customer callbacks Regular visits Satisfaction surveys	Strengthening product quality controls Establishing a comprehensive service response system Improving the customer complaint handling process
Consumers	Food safety Product quality	Trade fairs and promotional activities WeChat, Weibo	Strengthening food safety control Organising for consumer representatives to visit production lines
Government	Driving the development of local and peripheral industries Compliant operations Paying taxes according to law	Government meetings Regular visits Supervision and inspection by government staff	Providing jobs, contributing to tax revenue Cooperating with government supervision, improving internal compliance monitoring systems Complying with laws and regulations
Community	Supporting community development Participating in public service	Dialogue with community representatives Public service and volunteer activities	Maintaining close communication Charitable donations and assistance

3.3 Materiality Analysis

In 2017, the Group identified key ESG issues within the industry and appropriate for China Shengmu using benchmark analysis of the CSR and sustainable development issues which domestic and foreign well-known dairy companies prioritised, and by extracting key words with high exposure from the news of the year. Through stakeholder surveys, we learned the ESG concerns of our key stakeholders, including: employees, consumers, suppliers, government, and the local communities where we operate. On this basis, we formed a "Material Issues Matrix" from two perspectives–the Company itself and its stakeholders, and therefore determined the focus of the disclosures in this report. This report also provides ideas and directions for China Shengmu to carry out its work on social responsibility in the future.

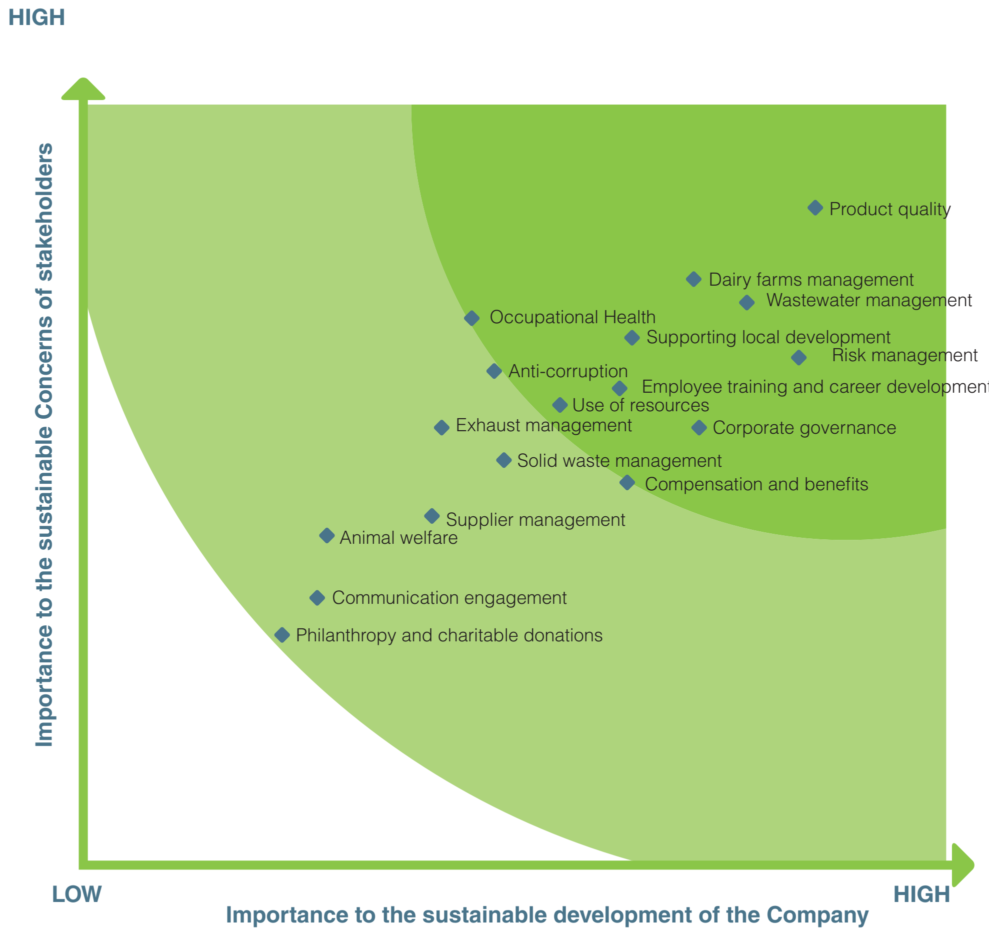


Fig: Material Issues Matrix

4. SUSTAINABLE OPERATIONS

China Shengmu adheres to the concept of sustainable operation and development. To this end, it built an organic recycling industry chain of "grass—livestock—fertilizer—farmland—grass". While combining planting and breeding, it provides high-quality organic milk to the public, setting a precedent in China in providing grass-to-grass organic traceable liquid milk. It also implements the high standards and high requirements of organic products in all aspects of operation and production to improve product quality and market competitiveness, and to promote the sustainable development of the dairy industry in a real sense.

Organic environment, rooted in a pure, pollution-free hinterland

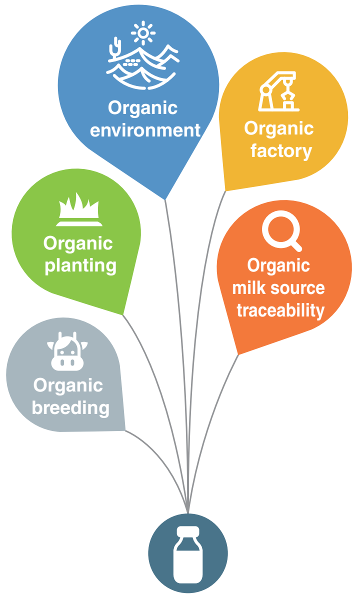
Our production base is located in the Ulan Buh Desert of Inner Mongolia free from industrial, chemical and agricultural pollution, which makes it a superior grass growing environment with little pollution, less bacteria, fewer viruses and pests.

Organic planting, creating an oasis in desert

Our strategic partner Shengmu Forage owns over 200,000 mu of organic grassland in the hinterland of the Ulan Buh Desert, which uses the organic fertilizer from dairy farms to enhance soil fertility and thus supplies exclusive quality roughage.

Organic breeding, to strengthen national livestock industry

The Group has built 23 organic dairy farms in the desert hinterland which have raised nearly 95,000 organic dairy cows. We have specialised nutritionists, a professional health care system, and an exclusive eco-friendly system to provide the cows with good animal welfare.



Organic factory, producing safe milk products

The Group's liquid milk products are produced by the world's most advanced Swedish Tetra Pak A3 production equipment. We produce organic milk in strict accordance with GB/T19630-2011 Chinese National Standards on Organic Products and EU Organic Standard. There are no preservatives, artificial colourings or artificial flavourings used in the production process.

Organic milk source traceability, allowing consumers to have milk with assurance

Every pack of Shengmu's grass-to-grass organic milk is printed with a code issued by China National Certification and Accreditation Administration to trace its source of production.

4.1 Feeding Cows Meticulously to Produce Premium Milk

Since its inception, China Shengmu has been dedicated to providing consumers with traceable organic dairy products. In the aspect of organic milk quality management, a closed organic recycling eco-circle has been built in the Ulan Buh Desert. Devoted to building an entirely organic industrial process, China Shengmu has established organic management standards in all aspects of the business, from planting and breeding to processing to ensure that the entire industry chain meets organic quality standards.

4.1.1 Feed Quality Control

Rooted in the Ulan Buh Desert, China Shengmu grows forage grass in strict accordance with organic standards to ensure the organic properties and safety attributes of the forage materials. It has also strengthened source control for outsourced organic forage materials. All forage materials must undergo strict inspection and testing. The stock feed management and storage adopts a first-in first-out (FIFO) management mechanism with one material in two warehouses to ensure that forage materials are updated in a timely manner, while taking strict control of the feed storage conditions to prevent mildewing.

The Group's 220 thousand mu of organic grassland is located in the Ulan Buh Desert with neither industrial nor chemical pollution within a radius of 50km. Thanks to long sunlit hours, strong ultraviolet radiation and low rainfall, the forage grass has few pests and diseases. Only physical methods are used to prevent pests and diseases rather than any pesticides. We mainly cultivate organic forage plants such as silage corn, organic alfalfa, organic sunflowers, and organic wheat. We do not use genetically modified varieties in order to eliminate genetic contamination. Combining grass planting with animal husbandry, we fertilize the grassland with animal manure, which also changes the soil structure, forming a natural eco-friendly recycling system.

In order to strictly protect the quality of organic grass, Shengmu has established a quality control and tracking system from land selection, ploughing, seed screening, sowing, fertilizing, irrigation, weed control, pest control, to harvesting and storage. For organic planting, rotation and fallowing are carried out strictly in accordance with the national norms for organic food cultivation. GPS is used for sowing in the sprinkler irrigation fields, thereby enhancing the precise seeding standard. Planting uniformity has been improved while rational close planting has also been adopted.

4.1.2 Scientific Feeding

Advanced Feed Management System

The Group has introduced an international-standard advanced fodder management system and equipment to supplement its self-developed scientific feed formulas and management models. Different diet plans are developed for different herds to ensure the healthy growth of every dairy cow.

Relying on the total mixed ration (TMR) technology, and conditional information on targeted cows, such as production phase, milk yield, milk fat content, protein, foetal age, parity, body weight, body fat, climate etc., together with the TMR watch system (TMRWATH), and the employment of NDR near infrared spectrum instruments, the Group has realised refined and precise feeding by reasonably matching its self-developed fodder formulae. Errors in fodder mixing and feeding have been minimised to within 3%, ensuring that the cows are well fed while avoiding waste.

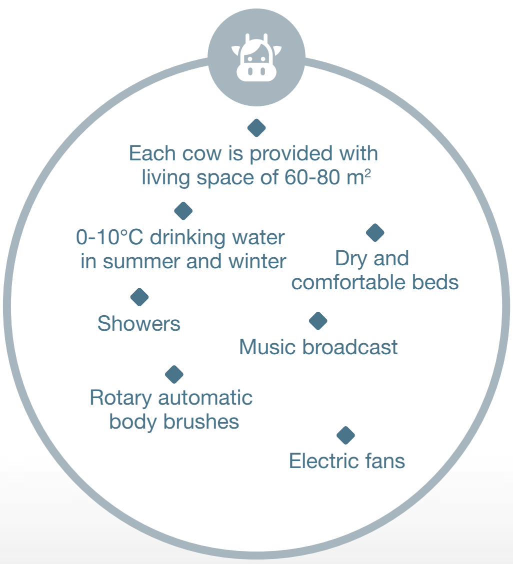
Comfortable Breeding Environment

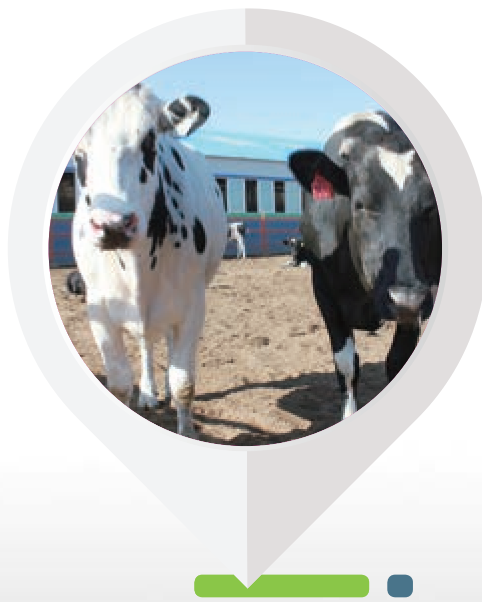
In the layout of high-quality milk source bases, forage grass is the foundation, and dairy farms are the core. Shengmu's dairy farms are located in the Ulan Buh Desert, where the 50km-long sand isolation belt is a natural barrier against epidemic diseases. In spite of that, we still attach great importance to health and epidemic prevention. We have established a practical and feasible bio-safety system, and formulated related systems to standardise in detail all links from disinfection, immunisation, quarantine, to the harmless disposal of cows that have died from diseases in order to protect the health of herds.

Table: The requirements for epidemic prevention in herds, occupational disease prevention, and management procedures

Disinfection	Daily disinfection of dairy cottages, barns, maternity wards, and farm roads
Immunity	Foot-and-mouth disease vaccination: three vaccinations per year on scheduled dates
	Brucellosis vaccination (A19): first vaccination for 6-month-old cows and additional vaccination for 12-month-old cows every month
	IBR and BVDV vaccination: vaccinations in April and October each year.
Quarantine	Quarantine for tuberculosis is conducted twice a year (in March and June); quarantine for Brucellosis and tuberculosis is conducted for all cows once a year; cows with positive antibodies are disposed of according to relevant state regulations.
Harmless disposal	An agreement was signed with a local harmless disposal company in Bayannur to harmlessly dispose of cows that have died from disease.
	An agreement was signed with a local harmless disposal company in Hohhot for in-time leave and standardised disposal of cows that have died from disease.

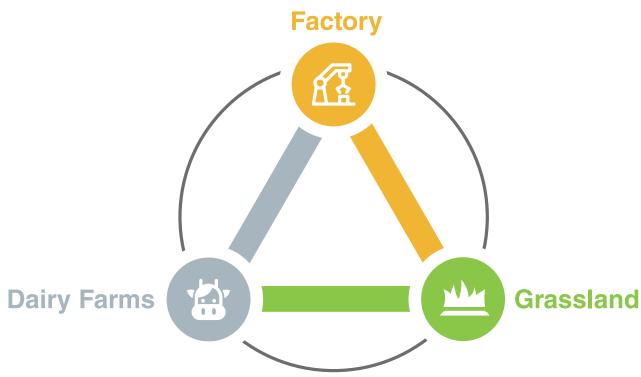
At Shengmu, cows enjoy high-standard animal welfare. Our dairy farms have adopted low-density breeding, and the beds for cows are made of dry clean sand extracted from the Ulan Buh Desert, soft and comfortable, clean and dry. All-weather automatic thermostatic drinking water dispensers have been installed. The drinking water for dairy cows is of the same standard as that for humans. Our facilities take full account of cows' physiological characteristics and natural habits.





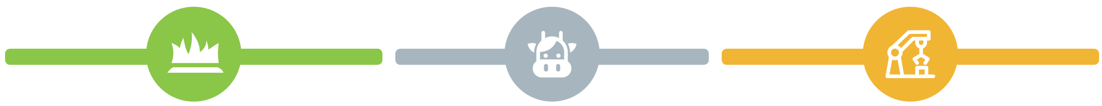
4.1.3 Producing Premium Milk

Shengmu applies a totally closed organic cycle model, where the grassland, dairy farms, and the factory are all owned by Shengmu. There is no external source of milk and no outsourced processing, which reduces intermediate links and ensures the freshness and purity of milk. While meeting the public's demand for high-quality organic milk, we strive to increase public confidence in the domestic dairy industry and to enable the dairy industry to truly achieve sustainable development. In 2017, we were granted a total of 9 patents.



4.1.4 Whole Process Traceability

In order to strengthen the risk controls for food quality and safety, Shengmu has established a comprehensive product traceability program and achieved the comprehensive, timely, and IT-aided information traceability of the entire industry chain. A lot-number record is made from the seeds in each grass growing base. Every cow in the dairy farms has its own ID number. Every pack of organic milk in the processing factory is printed with a code issued by the China National Certification and Accreditation Administration, which truly realises the whole-process traceability of Shengmu organic milk from grass seeds to consumers.



Grass seeds

All agricultural activities are recorded to achieve whole-process traceability of forage materials.

Cows

Cows' physical conditions, feeding conditions, and milk yields are under scrutiny.

Organic milk

The origin of production, organic certification, etc. can be traced.

Leading equipment and technology: The Group uses the most advanced equipment and technology to ensure the quality of milk processing. In the milking process, the Group uses GEA Group's high-efficiency rotary milking equipment, equipped with DAIRY PLAN milking management software, IQ cup groups and other high-end configurations that facilitate scientific milking management, so that the milking data for each cow is recorded. All milking equipment is equipped with a high-end configured cooling system to ensure that milk is cooled to below 4° C immediately after milking. For milk storage, milk containers in warehouses and milk tanks in vehicles made of food-grade stainless steel conforming to national standards are used for storage and transportation. It takes less than two hours from milking to processing. In the production process, we have introduced the world's most advanced Swedish Tetra Pak filling equipment, and strictly follow the organic milk processing flow to realise zero pollution.

Additive-free milk: All raw milk for the Group's production of liquid milk products is supplied by exclusively organic dairy farms. In processing, the principles of "zero flavouring, zero colouring, and zero preservatives" and the quality commitment to "pure organic milk" are strictly observed. Because of our commitment to quality, we took the lead in winning the recognition in the industry and beyond. Shengmu is the first milk brand to obtain certification at home and abroad, China' National Organic Certification and EU Organic Certification.

4.2 Broadening Sales Channels and Improving Customer Service

As China's only organic dairy company that has obtained both the EU and China's national certifications for organic products, China Shengmu is continuously improving its service network and setting up new offline sales outlets across the country. To keep up with industry trends, it has doubled its efforts in promoting online sales to provide consumers with a more convenient shopping experience. Dedicated to introducing organic milk to more consumers, we place a high value on the voices of consumers and use their feedback to improve the quality of our products and services.

4.2.1 Broadening Sales Channels

China Shengmu's sales network covers the country's first- and second-tier cities and key third and fourth-tier cities. Based on this, it has continued to expand its market network in third- and fourth-tier cities. At present, our liquid milk is available at sales outlets in more than 400 Chinese cities including border areas such as Tibet, Xinjiang, and Hainan. In addition, we have partnered with mainstream e-commerce platforms such as Suning to allow more consumers to understand and recognise Shengmu's products.

4.2.2 Improving Customer Service

China Shengmu is continuously improving its customer service system and is committed to providing consumers with quality, professional and efficient customer service. The Group opened a 400 service hotline and formulated *Management System for Terminal Market Complaints* to standardise the customer complaints handling process, so that consumer complaints are replied to, followed up and addressed in a timely manner. Consumer satisfaction surveys are carried out to understand consumer needs, sum up consumer opinions, and we cherish every opportunity for improvement. In addition, the Group has repeatedly invited consumers to visit the base of our grass-to-grass organic industrial chain to understand on-site the whole production process of organic milk from seeds to products, so that more people can recognise the quality of Shengmu organic milk. In 2017, the Company handled a total of 275 customer complaints.

4.3 Standardising Supply Chain Management and Promoting Supplier Development

In order to better protect food safety and quality, the Group has continuously improved and optimised supplier management mechanisms to control quality at source. At the same time, relying on its own technological advantages and industry experience the Group helps its suppliers improve their technologies and capabilities in order to obtain organic qualifications. The Group and its suppliers jointly promote the development of the grass-to-grass organic milk industry chain.

4.3.1 Supplier Management

China Shengmu has formulated a *Supplier Management Procedure*, which covers the process in detail of supplier access, evaluation and assessment, and defines departmental responsibilities and authority, so as to conduct effective, standardised and objective assessment and management of its new and existing suppliers. When selecting a supplier, Shengmu carries out a legal compliance review and a corresponding review of the qualifications and certifications of the supplier, including tax registration certificate, organisation code certificate, business license, production permit, quality management system certification, environmental management system certification, fire acceptance certificate, national and EU organic standards certificates. The supplier's compliance with regulations, anti-corruption and environmental and safety requirements is also included in the scope of review. In the course of cooperation with suppliers, China Shengmu strengthens the evaluation and management of suppliers through inspection and assessment of the cooperation, while continuously optimising the supply chain.

Domestic suppliers	Foreign suppliers	Suppliers of organic products
279	3	22

4.3.2 Supplier Development

As a branded dairy company that uses only its own milk sources, China Shengmu has created a vertically integrated desert-based grass-to-grass organic production model. It has accumulated rich experience in dairy cow farming, forage grass planting and in combining planting with breeding. In the course of cooperation with suppliers, China Shengmu is committed to sharing and exchanging experience and knowledge with suppliers, providing professional training, and assisting suppliers to obtain organic certifications. Together with its suppliers, China Shengmu maintains the sustainable development of the grass-to-grass organic milk industry chain.

4.4 Anti-Corruption

The Group has always been committed to creating a working environment that upholds clean and honest practice and dedication to one's job. The Group has formulated a *Management System for Discipline Inspection and Supervision* and *Measures for Investigation and Handling of Violations of Rules and Disciplines*, so as to safeguard the Group's production and operation order, standardise the behaviour of management personnel, and prevent and punish internal non-compliance and discipline violations, The Group's channels for reporting and investigating violations of laws and regulations are as follows.

Where to report	How to collect clues once violations are found
1. Online reporting channels on the Group's official website, OA platform, and WeChat platform. 2. Public notices on reported disciplinary violations in the production and office areas across the Group 3. Internal and external intelligence liaison officers in key checkpoints and circulation areas	1. From regular and special inspections on work 2. In the process of participating in the work and meetings of functional departments 3. In the process of managing monitoring and positioning systems 4. From the analysis of big data 5. From the disclosures, reports and feedback of customers and employees 6. From public opinion, media communications, customer interviews, etc. 7. From cases submitted by various units of the Group

In addition, we have signed anti-bribery contracts with all partners, agreeing that both parties should establish a fair and transparent partnership for supply and marketing and oppose all forms of commercial bribery.

5. ENVIRONMENTAL CONCERNS

The Group fully recognises the complementary relationship between production and operations and environmental protection. While seeking own development, it pays attention to the environmental impact of its production and operations and vigorously protects and improves the natural environment. During the reporting year, the Group met all environmental laws and regulations that had a material impact on the Group.

5.1 Creating a New Business Model of Desert Control through the Organic Milk Industry

Desertification, known as "The Cancer of Earth", is a difficult issue in the global ecological field. Based on the theory of "desert-grassland industry" initiated by scientist Mr. Qian Xuesen, China Shengmu, in conjunction with Shengmu Forage, has transformed barren land in the Ulan Buh Desert into an oasis to grow cash crops. As such, economic benefits have been generated while sustainable green development has been achieved. Since entering the Ulan Buh Desert in 2010, China Shengmu has transformed 220 thousand mu of desert into an oasis in less than 8 years, which has greatly improved the local microclimate. Local annual precipitation has increased significantly. Significant improvements have been made in the urban air environment and desert governance.

As for vegetation selection, the combination of xerophytic trees, sandy shrubs, perennial grasses and annual grasses fully utilises the advantages of wind prevention and sand fixation provided by herbaceous plants. At the same time, dwarf shrub grasslands combined with perennial grasses have been cultivated to eliminate the source of large sandstorms. In order to block sand blown by the wind, a shelterbelt mainly composed of holly, red willow, caragana, haloxylon, hedysarum scoparium and other low sand shrubs has been established around the newly developed land. Xinjiang poplar, populus euphratica, Elaeagnus angustifolia, elm, locust and other fast-growing trees have been planted for auxiliary purposes. These measures not only prevent further desertification of the land, but also protect the artificial grasslands and form a three-dimensional ecosystem involving trees, shrubs and grasses in the desert. Calculated only by the value of carbon sequestration and of greenhouse gas and comprehensive gas regulation, for every 1,000 $m^3$of irrigation water used, China Shengmu's sand control model featuring "eco-cycle organic milk industry chain" can produce the ecological value of Rmb2,668.8 per year. By the end of 2017, Shengmu's grass planting area reached 24,000 hectares, producing the estimated ecological value of Rmb480 million per year. China Shengmu has provided valuable experience for international communities to manage the ecological environment.

Desert with original ecology culture

Shengmu grassland

5.2 Faecal Waste Utilisation

We are fully aware that cow manure is a valuable resource. We have formulated a *Standard for Returning Solid and Liquid Fertilizer to the Farmland* in accordance with national standards, identifying management methods and assessment mechanisms for faecal waste. The *Standard* regulates the harmless treatment of manure by promoting ecologically benign natural processes with a view to achieving the greatest economic benefits while meeting eco-friendly requirements.

The treated solid faecal waste from non-organic dairy farms is supplied to local fodder suppliers. The treated solid faecal waste from organic dairy farms has organic biologics added before being composted, fermented and matured to become organic fertilizer for use in planting, supplemented by self-produced liquid fertilizer and base fertilizer to realise the reuse of biological resources, while providing affordable and premium organic fertilizer. This also increases silage production, thereby achieving a win-win balance between faecal matter treatment and fertilizer collection. At the same time, organic cow manure is very beneficial to the organic improvement of sandy soil, and plays a very important role in the transformation of desert-based farmland.

Fig.: Each dairy farm has increased rain and sewage diversion facilities, and a concrete-structured drainage ditch is built around every dairy cottage to prevent polluted rainwater contaminating groundwater.

Fig.: The composting facility of a dairy farm rebuilt to be leakproof

5.3 Reducing Emissions

The Group implements pollutant emission controls to minimise the adverse impacts of pollutants from its production processes, to meet eco-friendly requirements. Appropriate measures are taken to reduce emissions and pollution according to the characteristics of emissions of the dairy industry.

5.3.1 Exhaust Gas Treatment

The Group regulates boiler exhaust gas and strictly controls the discharge of gaseous pollutants in accordance with regulatory standards. In 2017, the Group added or upgraded the dust removers for every dairy farm's boiler, increasing the efficiency of desulfurisation and dust removal and reducing emissions and pollution to the air.

Exhaust pollutants emissions in 2017

Exhaust emissions (m^3)	219,016,251.28
SO^2 emissions (tons)	30.64
NOx emissions (tons)	40.19
Smoke and dust emissions (tons)	12.71

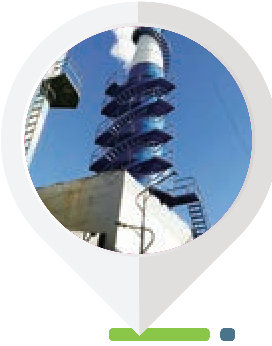


Fig.: Desulfurization and dust removal equipment

5.3.2 Wastewater Treatment

During operations the Group strictly complies with national laws and regulations concerning environmental protection, and adopts different measures to treat wastewater according to different process characteristics and production processes between dairy farms and the factory.

The wastewater generated from the animal husbandry sector mainly comes from washing the milking halls. In the actual operation process, the wastewater is separated through Level-III sedimentation, and the separated urine effluent is discharged to a regulating tank. The wastewater from the regulating tank goes through a solid-liquid separation facility before being pumped into an oxidation pond, and after 3-6 months of fermentation in the oxidation pond it is directly used in the farmland as liquid fertilizer.

The dairy sector built a 3,000-ton wastewater treatment plant which began operation in September 2013. The wastewater from dairy production is treated by the treatment plant to meet the Standard B specified in the *Standards for Sewage Discharged into Urban Sewers (CJ343-2010).* It is then discharged into a sewage treatment plant in Dengkou County, and the sludge is delivered to landfill by the environmental protection bureau. In the future, we will upgrade the sewage plant's equipment, make full use of an online monitoring system, and strengthen the capacity for pollutant data management and control.

5.3.3 Disposal of Other Waste

We produce waste at various stages of the production process, mainly medical waste, animal carcasses, fly ash, and slag. The Group properly manages waste, collecting general solid wastes and hazardous wastes by category, and handing them respectively over to entities that have the corresponding treatment qualifications. We also strictly review the legality of third parties' waste-treatment qualifications to standardise the disposal of solid wastes. At the same time, we aim to reduce waste at source and to recycle waste as much as possible to lower the burden on the environment caused by landfill. In 2017, we carried out upgrades with painted steel to all of the dairy farms' coal bunkers and domestic garbage containers to prevent secondary pollution from dust and domestic garbage. Fly ash and slag are handed over to third parties to be used as raw materials for brick and tile production. After treatment to render the remains harmless, cows that have died from disease are processed into meat and bone meal and oil by third parties. Such products can be used as raw materials for organic fertilizers and soaps so as to minimise the impact on the environment. Medical waste is treated by qualified third parties. In 2017, a total of 50,137.2 tons of medical waste was disposed of by third parties.

The Group's greenhouse gas emissions are mainly indirect energy emissions from the use of electricity and direct emissions from the use of coal and diesel.

Types of greenhouse gas emissions	Sources of emissions/types of energy (unit)	CO_2 emissions (tons) equivalent
Indirect energy emissions	Use of electricity in production and offices (KWh)	53,678.02
Direct energy emissions	Coal consumption (tons)	43,630.01
	Diesel consumption (tons)	17,479.55
Total		114,787.59
CO_2 emissions per Rmb10,000 of output value (tons)		2.36

Note: According to energy conversion data: EFgrid, OM, y (1.0416) and EFgrid, BM, y (0.4780) tons of CO_2 generated from electricity use in North China, each is converted by 50%. CO_2 emissions from fossil fuels are converted according to *2006 IPCC Guidelines for National Greenhouse Gas Inventories*.

5.4 Resource Conservation

To better control energy indexes and improve resource utilisation, the Group has developed its *Energy Management System* based on the production process and actual energy consumption of production to establish and improve energy management systems.

5.4.1 Energy Management

The Group has developed a comprehensive energy control system to develop energy consumption targets for its departments, and to manage and urge them to implement energy conservation initiatives. The implementation is tracked monthly for the purpose of effective monitoring and control of energy utilisation and management. In 2017, Shengmu Dairy integrated energy equipment, concentrating cooling, thermal, gas, electricity, and heating equipment in the energy workshop to reduce energy loss in production processes. The packaging materials used in the production process mainly include cartons and plastics. In order to reduce the amount of resources used, recycled packaging materials are used where permitted. In 2017, the Group's dairy sector used a total of 26,010 tons of packaging materials.

The energy consumption of the Group during the reporting period was as follows.

Energy type	Consumption in 2017
Power (KWh)	70,647,564.09
Coal (tons)	16,551.78
Diesel (tons)	5,512.53
Energy use per Rmb10,000 of output value (tons of standard coal)	0.11

5.4.2 Water Resources Management

China Shengmu has placed its strategic core in the hinterland of the Ulan Buh Desert, where water is relatively a scarce resource. The Group actively promotes the use of recycled water. It has rebuilt a condensate water reservoir in the milking hall, which collects condensate water before pumping it to water dispensers in the barns for consumption by cows. The water used to flush the pipeline is recovered to rinse the ground. A three-level sedimentation tank has been built on the periphery of the milking hall of every dairy farm. The wastewater generated from washing the milking hall is discharged into the three-level sedimentation tank, and the supernatant water is used to rinse the ground of the milking hall's holding pen. Recycling improves the utilisation of water resources. Reclaimed water from the Group's wastewater treatment plant enters the industrial park's wastewater treatment plant to be managed by the park's wastewater treatment plant. Reclaimed water is mainly used for greening. In 2017, the total water consumption of the Group was 632,214 tons[1].

[1] *Excluding part of groundwater consumption*

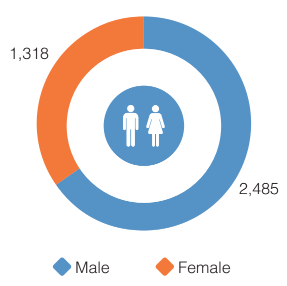
6. CARING FOR EMPLOYEE DEVELOPMENT

We believe that employees are the most valuable asset of Shengmu and the cornerstone of its development. Through a series of systems, the Group provides employees with fair and competitive job opportunities, a comprehensive training system and a diversified promotion platform. We care for employees' health and safety by creating a working and living environment full of humanistic concern.

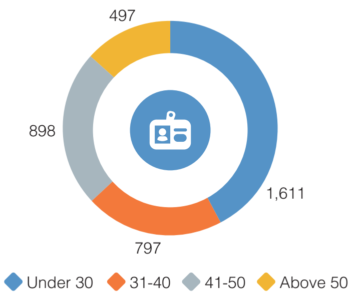
6.1 Guaranteeing Employees' Rights and Interests

Strictly complying with *the Labour Law*, *the Labour Contract Law*, *the Law on the Protection of Women's Rights and Interests* and other relevant laws and regulations, the Group resolutely prevents and resists the use of child labour and any forms of forced labour. The Group insists on just, fair and open recruitment policies to achieve equal pay for equal work and gender equality. As of December 31, 2017, the Group had a total of 3,803 employees.

Number of employees by sex



Number of employees by age



In 2017, in order to comprehensively improve salary management, to establish a mechanism which is able to attract and retain talent, and to form a fair and appropriate distribution mechanism, we initiated *the Management Rules on Broadband Salary*. The design of the broadband salary system comprehensively considered relevant factors, including the value of positions, capabilities and the work performance of employees, as well as salary levels in the current job market, to fully mobilise employees' initiative.

Fairness	Employees' actual income shall reflect internal and external fairness, the value of positions and the principle of "more pay for more work"
Steadiness	Under the principle of promoting the steady development of its salary system, the Company's history and current situation have been fully considered in the design of salary structures and salary levels
Incentives	The setting of salary standards shall hinge on performance: of the Company, of the relevant department and of employees themselves in order to stimulate employees' initiative
Economical efficiency	The increase in the Company's labour costs shall match that of the Company's profits. An appropriate increase in labour costs can stimulate employees to create more economic added value, which will increase the Company's overall profits and realise its sustainable development

The Group provides employees with dormitories, canteens and large-scale event venues, including basketball courts and indoor activity rooms, which guarantees the logistical support for their daily needs and their sporting and cultural lives. On major festivals, the Group always distributes festival benefits, organises gatherings and celebration dinners, visits front-line employees and sends gratitude and greetings to employees who stick to their posts.

6.2 Training and Employee Development

In order to enhance our comprehensive competitive strength and to build a learning organisation, China Shengmu has set up specialised training programs for its management, marketing, and technology teams. In 2017, the Group carried out training on lateral thinking and leadership for its management team.

Total attendance of employee training

15000+

Average training hours per person

63

China Shengmu continues to promote the construction of an enterprise internal trainer team. In the 2nd Enterprise Internal Trainer Selection & Review in October 2017, 57 employees were selected as enterprise internal trainers while another 63 were put on probation. The Group has developed 102 internal training courses and will continue to develop more characteristic courses suitable for China Shengmu's management and production mode, so as to create a broader learning platform and provide more growth opportunities for employees.

China Shengmu organises an annual excellent employee commendation meeting to commend the Group's pacesetters for their extraordinary contributions in ordinary job positions by awarding honour certificates, distributing prize money or providing overseas study opportunities. In 2017, 125 excellent employees were highly commended.

In 2017, China Shengmu implemented innovation incentives by mechanism establishment, information sharing and mobilisation, review organisation, commendations and rewards and popularisation and application. The Group encourages employees to actively explore and innovate in practice in order to accelerate the Group's rapid development.

6.3 Occupational Health

China Shengmu has established a complete safe production management system, which includes the organisation system, institutional system, objectives and accountability system, education system, risk control system, supervision system, contingency management system and accident management system. The Group sets annual safe production objectives and prompts all employees, from management level to the frontline, to sign letters of responsibility for safe production. These measures make sure that employees at all levels are encouraged to achieve seamless management with all safety responsibilities fulfilled, based on the principle of "horizontal to the edge, vertical to the bottom".

In 2017, no safety accidents occurred in the Group, 715 problems were found in planned inspections. Through daily inspections and rectification of safety hazards, employees were trained to fully understand the safe status of equipment, the working environment and individual behaviours, enabling them to find out and report potential safety hazards for timely rectification. All of these measures ensure the actual implementation of safety management.

The Group also attaches importance to employees' education on safe production. We constantly carry out safety education at factory level, department level and team level, and pre-job safe training for new employees, all of which help employees to establish and continuously enhance the idea of "safety first", improve their knowledge and skills of safe production, and consequently promote the overall quality of the Company's safe production. At the same time, in order to strengthen employees' emergency handling capacity in the case of accidents, the Group invites the local fire brigade, hospital emergency centre, Red Cross Society and the internationally-experienced Blue Sky rescue team to conduct field training, during which the Company's emergency team learns knowledge and skills of on-site guidance, search and rescue, first-aid and firefighting. These training programs help improve our capability to deal with emergencies and maximally secure the safety of employees' lives and the Group's wealth.

The Group organises regular physical examinations for employees and provides safety protection products for all staff in positions with occupational health hazards. The Group identifies risks in all areas of the factory periphery and production workshops and sets up warning identifications. Emergency protective equipment is provided in production areas. In 2017, China Shengmu achieved certification for its occupational health safety management system (OHSAS 18001:2007) and for its environmental management system (ISO 14001:2004), which have further regulated the management of environment, health and safety. During the reporting period, no job-related deaths happened in China Shengmu.

6.4 Focusing on Compassionate Care

China Shengmu attaches importance to listening to the voices of employees and has established internal communications platforms for them. Through channels including transparent communication meetings with employee representatives, General Manager's mailbox, General Manager's WeChat Express and interviews for performance coaching, managers are able to understand the employees' heartfelt wishes in time and solve their practical difficulties.

The Group actively supports and contributes to the Golden Autumn Education Grants and the labour union's consolation money for those in need. For female employees, the Group protects their interests and rights by rules and regulations. Special care and attention is provided for those who are pregnant or breastfeeding. Mother-and-baby rooms and maternity lounges have also been set up. Every year the Group invites female employees of local maternity and child health centres to give lectures and organises large-scale recreational events on Women's Day and Children's Day.

7. HEART TIED TO COMMUNITY CHARITY

From the sparks of fire to the current prosperity, China Shengmu has won recognition from all walks of life since it started. As a public enterprise with social responsibilities in mind, we are fully aware of the correlation between social responsibility and corporate development. At the same time as building our brand, we always insist on participating in charitable activities and public service, and in thanking the public for their trust in China Shengmu through practical action. In 2017, the philanthropic investment of China Shengmu was Rmb10.58 million, and a total of 234 volunteers participated in 760-hours of public service and voluntary activities.

7.1 Opening the Pasture to the Public, Witnessing Organic Production and Meeting in the Ulan Buh Desert

The "Organic Tour" of China Shengmu is a visiting activity to the Group's desert and grassland base in the Ulan Buh Desert. Aimed at putting the policy of "opening the pasture to the public and witnessing organic production" into practice, the activity deeply impressed many people with our achievement of creating an oasis in the Ulan Buh Desert, and spread the concept of organic and healthy living at the same time.

The large-scale experiential activity "2017 China Shengmu Desert Organic Tour" lasted for over 3 months. During this time, the representatives of dealers from all over the country met in the Ulan Buh Desert of Inner Mongolia to experience the pure charm of whole-process organic production. In 2017, China Shengmu received a total of 1,365 people who favour organic products. They visited the global demonstration factory of organic milk, where they learned about the manufacturing techniques used and the whole process and also tasted the high quality organic milk. We also arranged a series of activities, such as, visiting Sanshenggong Water Control Project, playing at Nalinhu Lake scenic spot, a campfire party, a BBQ buffet, and an Andai dance performance, which gave visitors a first-hand experience of the unique local culture and customs of Inner Mongolia. Through in-depth communication with us and by witnessing the great achievements of China Shengmu in the desert, our dealers and partners strengthened their faith and determination to work for organic milk with China Shengmu.

Shengmu people are undertaking a great task. China Shengmu has advanced development concept and excellent corporate culture. On the one hand, with your diligence and wisdom, you provide people with plenty of beautiful food and make the Chinese stronger; and on the other hand, at the same time as providing adequate nutritious food, you are turning the desert into an oasis step by step. You have done a great job. It can be said that pains are for the moment and gains for the future, and it can benefit the thousands of generations! The desert will shrink through Shengmu people's hard work, and an immense oasis will emerge in one hundred years at the current rate. At that time, I'd like to come here again. Perhaps I will be too old to move, then let my descendants come. They must be deeply touched by the miracle of Shengmu people. In the words of Chairman Mao, "If the Goddess still exists, she must be surprised by the changes of today"!

—A Visitor of the "2017 Organic Tour"

7.2 Warming and Benefiting People with Organic Products

In order to manage its public service and philanthropic activities, the Company has formulated *the Management System for Public Service and Philanthropic Activities*, which stipulates the procedures of selecting sponsored groups, implementing volunteer plans, performance evaluations, etc. As a result, the Company and its subsidiaries have rules to follow in their public service and philanthropic activities. By virtue of its outstanding performance in public service and philanthropic activities, China Shengmu was awarded the "2017 Responsibility Brand Award" in the 7th China Charity Festival.

- *"China Well-Off Milk Action"*

  On February 21, 2017, the opening ceremony of "China Well-Off Milk Action" jointly organised by the Ministry of Agriculture of PRC and the Dairy Association of China was held in Beijing. China Shengmu donated over 50,000 boxes of organic milk to schools in poor areas.

Fig.: "China Well-Off Milk Action" Opening Ceremony

Fig.: In June 2017, the Group went to Xinjiang and visited the local sanitation workers, police, soldiers, schools and others during China Shengmu charity trip. The Group donated 270,365 boxes of organic milk.

7.3 Volunteer Actions and Community Support

In order to further manage its volunteer service, in September 2017, the Group formally established the headquarters volunteer team and formulated *the Volunteer Activity Plan for China Shengmu Headquarters*, through which the volunteer service team of China Shengmu could better serve the Group, serve society and serve its employees. The Group carried out a series of voluntary activities in 2017. According to incomplete statistics, about 300 corporate volunteers participated in service activities, supporting the elderly in nursing homes, children in welfare institutions, widows and other vulnerable groups.

The China Shengmu volunteer team promises to do its best to help others, serve the society, fulfil the voluntary spirit and spread the culture of China Shengmu regardless of pay. With the voluntary spirit and slogan of "dedication, progress and win-win", the team will carry out voluntary service persistently.

EY 安永

To the shareholders of China Shengmu Organic Milk Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of China Shengmu Organic Milk Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 83 to 163, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Valuation of dairy cows	
Biological assets of the Group, which represent dairy cows and beef cattle are measured at fair value less costs to sell, and amounted to RMB3,900,900,000 as of 31 December 2017. Dairy cows of the Group included milkable cows, heifers and calves, which were raised for the purpose of producing raw milk. Beef cattle were raised to three to six months old and then for sale. The fair value of biological assets as assessed by management was significant to the Company's consolidated financial statements since (i) the carrying values of such biological assets accounted for approximately 37% of the total assets of the Group; and (ii) significant estimates were involved in management's fair value assessment. Management has engaged an external valuation expert to assist in the valuation of the biological assets as at 31 December 2017. The accounting policies and disclosures for biological assets are included in notes 2.4, 3 and 19 to the consolidated financial statements.	We assessed the objectivity, independence and competence of the external valuation expert employed by the Company and also evaluated the accuracy of the data provided by management to the external valuation expert, which were used as inputs for the valuation. We evaluated the reasonableness of the underlying basis and assumptions used by management. In particular, we assessed the assumptions applied to which the outcome of the valuation is most sensitive, including the estimated local market selling price of the relevant dairy cows, feed costs per kilogram of raw milk production, daily milk yield at each lactation cycle and local future market prices for raw milk. We also reviewed the adequacy and appropriateness of the disclosures relating to the fair value measurement of biological assets.
Recoverability of trade receivables	
The Group had a significant trade receivable balance of RMB1,074,299,000 as at 31 December 2017. The aging profile of such receivables has deteriorated since 31 December 2015 and the determination of the recoverability and impairment allowance of these trade receivables involves significant judgement and estimation by management. Hence, the assessment of the recoverability and impairment allowance against the trade receivables is significant to the consolidated financial statements. The details of trade receivables and the related impairment allowance are disclosed in notes 2.4, 3 and 25 to the consolidated financial statements.	We performed audit procedures on understanding and testing the Group's internal control process in the assessment and estimation of trade receivable impairment. We assessed the basis and assumptions adopted by management in estimating the impairment allowance. We evaluated the adequacy of impairment allowance made by management after taking into account the subsequent settlement from customers, aging profile, financial conditions of customers and their respective credit history. We also reviewed the adequacy and appropriateness of the disclosures relating to the recoverability of trade receivables.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. TONG KA YAN, AUGUSTINE.

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	2,706,842	3,466,544
Cost of sales		(1,622,474)	(1,791,133)
Gross profit		1,084,368	1,675,411
Loss arising from changes in fair value less costs to sell of biological assets	19	(595,479)	(15,729)
Other income and losses	5	(732,855)	(87,146)
Selling and distribution expenses		(317,400)	(287,949)
Administrative expenses		(102,487)	(141,714)
Other expenses	7	(10,595)	(56,233)
Finance costs	8	(150,531)	(124,667)
Share of profits and losses of associates		(6,874)	(16,242)
(LOSS)/PROFIT BEFORE TAX	6	(831,853)	945,731
Income tax credit	11	7,540	11,077
(LOSS)/PROFIT FOR THE YEAR		(824,313)	956,808
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		3,081	12,158
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		3,081	12,158
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(821,232)	968,966
(Loss)/profit attributable to:			
Owners of the parent		(985,789)	680,615
Non-controlling interests		161,476	276,193
		(824,313)	956,808
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(982,708)	692,773
Non-controlling interests		161,476	276,193
		(821,232)	968,966
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		(RMB0.155)	RMB0.107
Diluted		(RMB0.155)	RMB0.106

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,798,328	2,710,368
Prepaid land lease payments	15	36,550	37,566
Other intangible assets	16	13,611	14,847
Investments in associates	17	105,784	112,658
Available-for-sale investments	18	2,007	1,427
Biological assets	19	3,867,389	3,884,257
Prepayments for property, plant and equipment and biological assets	21	6,209	11,963
Long term receivables	22	14,059	19,684
Deferred tax assets	20	32,197	24,634
Other non-current assets	23	39,212	16,565
Total non-current assets		6,915,346	6,833,969
CURRENT ASSETS			
Inventories	24	860,828	928,816
Biological assets	19	33,511	—
Trade and bills receivables	25	1,100,006	1,108,787
Prepayments, deposits and other receivables	21	898,837	393,550
Pledged deposits	26	128,884	66,791
Available-for-sale investments	18	—	120,000
Cash and bank balances	26	582,283	1,047,382
Total current assets		3,604,349	3,665,326
CURRENT LIABILITIES			
Trade and bills payables	27	1,188,964	920,631
Receipts in advance		14,700	13,152
Other payables and accruals	28	441,718	438,550
Interest-bearing bank and other borrowings	29	2,654,046	918,404
Income tax payable		1,455	1,581
Total current liabilities		4,300,883	2,292,318
NET CURRENT (LIABILITIES)/ASSETS		(696,534)	1,373,008
TOTAL ASSETS LESS CURRENT LIABILITIES		6,218,812	8,206,977

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	720,201	1,751,950
Long term payables	30	82,829	107,900
Total non-current liabilities		803,030	1,859,850
Net assets		5,415,782	6,347,127
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	50	50
Reserves	32	4,356,281	5,338,989
		4,356,331	5,339,039
Non-controlling interests		1,059,451	1,008,088
Total equity		5,415,782	6,347,127

YAO Tongshan
Director

CUI Ruicheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	50	1,757,767	373,857	50,407	303,376	4,672	2,061,526	4,551,655	815,570	5,367,225
Profit for the year	—	—	—	—	—	—	680,615	680,615	276,193	956,808
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	12,158	—	12,158	—	12,158
Total comprehensive income for the year	—	—	—	—	—	12,158	680,615	692,773	276,193	968,966
Equity-settled share option arrangements	—	—	—	45,151	—	—	—	45,151	—	45,151
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	12,205	12,205
Acquisition of non-controlling interests	—	—	49,460	—	—	—	—	49,460	(95,880)	(46,420)
Transfer from retained profits	—	—	—	—	109,361	—	(109,361)	—	—	—
At 31 December 2016	50	1,757,767#	423,317#	95,558#	412,737#	16,830#	2,632,780#	5,339,039	1,008,088	6,347,127
At 1 January 2017	50	1,757,767	423,317	95,558	412,737	16,830	2,632,780	5,339,039	1,008,088	6,347,127
Loss for the year	—	—	—	—	—	—	(985,789)	(985,789)	161,476	(824,313)
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	3,081	—	3,081	—	3,081
Total comprehensive (Loss)/ income for the year	—	—	—	—	—	3,081	(985,789)	(982,708)	161,476	(821,232)
Equity-settled share option arrangements	—	—	—	—	—	—	—	—	—	—
Capital withdrawal by non-controlling shareholders	—	—	—	—	—	—	—	—	(217,430)	(217,430)
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	219,530	219,530
Distribution of dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	(112,213)	(112,213)
Transfer from retained profits	—	—	—	—	50,393	—	(50,393)	—	—	—
At 31 December 2017	50	1,757,767#	423,317#	95,558#	463,130#	19,911#	1,596,598#	4,356,331	1,059,451	5,415,782

These reserve accounts comprise the consolidated reserves of RMB4,356,281,000 (2016: RMB5,338,989,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(831,853)	945,731
Adjustments for:			
Loss arising from changes in fair value less costs to sell of biological assets	19	595,479	15,729
Interest income	5	(8,739)	(3,953)
Finance costs	8	150,531	124,667
Share of profits and losses of associates		6,874	16,242
Depreciation	14	187,250	146,783
Amortisation of prepaid land lease payments	15	2,251	266
Amortisation of other intangible assets	16	1,395	1,434
Loss on disposal of items of property, plant and equipment	5	2,402	14,677
Equity-settled share option expenses	34	—	45,151
Foreign exchange differences, net		30,694	3,678
		136,284	1,310,405
Increase in inventories		(4,173)	(104,301)
Decrease/(increase) in trade and bills receivables		8,781	(193,475)
(Increase)/decrease in prepayments, deposits and other receivables		(453,812)	55,879
(Increase)/decrease in pledged deposits		(62,093)	3,486
Increase in other non-current assets		(22,647)	(16,565)
Increase/(decrease) in trade and bills payables		268,333	(97,495)
Increase/(decrease) in receipts in advance		1,548	(4,168)
Increase/(decrease) in other payables and accruals		6,836	(11,530)
Cash (lost)/generated from operations		(120,943)	942,236
Interest received		7,910	12,864
Income taxes paid		(125)	(12,875)
Net cash flows (used in)/from operating activities		(113,158)	942,225

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows (used in)/from operating activities		(113,158)	942,225
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(328,040)	(598,218)
Additions to prepaid land lease payments	15	(1,487)	(33,911)
Additions to other intangible assets	16	(159)	(763)
Purchases of biological assets		(84,857)	(6,456)
Payments for breeding calves and heifers		(746,317)	(711,707)
Proceeds from disposal of biological assets		257,993	118,234
Proceeds from disposal of items of property, plant and equipment		5,333	6,256
Purchases of time deposits with original maturity of more than three months		(284,611)	(115,000)
Proceeds from disposal of time deposits with original maturity of more than three months		115,000	320,260
Purchases of available-for-sale investments		(1,060)	(120,000)
Proceeds from disposal of available-for-sale investments		120,480	—
Acquisition of associates		—	(92,663)
Net cash flows used in investing activities		(947,725)	(1,233,968)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		2,100	12,205
Acquisition of non-controlling interests		—	(46,420)
Dividends paid to non-controlling interests		(112,213)	—
New bank loans		1,347,888	1,039,189
Proceeds from issue of corporate bonds		—	600,000
Proceeds from issue of super short-term notes		400,000	—
Corporate bond issue expenses		—	(4,200)
Super short-term notes issue expenses		(1,200)	—
Repayment of bank loans		(1,046,548)	(1,580,237)
Repayment of short-term notes		—	(100,000)
Interest paid		(136,239)	(112,035)
Net cash flows from/(used in) financing activities		453,788	(191,498)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(607,095)	(483,241)
Cash and cash equivalents at beginning of year		932,382	1,411,499
Effect of foreign exchange rate changes, net		(27,615)	4,124
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	297,672	932,382
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	582,283	1,047,382
Time deposits with original maturity more than three months		(284,611)	(115,000)
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	297,672	932,382

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk and dairy products in the People's Republic of China (the "**PRC**").

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
內蒙古聖牧高科牧業有限公司 Inner Mongolia Shengmu High-tech Farming Co., Ltd.# (note (i))	PRC/ Mainland China	RMB888,700,000	—	100	Production and distribution of raw milk
內蒙古聖牧控股有限公司 Inner Mongolia Shengmu Holding Co., Ltd.# (note (i))	PRC/ Mainland China	RMB280,000,000	—	100	Production and distribution of raw milk
內蒙古聖牧高科奶業有限公司 Inner Mongolia Shengmu High-tech Dairy Co., Ltd.#	PRC/ Mainland China	RMB300,000,000	—	100	Production and distribution of dairy products
巴彥淖爾市聖牧盤古牧業有限責任公司 Bayannur Shengmu Pangu Farming Co., Ltd. ("**Shengmu Pangu**")#	PRC/ Mainland China	RMB80,000,000	—	55	Production and distribution of raw milk

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

Note:

(i) The entity was registered as a foreign investment enterprise under PRC law.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control as defined in IFRS 10. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern

The Group had net current liabilities of RMB696,534,000 as at 31 December 2017 (2016: net current assets of RMB1,373,008,000). In view of the net current liabilities position, the board of directors (the "Directors") have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB1,764,404,000 and unused credit facility of super short-term notes of RMB1,300,000,000 and unused credit facility of medium-term notes of RMB300,000,000 available as at 31 December 2017 and cash flow projections for the year ended 31 December 2018, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The financial statements do not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 35 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 35 to the financial statements.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as none of the Group's subsidiaries were classified as a disposal group held for sale as at 31 December 2017 and so no additional information is required to be disclosed.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

3 No mandatory effective date yet determined but available for adoption

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

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have no significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

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

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that IFRS 9 are not expected to have any significant impact on the Group's financial statements.

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

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS 15 will not be material, and the expected changes in accounting policies will not have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

The Group's principal activities consist of the sales of raw milk and dairy products. The expected impacts arising from the adoption of IFRS 15 on the Group are not significant.

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

IFRS 16, issued in January 2016, replaces IAS 17 Leases, IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees - leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 36 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB1,334,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations

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

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

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

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

Business combinations and goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

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

Fair value measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

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

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss and other comprehensive income. Any subsequent revaluation surplus is credited to the statement of profit or loss and other comprehensive income to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

	Useful lives	Residual values
Buildings	20 years	5%
Machinery and equipment	5-10 years	5%
Office and other equipment	5 years	5%
Motor vehicles	5 years	5%

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

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

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

Biological assets

Biological assets comprise dairy cows and beef cattle. Dairy cows including milkable cows, heifers and calves which are raised by the Group for the purposes of producing raw milk. Beef cattle are raised by the Group for sale.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agricultural produce

Agricultural produce represents raw milk. Upon harvest, agricultural produce is recognised at its fair value less costs to sell, which is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of the agricultural produce, mainly transportation costs, excluding finance costs and income tax.

Non-current assets and disposal groups held for sale

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

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

Intangible assets (other than goodwill)

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

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

Technical know-how

Technical know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 to 20 years.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Research and development costs

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

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

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

Leases

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

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income other income and losses in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in other expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

Financial guarantee contracts

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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

Income tax

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Grants relating to biological assets

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

Other grants

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued).

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

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

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

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

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

Other employee benefits

Pension scheme

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

Termination benefits

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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

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

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgements on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiary. As at 31 December 2017, the deferred tax liabilities arising thereon amounted to nil (2016: Nil).

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Fair value of biological assets

The Group's biological assets are valued at fair value less costs to sell. The fair value of biological assets is determined based on either the market-determined prices as at each year end adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of biological assets; or the present value of expected net cash flows from the biological assets discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the biological assets significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of biological assets. Further details are given in note 19 to the financial statements.

Impairment of receivables

Management assesses doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. Management bases the estimates on the assessment of recoverability of individual receivable balances, customer creditworthiness, and historical write-off experience. If the financial condition of the debtors was to deteriorate, actual write-offs would be higher than estimated.

Impairment of raw materials

Management estimates net realisable value of raw materials based on the estimated selling prices of finished products in which they will be incorporated, the estimated costs of completion and the estimated costs necessary to make the sale. The carrying amount of raw materials is written down below cost to net realisable value when the cost of raw materials is higher than the net realisable value. If management's estimates change, a provision for decline in the value of raw materials is recognised in profit or loss.

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Depreciation

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 20 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss and other comprehensive income.

4. OPERATING SEGMENT INFORMATION

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

(a) Dairy farming – breeding dairy cows to produce and distribute raw milk; and

(b) Liquid milk products – producing and distributing self-owned brand ultra-heat treated liquid milk, organic yogurt and other dairy products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss for the year. The adjusted profit/loss for the year is measured consistently with the Group's profit/loss after tax except that loss arising from fair value less costs to sell of biological assets is excluded from this measurement as management believes that such adjusted information is most relevant in evaluating the results of the dairy farming segment as compared to the results of other entities that operate within the dairy farming industry.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the prices internally agreed between the dairy farming segment and liquid milk products segment.

Year ended 31 December 2017	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	1,279,190	1,427,652	2,706,842
Intersegment sales	1,223,040	11,520	1,234,560
	2,502,230	1,439,172	3,941,402
Reconciliation:			
Elimination of intersegment sales			(1,234,560)
Revenue			2,706,842
Segment results	847,088	(1,047,798)	(200,710)
Reconciliation:			
Elimination of intersegment results			13,737
Loss arising from changes in fair value less costs to sell of biological assets			(595,479)
Corporate and other unallocated expenses			(41,861)
Loss for the year			(824,313)
Segment assets	9,993,243	2,437,525	12,430,768
Reconciliation:			
Elimination of intersegment receivables			(2,212,939)
Corporate and other unallocated Assets			301,866
Total assets			10,519,695
Segment liabilities	4,250,247	2,741,230	6,991,477
Reconciliation:			
Elimination of intersegment payables			(2,212,939)
Corporate and other unallocated liabilities			325,375
Total liabilities			5,103,913

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2017	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Other segment information:			
Share of profits and losses of associates	2,745	(9,619)	(6,874)
Impairment losses recognised in the statement of profit or loss and other comprehensive income	—	(657,267)	(657,267)
Impairment losses reversed in the statement of profit or loss and other comprehensive income	—	1,213	1,213
Segment bank interest income	7,756	356	8,112
Corporate and other unallocated bank interest income			627
Total bank interest income			8,739
Segment finance costs	138,363	4,516	142,879
Corporate and other unallocated finance costs			7,652
Total finance costs			150,531
Income tax credit	—	7,540	7,540
Depreciation and amortisation	142,971	47,925	190,896
Investments in associates	37,895	67,889	105,784
Segment capital expenditure*	1,046,170	114,690	1,160,860

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2016	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	1,360,401	2,106,143	3,466,544
Intersegment sales	1,302,553	—	1,302,553
	2,662,954	2,106,143	4,769,097
Reconciliation:			
Elimination of intersegment sales			(1,302,553)
Revenue			3,466,544
Segment results	1,018,835	(5,145)	1,013,690
Reconciliation:			
Elimination of intersegment results			(25,995)
Loss arising from changes in fair value less costs to sell of biological assets			(15,729)
Corporate and other unallocated expenses			(15,158)
Profit for the year			956,808
Segment assets	9,098,425	2,189,724	11,288,149
Reconciliation:			
Elimination of intersegment receivables			(919,698)
Corporate and other unallocated assets			130,844
Total assets			10,499,295
Segment liabilities	3,488,046	1,512,368	5,000,414
Reconciliation:			
Elimination of intersegment payables			(919,698)
Corporate and other unallocated liabilities			71,452
Total liabilities			4,152,168

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2016	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Other segment information:			
Share of profits and losses of associates	1,404	(17,646)	(16,242)
Impairment losses recognised in the statement of profit or loss and other comprehensive income	—	(86,310)	(86,310)
Impairment losses reversed in the statement of profit or loss and other comprehensive income	—	—	—
Segment bank interest income	3,258	500	3,758
Corporate and other unallocated bank interest income			195
Total bank interest income			3,953
Segment finance costs	113,981	10,397	124,378
Corporate and other unallocated finance costs			289
Total finance costs			124,667
Income tax credit	—	11,077	11,077
Share option expenses	35,566	2,728	38,294
Corporate and other unallocated share option expenses	—	—	6,857
Total share option expenses			45,151
Depreciation and amortisation	111,966	36,517	148,483
Investments in associates	35,150	77,508	112,658
Segment capital expenditure*	1,122,364	321,354	1,443,718

* Segment capital expenditure consists of purchases of items of property, plant and equipment, additions to prepaid land lease payments, additions to other intangible assets, purchases of biological assets, payments for breeding calves and heifers and acquisition of associates.

Geographical information

All external sales of the Group during the year were contributed by customers located in the PRC.

Over 90% of the Group's non-current assets are located in the PRC.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue from the following customers individually amounted to more than 10% of the Group's total revenue:

	2017 RMB'000	2016 RMB'000
Entity A	827,334	809,749
Entity B	422,938	529,927
	1,250,272	1,339,676

5. REVENUE, OTHER INCOME AND LOSSES

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

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

	2017 RMB'000	2016 RMB'000
Revenue		
Sales of raw milk	1,279,190	1,360,401
Sales of liquid milk products	1,427,652	2,106,143
	2,706,842	3,466,544
Other income and losses		
Government grants	312	7,924
Bank interest income	8,739	3,953
Foreign exchange differences, net	(27,967)	(4,662)
Loss on disposal of items of property, plant and equipment	(2,402)	(14,677)
Impairment of trade receivables	(656,054)	(86,310)
Impairment of milk powder	(17,283)	—
Others	(38,200)	6,626
	(732,855)	(87,146)
	1,973,987	3,379,398

6. (LOSS)/PROFIT BEFORE TAX

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

	2017 RMB'000	2016 RMB'000
Cost of inventories sold	1,622,474	1,791,133
Loss arising from changes in fair value less costs to sell of biological assets	595,479	15,729
Depreciation of items of property, plant and equipment	187,250	146,783
Amortisation of prepaid land lease payments	2,251	266
Amortisation of other intangible assets	1,395	1,434
Research and development costs	11,639	11,662
Minimum lease payments under operating leases	1,200	1,200
Auditor's remuneration	3,090	2,700
Employee benefit expense (including directors' and chief executive's remuneration (note 9):		
Wages, salaries, bonuses and allowances	248,363	241,272
Other social insurances and benefits	22,855	27,411
Pension scheme contributions	14,666	11,506
Equity-settled share option expenses	—	45,151
	285,884	325,340

7. OTHER EXPENSES

The Group made donations with a total amount of RMB10,595,000 during the year ended 31 December 2017 (2016: RMB56,233,000).

8. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank loans	64,749	61,373
Interest on short-term notes	14,300	5,730
Interest on corporate bonds	77,052	64,299
Interest on long term payables	5,040	6,157
Less: Interest capitalised	(10,610)	(12,892)
	150,531	124,667

The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation for the year ended 31 December 2017 ranged between 1.55% and 6.98% (2016: between 1.55% and 5.87%).

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2017 RMB'000	2016 RMB'000
Fees	580	505
Other emoluments:		
Salaries, allowances and benefits in kind	1,278	1,278
Pension scheme contributions	44	44
	1,322	1,322
	1,902	1,827

(a) *Independent non-executive directors*

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

	2017 RMB'000	2016 RMB'000
Mr. LI Changqing	100	100
Ms. GE Xiaoping	100	100
Mr. YUAN Qing	50	100
Mr. WONG Kun Kau	50	100
Mr. WANG Liyan	50	—
Mr. LI Xuan	50	—
Mr. Fu Wenge	100	25
	500	425

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

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

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
2017				
Executive directors:				
Mr. YAO Tongshan	20	327	11	358
Mr. WU Jianye	20	317	11	348
Ms. GAO Lingfeng	20	317	11	348
Mr. CUI Ruicheng	20	317	11	348
	80	1,278	44	1,402
Non-executive directors:				
Mr. WEN Yongping	—	—	—	—
Mr. DONG Xian Li	—	—	—	—
Mr. FAN Xiang	—	—	—	—
Mr. CUI Guiyong	—	—	—	—
Mr. SUN Qian	—	—	—	—
Mr. SHAO Genhuo	—	—	—	—
Mr. ZHANG Jiawang	—	—	—	—
	—	—	—	—
	80	1,278	44	1,402
2016				
Executive directors:				
Mr. YAO Tongshan (also the chief executive)	20	327	11	358
Mr. WU Jianye	20	317	11	348
Ms. GAO Lingfeng	20	317	11	348
Mr. CUI Ruicheng	20	317	11	348
	80	1,278	44	1,402
Non-executive directors:				
Mr. WU Jingshui	—	—	—	—
Mr. DONG Xianli	—	—	—	—
Mr. FAN Xiang	—	—	—	—
Mr. CUI Guiyong	—	—	—	—
Mr. SUN Qian	—	—	—	—
Mr. SHAO Genhuo	—	—	—	—
Mr. ZHANG Jiawang	—	—	—	—
	—	—	—	—
	80	1,278	44	1,402

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four executive directors (2016: four), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2016: one) highest paid employee, who is neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Pension scheme contributions	11	11
Salaries, allowances and benefits in kind	427	427
	438	438

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

	Number of employees	
	2017	2016
Nil to HK$1,000,000	1	1

11. INCOME TAX CREDIT

	2017 RMB'000	2016 RMB'000
Current - PRC	24	12,481
Deferred (note 20)	(7,564)	(23,558)
	(7,540)	(11,077)

11. INCOME TAX CREDIT (CONTINUED)

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

	2017 RMB'000	2016 RMB'000
(Loss)/profit before tax	(831,853)	945,731
Tax at the statutory tax rate (note (i))	(207,963)	236,433
Income not subject to tax (note (ii))	(36,423)	(265,479)
Lower tax rate for specific provinces (note (iii))	56,330	(3,089)
Expenses not deductible for tax, net (note (iv))	174,299	21,042
Unused tax credits	6,217	—
Adjustments in respect of current tax of previous periods	—	16
Tax credit of the Group	(7,540)	(11,077)

Notes:

(i) The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations. Hong Kong profits tax has not been provided as there were no assessable profits arising in Hong Kong during the year. Entities in the PRC were generally subject to the PRC enterprise income tax rate of 25% for the year ended 31 December 2017 (2016: 25%).

(ii) According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's income arising from agricultural activities, such as dairy farming and the processing of raw agricultural products, is exempt from income tax.

(iii) In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》), the Group's taxable income arising from the processing of non-raw agricultural products is subject to a preferential tax rate of 15% from 2013 to 2020.

(iv) Non-deductible expenses are mainly impairment of trade receivables, share of losses of associates, donation and staff welfares exceeding the tax limit.

12. DIVIDENDS

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

13. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic (loss)/earnings per share amount is calculated by dividing the (loss)/profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 6,354,400,000 (2016: 6,354,400,000) in issue during the year.

The diluted (loss)/earnings per share amount is calculated by dividing the (loss)/profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares used in the calculation of the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2017 (2016: 57,439,740).

	Number of shares	
	2017	2016
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	6,354,400,000	6,354,400,000
Effect of dilution of share options	—	57,439,740
Weighted average number of ordinary shares in issue during the year used in the diluted (loss)/earnings per share calculation	6,354,400,000	6,411,839,740

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017						
At 31 December 2016 and at 1 January 2017						
Cost	1,721,851	834,018	56,828	9,067	435,492	3,057,256
Accumulated depreciation	(157,253)	(169,951)	(14,916)	(4,768)	—	(346,888)
Net carrying amount	1,564,598	664,067	41,912	4,299	435,492	2,710,368
At 1 January 2017, net of accumulated depreciation	1,564,598	664,067	41,912	4,299	435,492	2,710,368
Additions	24	32,483	4,448	1,351	238,239	276,545
Reclassification	2,201	15,380	(17,581)	—	—	—
Transfers	344,185	96,146	7,265	500	(448,096)	—
Disposals	(4)	(917)	(161)	(253)	—	(1,335)
Depreciation provided during the year	(87,471)	(91,681)	(6,601)	(1,497)	—	(187,250)
At 31 December 2017, net of accumulated depreciation	1,823,533	715,478	29,282	4,400	225,635	2,798,328
At 31 December 2017						
Cost	2,068,256	976,304	50,571	9,908	225,635	3,330,674
Accumulated depreciation	(244,723)	(260,826)	(21,289)	(5,508)	—	(532,346)
Net carrying amount	1,823,533	715,478	29,282	4,400	225,635	2,798,328

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016						
At 1 January 2016						
Cost	1,280,796	624,875	27,066	9,127	357,073	2,298,937
Accumulated depreciation	(95,652)	(97,483)	(8,389)	(4,183)	—	(205,707)
Net carrying amount	1,185,144	527,392	18,677	4,944	357,073	2,093,230
At 1 January 2016, net of accumulated depreciation	1,185,144	527,392	18,677	4,944	357,073	2,093,230
Additions	93,576	89,997	12,352	963	609,749	806,637
Reclassification	—	—	—	—	—	—
Transfers	388,319	124,700	18,311	—	(531,330)	—
Disposals	(37,192)	(4,843)	(543)	(138)	—	(42,716)
Depreciation provided during the year	(65,249)	(73,179)	(6,885)	(1,470)	—	(146,783)
At 31 December 2016, net of accumulated depreciation	1,564,598	664,067	41,912	4,299	435,492	2,710,368
At 31 December 2016						
Cost	1,721,851	834,018	56,828	9,067	435,492	3,057,256
Accumulated depreciation	(157,253)	(169,951)	(14,916)	(4,768)	—	(346,888)
Net carrying amount	1,564,598	664,067	41,912	4,299	435,492	2,710,368

15. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	38,822	5,177
Additions	1,487	33,911
Recognised during the year	(2,251)	(266)
Carrying amount at 31 December	38,058	38,822
Current portion included in prepayments, deposits and other receivables	(1,508)	(1,256)
Non-current portion	36,550	37,566

16. OTHER INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	10,879	3,968	14,847
Additions	—	159	159
Amortisation provided during the year	(750)	(645)	(1,395)
At 31 December 2017	10,129	3,482	13,611
At 31 December 2017			
Cost	15,004	5,945	20,949
Accumulated amortisation	(4,875)	(2,463)	(7,338)
Net carrying amount	10,129	3,482	13,611
At 31 December 2016			
Cost	15,004	5,786	20,790
Accumulated amortisation	(4,125)	(1,818)	(5,943)
Net carrying amount	10,879	3,968	14,847

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation	11,629	3,889	15,518
Additions	—	763	763
Amortisation provided during the year	(750)	(684)	(1,434)
At 31 December 2016	10,879	3,968	14,847
At 31 December 2016			
Cost	15,004	5,786	20,790
Accumulated amortisation	(4,125)	(1,818)	(5,943)
Net carrying amount	10,879	3,968	14,847
At 31 December 2015			
Cost	15,004	5,023	20,027
Accumulated amortisation	(3,375)	(1,134)	(4,509)
Net carrying amount	11,629	3,889	15,518

17. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	105,784	112,658

The Group's trade receivable and payable balances with the associates are disclosed in note 38 to the financial statements.

Particulars of the material associates are as follows:

Name	Registered capital	Place of incorporation/ registration and operations	Percentage of equity interests attributable to the Group	Principal activities
Bayannur Shengmu High-tech Ecological Forage Co., Ltd.* (note (a))	RMB 273,180,000	PRC/ Mainland China	9.12%	Grass planting
Food Union Shengmu Dairy Co., Ltd. ("**Food Union Shengmu**")	USD 57,755,000	PRC/ Mainland China	20.00%	Dairy processing

Note:

(a) Although the Group only held a 9.12% equity interest in Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("**Shengmu Forage**") as at 31 December 2017, Shengmu Forage has been accounted for as an associate of the Group as the Group has had more than 20% effective voting power in Shengmu Forage. Shengmu Forage, which is considered a material associate of the Group, is a strategic partner of the Group and is engaged in grass planting.

17. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of Shengmu Forage and Food Union Shengmu adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

Shengmu Forage	2017 RMB'000	2016 RMB'000
Current assets	645,570	429,716
Non-current assets	690,134	612,031
Current liabilities	(913,269)	(655,760)
Net assets	422,435	385,987
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	9.12%	9.12%
Group's share of net assets of the associate, excluding goodwill	37,947	35,202
Goodwill included in investment	947	947
Adjustments	(999)	(999)
Carrying amount of the investment	37,895	35,150
Revenue	562,870	488,288
Profit for the year	30,098	15,387
Total comprehensive income for the year	30,098	15,387
Dividend received	—	—

Food Union Shengmu	2017 RMB'000	2016 RMB'000
Current assets	168,580	167,198
Non-current assets	674,869	453,958
Current liabilities	(46,724)	(7,960)
Non-current liabilities	(459,117)	(250,851)
Net assets	337,608	362,345
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	20.00%	20.00%
Group's share of net assets of the associate, excluding goodwill	67,522	72,469
Carrying amount of the investment	67,522	72,469
Revenue	—	—
Loss for the year	(24,737)	(13,376)
Total comprehensive loss for the year	(24,737)	(13,376)
Dividend received	—	—

17. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000	2016 RMB'000
Share of the associates' loss for the year	(4,672)	(14,971)
Share of the associates' total comprehensive loss	(4,672)	(14,971)
Aggregate carrying amount of the Group's investments in the associates	367	5,039

The Group's shareholdings in the associates all comprise equity shares held by the subsidiaries of the Company.

All the above associates have been accounted for using the equity method in these financial statements. The Group has discontinued the recognition of its share of losses of certain associates because the share of losses of the associates exceeded the Group's interests in the associates. The amounts of the Group's unrecognised share of losses of these associates for the current year and cumulatively were RMB272,757,000 (2016: RMB75,564,000) and RMB370,035,000 (2016: RMB97,278,000), respectively.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Current:		
Short term investment deposits (note(i))	—	120,000
Non-current:		
Unlisted equity investments, at cost (note(ii))	2,007	1,427
	2,007	121,427

Notes:

(i) The Group's short term investment deposits matured on 8 February 2017 and the principal of RMB120,000,000 has been withdrawn.

(ii) The equity investments consisted of investments which were designated as available-for-sale financial assets with no fixed maturity date or coupon rate. The unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the foreseeable future.

19. BIOLOGICAL ASSETS

(A) Nature of activities

The biological assets of the Group comprise primarily dairy cows held to produce raw milk and beef cattle raised for sale.

The quantity of biological assets owned by the Group as at 31 December 2017 and 31 December 2016 is shown below. The Group's biological assets include milkable cows, heifers and calves, beef cattle. Heifers and calves are dairy cows that have not had their first calves. The Group's beef cattle are raised for sale.

	2017 Head	2016 Head
Heifers and calves	51,383	59,442
Milkable cows	72,959	69,887
Beef cattle	7,675	—
Total	132,017	129,329

In general, heifers are inseminated with semen when they reach the age of approximately 14 months. After approximately 9 months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 305 days before a dry period of approximately 60 days. The male calves newly born will be sold while the female calves will be bred for six months and then transferred to the group of heifers. Beef cattle will be bred for three to six months and then sold for profits. The sale of biological assets is not one of the Group's principal activities and the proceeds are not included as revenue.

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in note 41, the Group is exposed to the following operation 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 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, disease control, surveys and insurance.

The Group is exposed to fair value risks arising from changes in the price of the dairy products. The directors of the Company are of the view that there are no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

19. BIOLOGICAL ASSETS (CONTINUED)

(B) Value of biological assets

The values of the Group's biological assets at the year end were:

	Heifers and calves RMB'000	Milkable cows RMB'000	Beef cattle RMB'000	Total RMB'000
31 December 2017				
At 1 January 2017	1,252,248	2,632,009	—	3,884,257
Increase	198,644	—	—	198,644
Increase due to raising (feeding costs and others)	746,317	—	90,295	836,612
Transfer	(720,535)	720,535	—	—
Decrease due to sales	(123,348)	(267,210)	(32,576)	(423,134)
Loss arising from changes in fair value less costs to sell	(206,803)	(364,468)	(24,208)	(595,479)
At 31 December 2017	1,146,523	2,720,866	33,511	3,900,900

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
31 December 2016			
At 1 January 2016	925,641	2,359,795	3,285,436
Increase	308,830	—	308,830
Increase due to raising (feeding costs and others)	711,708	—	711,708
Transfer	(759,834)	759,834	—
Decrease due to sales	(85,577)	(320,411)	(405,988)
Gain/(loss) arising from changes in fair value less costs to sell	151,480	(167,209)	(15,729)
At 31 December 2016	1,252,248	2,632,009	3,884,257

Increases of the Group's biological assets include increase due to purchase and increase due to replacement, of which the increase due to replacement amounts to RMB127 million in 2017 (2016: RMB293 million).

The Group's biological assets in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent professional qualified valuers not connected with the Group, which has appropriate qualifications and recent experience in the valuation of biological assets.

19. BIOLOGICAL ASSETS (CONTINUED)

(C) *Fair value hierarchy*

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

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

Level 2 – based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3 – based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2017	—	—	3,900,900	3,900,900
As at 31 December 2016	—	—	3,884,257	3,884,257

(D) *Description of valuation techniques used and key inputs to valuation on biological assets*

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

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers	The fair value of the heifers purchased within 6 months prior to each reporting date is determined with adjustment by adding the feeding costs from the purchase date to the reporting date. For the calves and the rest of the heifers, the fair value of 14-month-old heifers is determined by referring to the market price of the actively traded market.	Average market price of the heifers of 14 months of age: RMB18,905 to RMB19,700 for the year ended 31 December 2017 (2016: RMB19,503 to RMB20,500).	The estimated fair value increases when the market price increases.

19. BIOLOGICAL ASSETS (CONTINUED)

(D) Description of valuation techniques used and key inputs to valuation on biological assets (continued)

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
	The fair values of the heifers over 14 months of age are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers under 14 months of age and the fair values of the calves are determined by subtracting the breeding costs required to raise the heifers or calves from the respective specific ages to 14 months old and the margins that would be required by a raiser.		
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 at the year end 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 completion of all lactation periods, the estimated overall culling rate ranges from over 18% up to 100% along with the increase of the number of the lactation periods.	The estimated fair value decreases when the estimated culling rate increases.

19. BIOLOGICAL ASSETS (CONTINUED)

(D) Description of valuation techniques used and key inputs to valuation on biological assets (continued)

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
	The calving interval (including dry period and open days) is estimated based on historical data and is assumed to be 400 days (each milkable cow will give birth to a calf every 400 days). This 400-day period is one lactation cycle in this valuation exercise.	A milkable cow could have as many as six to seven lactation periods. The estimated average raw milk production volume per head for the lactation period ranged from 9.9 tonnes to 11.3 tonnes for the year ended 31 December 2017 (2016: 9.1 tonnes to 10.8 tonnes) depending on the number of the lactation periods and the individual physical condition.	The estimated fair value increases when the estimated raw milk production volume increases.
		The estimated feed costs per kilogram of raw milk of the year ended 31 December 2017 ranged from RMB1.84 to RMB2.22 (2016: RMB2.00 to RMB2.30)	The estimated fair value decreases when the estimated feed costs per kilogram of raw milk increases.
		The estimated future local market prices for raw milk per tonne for the year ended 31 December 2017 ranged from RMB3,700 to RMB4,700 per tonne (2016: RMB3,960 to RMB5,000 per tonne).	The estimated fair value increases when the estimated future local market price for raw milk increases.
		The discount rate was 14.00% for the year ended 31 December 2017 (2016: 14.00%), calculated by using the capital asset pricing model.	The estimated fair value decreases when the discount rate increases.

19. BIOLOGICAL ASSETS (CONTINUED)

(E) *Quantity of the agriculture produce produced by the Group's biological assets*

	2017 Tonne	2016 Tonne
Raw milk	609,185	598,379

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

	2017 RMB'000	2016 RMB'000
Raw milk	2,467,324	2,628,794

20. DEFERRED TAX ASSETS

The movements in the deferred tax assets during the year are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	24,634	1,076
Credited to profit or loss during the year	7,563	23,558
At 31 December	32,197	24,634

The principal components of the Group's deferred tax are as follows:

	2017 RMB'000	2016 RMB'000
Accrued expenses	1,594	1,473
Impairment	—	3,535
Unused tax credits	12,887	—
Unrealised internal profits	17,716	19,626
	32,197	24,634

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

20. DEFERRED TAX ASSETS (CONTINUED)

At 31 December 2017, no (2016: Nil) deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB2,404,183,000 at 31 December 2017 (2016: RMB3,409,542,000).

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

The Group has tax losses arising in Mainland China of RMB110,779,000 (2016: RMB11,385,000) that will expire in one to five years for offsetting against future taxable profits.

The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2017 was RMB12,887,000 (2016: Nil).

Deferred tax assets have not been recognised in respect of the losses of RMB24,867,000 (2016: RMB11,385,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	520,918	356,823
Deposits and other receivables	325,372	35,699
Prepaid expenses	58,756	12,991
	905,046	405,513
Non-current prepayments	(6,209)	(11,963)
Current portion	898,837	393,550

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

22. LONG TERM RECEIVABLES

	Contract amounts of long term receivables		Present value of long term receivables	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Within 1 year	3,200	3,200	2,402	2,289
1 to 2 years	3,200	3,200	2,519	2,402
2 to 5 years	9,600	9,600	8,323	7,934
Over 5 years	3,200	9,600	3,217	9,348
	19,200	25,600	16,461	21,973
Less: Unearned finance income	(2,739)	(3,627)	N/A	N/A
Present value of long term receivables	16,461	21,973	16,461	21,973
Portion classified as current assets under other receivables	(2,402)	(2,289)	(2,402)	(2,289)
Non-current portion	14,059	19,684	14,059	19,684

23. OTHER NON-CURRENT ASSETS

Other non-current assets mainly include deductible value added tax expected to be deducted after one year.

24. INVENTORIES

	2017 RMB'000	2016 RMB'000
Consumables	38,430	35,867
Finished goods	32,995	47,908
Raw materials	789,403	845,041
	860,828	928,816

25. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	1,840,492	1,194,299
Impairment	(740,486)	(85,512)
	1,100,006	1,108,787

The Group normally allows a credit limit or offer to its customers credit terms which are adjustable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade and bills receivables are non-interest-bearing.

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

	2017 RMB'000	2016 RMB'000
Within 3 months	550,907	484,116
4 to 6 months	269,445	331,798
7 months to 1 year	272,596	268,863
Over 1 year	7,058	24,010
	1,100,006	1,108,787

The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	85,512	369
Impairment losses recognised	657,267	86,310
Impairment losses reversed	(1,213)	—
Amount written off as uncollectible	(1,080)	(1,167)
	740,486	85,512

25. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	861,648	591,867

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

26. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	297,672	932,382
Time deposits with original maturity of more than three months	284,611	115,000
Pledged deposits	128,884	66,791
	711,167	1,114,173
Less: Pledged deposits	(128,884)	(66,791)
Cash and bank balances	582,283	1,047,382

The Group's above balances were denominated in the following currencies as follows:

	2017 RMB'000	2016 RMB'000
Euro	4,468	—
United States dollars	174,930	784
Hong Kong dollars	5,375	11,892
RMB	397,510	1,034,706
	582,283	1,047,382

26. CASH AND BANK BALANCE AND PLEDGED DEPOSITS (CONTINUED)

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks utilized to conduct foreign exchange business.

Cash at banks earns interest at the prevailing market interest rates. Time deposits are made for varying periods depending on the cash requirements of the Group and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

27. TRADE AND BILLS PAYABLES

An aging analysis of the trade payables of the Group, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
1 to 3 months	967,986	895,338
4 to 6 months	138,930	14,790
7 to 12 months	69,365	5,120
1 to 2 years	12,255	3,297
2 to 3 years	351	2,086
Over 3 years	77	—
	1,188,964	920,631

The trade payables are non-interest-bearing and are normally settled within 90-day terms.

28. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Payables for purchases of dairy cows	3,472	15,045
Payables for taxes other than corporate income tax	984	15,365
Payables for third parties' deposits	40,067	23,896
Long term payables due within one year	25,071	23,900
Salary and welfare payables	43,225	37,702
Payables for purchases of transportation services	80,017	61,715
Payables for acquisition of items of property, plant and equipment	207,916	236,940
Others	40,966	23,987
	441,718	438,550

Other payables are non-interest-bearing and have an average term of 90 days.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	2.50-5.66	2018	1,066,141	4.35-5.87	2017	853,000
Bank loans – secured	5.66	2018	180,000	4.35	2017	60,000
Domestic corporate bonds – unsecured	4.74	2018	997,619	Nil	2017	—
Current portion of long term bank and other borrowings – unsecured	1.55	2018	11,486	1.55	2017	5,404
Super short-term notes - unsecured	6.98	2018	398,800	Nil	2017	—
			2,654,046			918,404
Non-current						
Bank loans – unsecured	1.55-5.23	2019-2024	122,544	1.55-5.23	2019-2024	160,427
Domestic corporate bonds - unsecured	5.01	2019	597,657	4.74-5.01	2018-2019	1,591,523
			720,201			1,751,950
			3,374,247			2,670,354

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,257,627	918,404
In the second year	59,000	—
In the third to fifth years, inclusive	—	95,000
Beyond five years	63,544	65,427
	1,380,171	1,078,831
Other borrowings repayable:		
Within one year	1,396,419	—
In the second year	597,657	995,237
In the third to fifth years, inclusive	—	596,286
Beyond five years	—	—
	1,994,076	1,591,523
	3,374,247	2,670,354

Notes:

(i) As at 31 December 2017, substantially all of the Group's bank and other borrowings were denominated in RMB except for the interest-bearing bank loans of RMB322,850,000 (2016: RMB70,831,000) which were denominated in Euro.

(ii) The domestic corporate bonds with an aggregate nominal amount of RMB1,000,000,000 were issued by Inner Mongolia Shengmu High-tech Farming Co., Ltd. (the "**Issuer**") to qualified investors on 29 December 2015 as approved by the China Securities Regulatory Commission. As at 31 December 2017, the nominal amount of RMB1,000,000,000 of the domestic corporate bonds were classified as non-current liability due within one year in the consolidated financial statements of the Group, because the Issuer did not have an unconditional right to defer settlement of the liability for at least twelve months after 31 December 2017.

The domestic corporate bonds with an aggregate nominal amount of RMB600,000,000 were issued by the Issuer to qualified investors on 30 May 2016 as approved by the China Securities Regulatory Commission. The domestic corporate bonds bear an annual interest rate of 4.75% and have a term of 5 years.

The issuer has the right to adjust the interest rate of all the outstanding corporate bonds at the end of the first three year period. Upon exercise by the Issuer of such right, the holders of the bonds are entitled to sell all or any part of the outstanding corporate bonds held by them to the Issuer at the nominal amount.

(iii) The super short – term notes with an aggregate nominal amount of RMB400,000,000 were issued by the Issuer on 22 June 2017 in the Inter-bank Bond Market in the PRC according to the approval by National Association of Financial Market Institutional Investors. The super short-term notes bear annual interest rate of 6.50% and are repayable in 270 days.

(iv) As at 31 December 2017, the Company and some of its key management have provided guarantee for certain of the Group's bank loans amounted to RMB180,000,000 (2016: Nil).

(v) As at 31 December 2017, no bank loans were secured by trade and bills receivables (2016: RMB60,000,000).

30. LONG TERM PAYABLES

	Contract amounts of long term payments		Present value of long term payments	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Within 1 year	28,940	28,940	25,071	23,900
1 to 2 years	28,940	28,940	26,300	25,071
2 to 5 years	57,880	86,820	56,529	82,829
	115,760	144,700	107,900	131,800
Future finance charges	(7,860)	(12,900)	N/A	N/A
Present value of long term payables	107,900	131,800	107,900	131,800
Portion classified as current liabilities included in other payables	(25,071)	(23,900)	(25,071)	(23,900)
Non-current portion	82,829	107,900	82,829	107,900

31. SHARE CAPITAL

Shares

	2017 RMB'000	2016 RMB'000
Authorised:		
30,000,000,000 ordinary shares of HK$0.00001 each (2016: 30,000,000,000 ordinary shares HK$0.00001 each)	236	236
Issued and fully paid:		
6,354,400,000 (2016: 6,354,400,000) ordinary shares	50	50

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 34 to the financial statements.

32. RESERVES

(i) *Movements in components of equity*

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

(ii) *Contributed surplus*

The Group's contributed surplus represents the excess of the net assets value of the subsidiaries acquired by the Company over the nominal amount of the shares issued by the Company as consideration pursuant to the Reorganisation.

(iii) *Reserve fund*

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

33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

Shengmu Pangu	2017	2016
Percentage of equity interest held by non-controlling interests	45%	45%
Profit for the year allocated to non-controlling interests	40,935	53,566
Accumulated balances of non-controlling interests at the end of the reporting period	235,770	217,785

33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate the summarised financial information of Shengmu Pangu. The amounts disclosed are before any inter-company eliminations:

	2017 RMB'000	2016 RMB'000
Revenue	237,714	241,861
Profit for the year	84,281	123,538
Total comprehensive income for the year	84,281	123,538
Current assets	182,421	262,484
Biological assets	321,045	299,979
Other non-current assets	125,217	122,655
Current liabilities	(51,310)	(119,026)
Non-current liabilities	(37,000)	(59,000)
Net cash flows from operating activities	75,641	174,849
Net cash flows used in investing activities	(49,102)	(84,549)
Net cash flows used in financing activities	(33,724)	(83,406)
Net increase/(decrease) in cash and cash equivalents	(7,185)	6,894

34. SHARE OPTION SCHEME

The Company has approved and adopted a pre-IPO share option scheme pursuant to the resolutions of the shareholders passed on 30 April 2014 (the "**Pre-IPO Share Option Scheme**"). The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate the directors and senior management of the Group and Shengmu Forage, to provide a means to compensate them through the grant of options under the Pre-IPO Share Option Scheme for their contributions to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. Participants of the Pre-IPO Share Option Scheme include (a) the executive directors, (b) senior management of the Group, (c) management of the subsidiaries of the Company, and (d) management of Shengmu Forage. The Pre-IPO Share Option Scheme became effective on 30 April 2014 and, unless otherwise cancelled or amended, will remain in force for 4 years from that date.

Prior to the listing date of the Company on The Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing Date**"), options to subscribe for an aggregate of 504,480,000 shares were conditionally granted to a total of 189 grantees under the Pre-IPO Share Option Scheme by the Company. Save for the options which have been granted before 15 July 2014, the Company's listing date on the Stock Exchange of Hong Kong Limited, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

34. SHARE OPTION SCHEME (CONTINUED)

The offer of a grant of share options may be acceptable within 5 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option granted under the Pre-IPO Share Scheme shall lapse immediately if the grantee ceased employment with the Group or Shengmu Forage during the vesting period. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one year and ends on a date which is not later than six months from the date of the vesting date.

On 4 May 2015, out of the 504,480,000 units of share options, 488,484,000 units of share options were vested to 181 grantees. Meanwhile 15,996,000 units of share options lapsed as certain grantees ceased to be employees of the Group.

Pursuant to a resolution approved by the Company's shareholders at the extraordinary general meeting on 3 November 2015, the outstanding 488,484,000 units of share options relating to the Pre-IPO Share Option Scheme were amended as follows (the "**Amendment**"):

(1) All the shares issued pursuant to the exercise of options during the Amended Exercise Period (as defined hereunder) would not be subject to any restriction applicable during the Lock-up Period (being the period from 4 May 2015 to 4 May 2017). Grantees are entitled to sell or otherwise dispose of any interest in the shares after they exercise the options during the Amended Exercise Period.

(2) The exercise period provided under the Pre-IPO Share Option Scheme (from 4 May 2015 to 4 November 2015) was changed to the "Amended Exercise Period" in the following manner:

Amended Exercise Period	Maximum percentage of options exercisable during the respective Amended Exercise Period
From 4 May 2016 to 4 May 2017	50% of the options vested
From 4 November 2016 to 4 May 2017	50% of the options vested

If the grantee ceased employment with the Group or Shengmu Forage before 4 May 2016, 100% of the options held by him/her would lapse immediately, and if the grantee ceased employment with the Group or Shengmu Forage on or after 4 May 2016 but before 4 November 2016, 50% of the options held by him/her would lapse immediately.

Apart from the above Amendments, the terms of the Pre-IPO Share Option Scheme remain the same.

The incremental fair value as a result of the Amendment was estimated to be RMB91,239,000 in total, using the measurement method as described below.

During the period from 3 November 2015 to 31 December 2015, 38,985,600 units of share options lapsed due to cessation of employment. During the year ended 31 December 2016, a further 40,662,600 units of share options lapsed due to cessation of unemployment. During the year ended 31 December 2017, the amended share options expired and no new or amended share options were granted.

34. SHARE OPTION SCHEME (CONTINUED)

The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme is HK$1.56 per share.

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

The following share options were outstanding under the Pre-IPO Share Option Scheme during the year:

2017

Date of grant	Exercise pric HK$ per share	As at 1 January 2017	Lapsed during the year	Expired during the year	Exercised during the year	As at 31 December 2017
30 April 2014	1.56	408,835,800	—	408,835,800	—	—

2016

Date of grant	Exercise price HK$ per share	As at 1 January 2016	Lapsed during the year	Expired during the year	Exercised during the year	As at 31 December 2016
30 April 2014	1.56	449,498,400	40,662,600	—	—	408,835,800

The Group did not recognise any share option expense (2016: HK$52,327,000 (equivalent to RMB45,151,000)) during the year ended 31 December 2017.

The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted/amended was incorporated into the measurement of fair value.

At the end of the reporting period, the share options outstanding under the Scheme expired and as the stock price was below the exercise price, no grantee exercised the share option during the Amended Exercise Period, and thus the capital structure of the Company remained unchanged.

At the date of approval of these financial statements, no new or amended share options were granted.

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities:

	Bank loans RMB'000	Domestic corporate bonds RMB'000	Super short-term notes RMB'000
At 1 January 2017	1,078,831	1,591,524	—
Changes from financing cash flows	250,546	—	398,800
Foreign exchange movement	46,925	—	—
Interest expense	—	3,752	—
At 31 December 2017	1,376,302	1,595,276	398,800

	Bank loans RMB'000	Domestic corporate bonds RMB'000	Short-term notes RMB'000
At 1 January 2016	1,624,237	993,000	99,617
Changes from financing cash flows	(541,048)	595,800	(99,617)
Foreign exchange movement	(4,358)	—	—
Interest expenses	—	2,724	—
At 31 December 2016	1,078,831	1,591,524	—

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases from third parties certain office properties and dairy farms, including buildings and equipment under operating lease arrangements.

At the year end, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	1,319	1,547
In the second to fifth years, inclusive	15	—
	1,334	1,547

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the year end:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Plant and machinery	117,951	143,568
Land and buildings	96,614	208,984
	214,565	352,552

As at 31 December 2017, the Group had subscribed capital contribution of RMB 11,000,000 (2016: RMB6,700,000) into certain associates but has not made capital injection. As these associates had net liabilities and accumulated losses at the year end, the maximum amounts of the Group's unrecognised share of accumulated losses of these associates would be RMB6,748,000 (2016: RMB3,200,000) based on the investment commitment in these associates.

38. RELATED PARTY DISCLOSURES

(A) The Group had the following significant transactions with related parties:

Name	Note	2017 RMB'000	2016 RMB'000
Associates:			
Sales of products	(i)	599,158	1,016,000
Purchases of raw materials	(i)	583,606	507,918
Sales of raw materials	(i)	18,982	8,614
Affiliates of a substantial shareholder:			
Purchases of raw materials	(i)	—	9,227

Note:

(i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.

38. RELATED PARTY DISCLOSURES (CONTINUED)

(B) Other transactions with related parties:

During the year, Shengmu Forage provided bio-waste (i.e., cow dung) cleaning services to the Group's dairy farms for free. Such services include collecting and cleaning unprocessed bio-waste from the Group's farms. In return, Shengmu Forage collected free unprocessed bio-waste from the Group's farms.

During the year ended and as of 31 December 2017, the Group provided guarantees with amounts of RMB160,000,000 (2016: RMB300,000,000) and RMB102,880,000 (2016: RMB51,450,000) for the bank loans of Shengmu Forage and Food Union Shengmu, respectively.

During the year ended 31 December 2017, the Company and some of its key management have provided guarantee for certain of the Group's bank loans amounted to RMB180,000,000 (2016: Nil).

During the year ended 31 December 2017, the Group provided working capital financing of RMB235,876,000 (2016: Nil) to certain associates.

(C) Compensation of key management personnel of the Group:

	2017 RMB'000	2016 RMB'000
Short term employee benefits	1,858	1,783
Pension scheme contributions	44	44
	1,902	1,827

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

(D) Outstanding balances with related parties

	2017 RMB'000	2016 RMB'000
Amounts owed by/(owed to) associates included in:		
Trade and bills receivables	524,216	695,983
Trade and bills payables	(1,001)	(26,729)
Prepayments, deposits and other receivables	700,258	250,567
Other payables and accruals	(1,416)	—

As at 31 December 2017, included in the Group's prepayments, deposits and other receivables are the prepayment to the Group's associates for the purchase of raw materials of RMB464,382,000 (2016: RMB241,522,000)and the amounts due from the Group's associates of RMB235,876,000 (2016: Nil) for the working capital financing provided to these associates.

Other than those balances included in trade receivables and trade payables, the above balances with related parties are unsecured, interest-free and have no fixed terms of repayment. Trade receivables and trade payables with related parties have similar credit terms to those offered by/to third parties.

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	2017 RMB'000	2016 RMB'000
Loans and receivables:		
Long term receivables	14,059	19,684
Financial assets included in prepayments, deposits and other receivables	327,774	37,989
Pledged deposits	128,884	66,791
Cash and bank balances	582,283	1,047,382
Trade and bills receivables	1,100,006	1,108,787
	2,153,006	2,280,633
Available-for-sale financial assets:	2,007	121,427

Financial liabilities

	2017 RMB'000	2016 RMB'000
Financial liabilities at amortised cost:		
Long term payables	82,829	107,900
Financial liabilities included in other payables and accruals	397,509	385,483
Trade and bills payables	1,188,964	920,631
Interest-bearing bank and other borrowings	3,374,247	2,670,354
	5,043,549	4,084,368

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts As at 31 December		Fair values As at 31 December	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	3,374,247	2,670,354	3,324,471	2,727,672

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

The fair values of the non-current portion of other financial assets, long-term pledged deposits, long-term time deposits, the non-current portion of interest-bearing bank loans and long term payables and other non-current financial liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments of which fair value is disclosed:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2017 RMB'000	2016 RMB'000
Interest-bearing bank and other borrowings	3,324,471	2,727,672

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

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

The Group's fair value interest rate risk relates primarily to variable-rate bank and other borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile is set out in note 29.

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

	Increase/(decrease) in basis points	Increase/(decrease) in profit/(loss) before tax RMB'000	Increase/(decrease) in equity* RMB'000
2017			
RMB	50	(2,574)	(2,574)
RMB	(50)	2,574	2,574
2016			
RMB	50	(3,121)	(3,121)
RMB	(50)	3,121	3,121

* Excluding retained profits

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment. During the year, substantially all of the Group's assets and liabilities were denominated in RMB except that as at 31 December 2017, cash and bank balances of approximately RMB4,468,000 (2016: Nil), RMB174,930,000 (2016: RMB784,000) and RMB5,375,000 (2016: RMB11,892,000) were denominated in Euro ("**EUR**"), United States dollars ("**USD**") and Hong Kong dollars ("**HK$**"), respectively, the interest-bearing bank and other borrowings of approximately RMB322,848,000 (2016: RMB70,831,000) were denominated in Euro. The fluctuations of the exchange rates of RMB against foreign currencies could slightly affect the Group's results of operations.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate (2016: HK$ exchange rate) with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/(decrease) in rate	Increase/(decrease) in profit/(loss) before tax
	%	RMB'000
2017	5	20,621
	(5)	(20,621)
2016	5	3,444
	(5)	(3,444)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

There were no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables were widely dispersed as at 31 December 2017 and 2016.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 25 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments.

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
2017				
Long term payables	—	28,940	86,820	115,760
Financial liabilities included in other payables and accruals	397,509	—	—	397,509
Trade and bills payables	1,188,964	—	—	1,188,964
Interest-bearing bank and other borrowings	—	1,686,083	1,831,373	3,517,456
	1,586,473	1,715,023	1,918,193	5,219,689
2016				
Long term payables	—	28,940	115,760	144,700
Financial liabilities included in other payables and accruals	385,485	—	—	385,485
Trade and bills payables	920,631	—	—	920,631
Interest-bearing bank and other borrowings	—	931,314	1,941,056	2,872,370
	1,306,116	960,254	2,056,816	4,323,186

Capital management

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

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes interest-bearing bank and other borrowings. Total capital is the equity as shown in the consolidated statement of financial position. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios at the end of the reporting periods were as follows:

	2017 RMB'000	2016 RMB'000
Interest-bearing bank and other borrowings	3,374,247	2,670,354
Total equity	5,415,782	6,347,127
Gearing ratio	62.3%	42.1%

42. COMPARATIVE AMOUNTS

Certain comparative amounts have been re-presented to conform with the current year's presentation and accounting treatment.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	205,834	216,730
Due from subsidiaries	3,174,929	3,178,949
Total non-current assets	3,380,763	3,395,679
CURRENT ASSETS		
Prepayments, deposits and other receivables	1,579	2,630
Cash and cash equivalents	6,885	12,492
Due from subsidiaries	116,351	121,510
Total current assets	124,815	136,632
CURRENT LIABILITIES		
Interest-bearing bank borrowings	259,306	—
Other payables and accruals	2,516	2,683
Total current liabilities	261,822	2,683
NET CURRENT ASSETS	(137,007)	133,949
TOTAL ASSETS LESS CURRENT LIABILITIES	3,243,756	3,529,628
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	63,542	70,831
Total non-current liabilities	63,542	70,831
Net assets	3,180,214	3,458,797
EQUITY		
Share capital	50	50
Reserves (note)	3,180,164	3,458,747
Total equity	3,180,214	3,458,797

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium account RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2016	3,024,937	50,407	(10,223)	172,253	3,237,374
Loss for the year	—	—	(178)	—	(178)
Other comprehensive income	—	—	—	214,693	214,693
Total comprehensive income/(loss) for the year	—	—	(178)	214,693	214,515
Equity-settled share option arrangements	—	6,858	—	—	6,858
At 31 December 2016	3,024,937	57,265	(10,401)	386,946	3,458,747
Loss for the year	—	—	(58,856)	—	(58,856)
Other comprehensive loss	—	—	—	(219,727)	(219,727)
Total comprehensive loss for the year	—	—	(58,856)	(219,727)	(278,583)
At 31 December 2017	3,024,937	57,265	(69,257)	167,219	3,180,164

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

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

FINANCIAL SUMMARY

Below is the summary of audited financial statement of the Group for the relevant years:

Unit: RMB in thousand	For the year ended December 31,				
	2017	2016	2015	2014	2013
Revenue	2,706,842	3,466,544	3,100,711	2,132,428	1,143,709
(Loss)/profit for the year	(824,313)	956,808	1,083,222	883,808	374,498
Of which: (loss)/profits attributable to the owners of the parent	(985,789)	680,615	800,652	711,228	327,309
(Loss)/earnings per share attributable to ordinary equity holders of the parent:					
Basic	(RMB0.155)	RMB0.107	RMB0.126	RMB 0.118	RMB0.075
Diluted	(RMB0.155)	RMB0.106	RMB0.124	RMB 0.116	RMB0.075

	As at December 31,				
	2017	2016	2015	2014	2013
Total assets	10,519,695	10,499,295	9,459,793	6,491,244	3,112,608
Total liabilities	5,103,913	4,152,168	4,092,568	2,236,145	1,404,716
Net assets	5,415,782	6,347,127	5,367,225	4,255,099	1,707,892
Of which: equity attributable to the owner of the parent:	4,356,331	5,339,039	4,551,655	3,721,898	1,494,160