



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

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



2018

I N T E R I M   R E P O R T

\* For identification purposes only

# About Us

We, Lanzhou Zhuangyuan Pasture Co., Ltd.\* 蘭州莊園牧場股份有限公司 (the “Company”, together with its subsidiaries, the “Group”) are one of the leading dairy companies in Gansu Province and Qinghai Province where our operations and sales are primarily located and we operate a vertically integrated business model. Our business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We believe our business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.



A splash of white milk is captured in mid-air against a bright blue sky with soft white clouds. Two white hearts are floating in the upper left quadrant. The milk splash curves from the bottom right towards the center, creating a sense of motion and freshness.

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Ma Hongfu  
Mr. Wang Guofu  
Mr. Chen Yuhai  
Ms. Zhang Qianyu

### Non-Executive Directors

Mr. Yap Kean Chong  
Mr. Song Xiaopeng

### Independent Non-Executive Directors

Ms. Liu Zhijun  
Mr. Zhao Xinmin  
Mr. Wong Cho Hang Stanley

### Supervisors

Ms. Du Wei  
Mr. Sun Chuang  
Mr. Wei Lin

## AUDIT COMMITTEE

Ms. Liu Zhijun (*Chairman*)  
Mr. Zhao Xinmin  
Mr. Wong Cho Hang Stanley

## REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Zhijun (*Chairman*)  
Mr. Wang Guofu  
Mr. Zhao Xinmin

## NOMINATION COMMITTEE

Mr. Zhao Xinmin (*Chairman*)  
Mr. Ma Hongfu  
Mr. Wong Cho Hang Stanley

## STRATEGY COMMITTEE

Mr. Ma Hongfu (*Chairman*)  
Mr. Song Xiaopeng  
Mr. Zhao Xinmin

## AUTHORISED REPRESENTATIVES

Mr. Ma Hongfu  
Mr. Li Siu Bun

## JOINT COMPANY SECRETARIES

Mr. Wang Guofu (*Executive Director*)  
Mr. Li Siu Bun (*Chief Financial Officer*)

## STOCK CODE

1533





## Corporate Information

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### REGISTERED OFFICE

Sanjiaocheng Village  
Sanjiaocheng Town  
Yuzhong County  
Lanzhou, Gansu  
PRC

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

25th–26th Floors, Block B  
Shanghai Building of Gansu Province  
No. 601, Yanyuan Road  
Chengguan District  
Lanzhou City, Gansu Province  
PRC

### H SHARE REGISTRAR AND TRANSFER OFFICE

#### Computershare Hong Kong Investor Services Limited

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

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

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

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

### PRINCIPAL BANK

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

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

### AUDITOR

#### Ruihua Certified Public Accountants (Special General Partnership)

5-11 Floors  
West Tower of China Overseas Property Plaza  
Building 7, No.8 Yongdingmen Xibinhe Road  
Dongcheng District  
Beijing, PRC

### COMPANY WEBSITE

<http://www.lzzhuangyuan.com>

# Interim Results Highlights

## FINANCIAL HIGHLIGHTS

### Results

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Revenue	<b>313,623</b>	311,124
Gross profit	<b>114,898</b>	98,817
Profit for the period attributable to equity shareholders of the Company	<b>26,326</b>	37,742
Earnings per share (RMB) <sup>(1)</sup>	<b>0.14</b>	0.27

- Revenue increased by 0.8% as compared to the corresponding period in 2017.
- Gross profit increased by 16.3% as compared to the corresponding period in 2017.
- Profit for the period attributable to equity shareholders of the Company decreased by 30.2% as compared to the corresponding period in 2017.

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



# Management Discussion and Analysis

## BUSINESS OVERVIEW

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

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

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

## Management Discussion and Analysis

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

### Dairy farming

- **Number of dairy cows**

During the Reporting Period, our biological assets comprised dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the number of our dairy cows as at 30 June 2018 and 31 December 2017:

	At 30 June 2018 Heads	At 31 December 2017 Heads
Milkable cows	2,711	2,803
Heifers	3,701	3,446
Calves	495	723
<b>Total</b>	<b>6,907</b>	6,972





## Management Discussion and Analysis

- **Milk yield**

We produced approximately 12,533 tonnes of raw milk for the Reporting Period, representing a slight decrease of approximately 2.2% from about 12,820 tonnes in the corresponding period in 2017. Such decrease was mainly attributable to the decrease in the number of milkable cows.

Our average milk yield per milkable cow per annum increased from 6.4~8.6 tonnes during the six months ended 30 June 2017 to 5.2~10.9 tonnes during the Reporting Period.

### Dairy products production

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

- **Optimizing Liquid Milk Product Mix**

Product mix has affected our revenue, gross profit and gross profit margin in the past. We continued to place effort to increase the proportion of sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future and will provide higher selling prices and higher gross profit margin to us compared to other dairy products. We have established an extensive distribution network for our Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and package lines which are designed for packaging of pasteurised milk and yogurt products to expand our production and increase the sales of Cold Chain Liquid Milk Products.

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



## Management Discussion and Analysis

- **Expansion of our Distribution Network**

We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu and Qinghai. As at 30 June 2018, we had entered into distribution agreements with 394 distributors and 153 sales agents, as compared to 417 distributors and 170 sales agents as at 31 December 2017. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network and solidify our established position in our primary markets. Furthermore, we are also expanding our distribution network into the China national market, especially in the northwestern China region.

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

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition. The average selling price of our liquid milk products decreased from RMB9,462 per tonne in the six months ended 30 June 2017 to RMB8,534 per tonne in the Reporting Period, mainly due to the obvious decrease in selling price of the products series in Qinghai.



## Management Discussion and Analysis

### Quality Control

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

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

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

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

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

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

## Management Discussion and Analysis

### Brand Building

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

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

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



## Management Discussion and Analysis

### FINANCIAL OVERVIEW

#### Revenue

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June					
	2018			2017		
	Sales amount RMB'000	Sales volume Tonne	Average selling price RMB/Tonne	Sales amount RMB'000	Sales volume Tonne	Average selling price RMB/Tonne
<b>Liquid Milk Products</b>						
Pasteurised Milk	10,763	1,468	7,330	9,690	1,121	8,644
UHT Milk	77,008	12,478	6,172	54,215	8,253	6,569
Modified Milk	108,520	12,397	8,754	102,194	11,555	8,844
Yogurt	101,245	8,533	11,865	122,571	9,580	12,794
<b>Subtotal</b>	<b>297,536</b>	<b>34,876</b>	<b>8,531</b>	288,670	30,509	9,462
<b>Milk Beverage</b>	<b>600</b>	<b>229</b>	<b>262</b>	1,975	454	4,350
<b>Other Dairy Products</b>	<b>2,264</b>	<b>94</b>	<b>2,401</b>	1,030	22	46,818
<b>Total</b>	<b>300,399</b>	<b>35,200</b>	<b>8,534</b>	291,675	30,985	9,413

Our revenue increased by 3.0% from RMB291.7 million for the six months ended 30 June 2017 to RMB300.4 million for the Reporting Period, primarily due to the increase in our sales of UHT milk.



## Management Discussion and Analysis

### Gross profit and gross profit margin

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

	Six months ended 30 June					
	2018			2017		
	Cost of sales RMB'000	Gross Profit RMB'000	Gross profit margin %	Cost of sales RMB'000	Gross Profit RMB'000	Gross profit margin %
<b>Liquid Milk Products</b>						
Pasteurised Milk	5,893	4,870	45.3	5,406	4,284	44.2%
UHT Milk	55,088	21,920	28.5	44,767	9,448	17.4%
Modified Milk	59,030	49,490	45.6	66,771	35,423	34.7%
Yogurt	65,723	35,522	35.1	79,507	43,064	35.1%
<b>Subtotal</b>	<b>185,733</b>	<b>111,803</b>	<b>37.6</b>	196,451	92,219	31.9%
<b>Milk Beverage</b>	<b>501</b>	<b>99</b>	<b>16.5</b>	1,467	508	25.7%
<b>Other Dairy Products</b>	<b>2,540</b>	<b>-276</b>	<b>-12.2</b>	661	369	35.8%
<b>Total cost of sales/Total gross profit/Overall gross profit margin</b>	<b>188,773</b>	<b>111,626</b>	<b>37.2</b>	198,579	93,096	31.9%

Our overall gross profit margin of our dairy products after taking into account biological assets fair value adjustments was 37.2% for the Reporting Period and 31.9% for the corresponding period in 2017. The increase in the overall gross profit margin during the Reporting Period was primarily due to the decrease of purchase price of raw milk. The average raw milk purchase price decreased by about 12.2% from RMB3.85/kg for the six months ended 30 June 2017 to RMB3.38/kg for the Reporting Period.



## Management Discussion and Analysis

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest decreased from RMB7.2 million for the six months ended 30 June 2017 to the loss of RMB0.1 million for the Reporting Period. The decrease was mainly due to the decrease in market price of fresh and raw milk during the Reporting Period.

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

We recorded loss arising from changes in fair value less costs to sell of biological assets amounted to RMB8.8 million for the Reporting Period, which increased by 27.6% from RMB6.9 million for the corresponding period in 2017, primarily contributable to the decrease in market price of fresh and raw milk during the Reporting Period.

### Other income

Other income refers to government grants. Government grants are generally obtained from our agricultural activities. For the six months ended 30 June 2018 and 2017, government grants we recognized amounted to RMB4.5 million and RMB7.1 million, respectively.

### Operating expenses

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Selling and distribution expenses	45,163	33,469
General and administrative expenses	25,783	26,675
<b>Total operating expenses</b>	<b>70,946</b>	60,144

Our operating expenses increased from RMB63.4 million for the six months ended 30 June 2017 to RMB70.9 million for the Reporting Period.

## Management Discussion and Analysis

The increase in selling and distribution expenses during the Reporting Period was mainly due to: (1) the increase in the marketing expenses for the purpose of securing higher sales growth and gaining larger market shares in regional key market and further exploring the national market for our Cold Chain Liquid Milk Products; (2) the increase in transportation cost to promote sales in the fierce market competition.

### Financial expenses

Our net finance costs increased by 345% from RMB2.4 million for the six months ended 30 June 2017 to RMB8.4 million for the Reporting Period, primarily due to substantial decrease in interest subsidies for policy-related preferential loans utilized during the Reporting Period.

### Current ratio

As at 30 June 2018, our current ratio (current assets/current liabilities) was approximately 1.24 compared to 1.49 as at 31 December 2017.

### Liquidity and capital resources

During the Reporting Period, we financed our operations primarily through net cash inflows from our daily operations and proceeds from issuance of shares of the Company (the “Shares”) on the Shenzhen Stock Exchange (“SZSE”) (the “A Share Listing”). As at 30 June 2018 and 31 December 2017, we had RMB737.8 million and RMB747.6 million in cash and cash equivalents, respectively, which was mainly denominated in Renminbi and primarily consisted of cash on hand and bank deposits.

### Capital expenditures

We had capital expenditures of RMB125.7 million and RMB41.0 million for the six months ended 30 June 2018 and 2017, respectively, which were primarily used in purchasing property, plant and equipment, procuring dairy cows and settling land leases.



## Management Discussion and Analysis

### Working capital

As at 30 June 2018, we had net current assets of RMB162.7 million (31 December 2017: net current assets of RMB265.0 million).

### Indebtedness

During the Reporting Period, our borrowings were denominated in Renminbi. As at 30 June 2018, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB466 million at interest rates ranging from 4.35%~6.84% per annum. As at 30 June 2018, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB22.3 million at interest rates ranging from 5.49%~6.22% per annum.

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

For the Reporting Period, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed.

### Contingent liabilities

As at 30 June 2018 and 31 December 2017, we did not have significant contingent liabilities.

## Management Discussion and Analysis

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

The Company was listed on the SZSE on 31 October 2017. The net proceeds from the A Share Listing amounted to RMB309.5 million.

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

	As of 30 June 2018	
	Actual	Intended
	amount used	amount to be
	RMB'000 (%)	used
		RMB'000 (%)
Construction project of a dairy farm for 10,000 imported fine-breed dairy cows	0 (0.0%)	260,193.30 (84.1%)
Construction project of milk vending machines and ancillary facilities	0 (0.0%)	49,310.40 (15.9%)
IPO proceeds not utilized	309,503.70 (100%)	N/A
<b>Total</b>	<b>309,503.70</b> <b>(100%)</b>	<b>309,503.70</b> <b>(100%)</b>

As mentioned in the announcement issued by the Company on 26 July 2018 with the title of “Announcement on Change of the Use of Partial Proceeds into Acquisition of the Equity Interests”, due to the change of the market situation and the progress of the projects, the Board proposed to use part of the proceeds for “Construction project of a dairy farm for 10,000 imported fine-breed dairy cows” amounting to RMB100,591,214.95 and all of the proceeds for “Construction project of milk vending machines and ancillary facilities” amounting to RMB49,408,785.05 (including interests) for the settlement of part of the consideration payable by the Company for the proposed acquisition of the 82% equity interest of the Xi’an Dongfang Dairy Company Limited\* (西安東方乳業有限公司) (“Dongfang Dairy”), a company established under the laws of the PRC with limited liability which is principally engaged in breeding of dairy cows, production and sales of dairy products and beverages pursuant to the agreement between the Company and the equity interest holders of Dongfang Dairy dated 26 July 2018. Further details of the proposed acquisition are set out in the announcement of the Company dated 26 July 2018.

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





## Management Discussion and Analysis

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

	As of 30 June 2018	
	Actual amount used RMB'000(%)	Intended amount to be used RMB'000(%)
Financing a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand	81,222 (70.0%)	81,222 (70.0%)
Promoting our brands	14,187 (12.2%)	23,206 (20.0%)
Working capital and other general corporate purposes	11,603 (10.0%)	11,603 (10.0%)
IPO proceeds not utilized	9,019 (7.8%)	N/A
<b>Total</b>	<b>116,031 (100%)</b>	<b>116,031 (100%)</b>

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

## HUMAN RESOURCES

We had 670 employees in Mainland China and Hong Kong as at 30 June 2018 (31 December 2017: 724 employees). During the Reporting Period, total staff costs, including the portion accounted for in the profit and loss statement and capitalised to assets but excluding independent non-executive Directors' fees, were approximately RMB26.9 million (the corresponding period in 2017: RMB26.2 million).

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

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

## Management Discussion and Analysis

### CORPORATE SOCIAL RESPONSIBILITY

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

### OUTLOOK

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

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

### FORECAST ON THE RESULTS OF OPERATIONS FROM JANUARY TO SEPTEMBER 2018

Forecasted results of operations from January to September 2018: net profit attributable to the shareholders of the Company is positive and does not represent a situation of turning losses into profits

Net profit attributable to the shareholders of the Company is positive and does not represent a situation of turning losses into profits

Change of net profit attributable to the shareholders of the Company from January to September 2018	-40.00% to -20.00%
Range of change of net profit attributable to the shareholders of the Company from January to September 2018 (RMB0'000)	3,255.02 to 4,340.02
Net profit attributable to the shareholders of the Company from January to September 2017 (RMB0'000)	5,425.03
Reasons for changes in results	The Company anticipated that, for the period from January to September 2018, the marketing expenses would increase by a considerable degree as compared to the same period in last year, and the government grants might decrease as compared to the same period in last year.

## Other Information

### IMPORTANT EVENTS THAT HAVE OCCURRED SINCE 30 JUNE 2018

Subsequent to 30 June 2018, there had been no significant change in our principal business, pricing policy and costs structure.

As approved at the sixth meeting of the third session of the Board of the Company convened on 26 July 2018, the Company proposed to acquire the 82% equity interests in Dongfang Dairy from Hu Keliang, Li Ya'n'an, Ding Jianping, Zhang Chenbin and Beijing Ruili Caifu Investment Partnership Enterprise (Limited Partnership) (北京睿理財富投資合夥企業(有限合夥)), all being equity interest holders of Dongfang Dairy, by payment of cash at an aggregate consideration of RMB249,000,000. Upon completion of the transaction, the Company will hold an aggregate of 100% equity interest in Dongfang Dairy and Dongfang Dairy will become a wholly-owned subsidiary of the Company. The transaction is still subject to consideration at the general meeting of the Company. For further details, please refer to the announcement of the Company dated 26 July 2018 and the circular of the Company dated 11 September 2018.

### CORPORATE GOVERNANCE

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

The Company has complied with all applicable Code Provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules for the Reporting Period.

### SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

## Other Information

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

During the Reporting Period, there was no repurchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company.

### **MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS**

The Group has no material litigation or arbitration proceedings during the Reporting Period.

### **SHARE OPTION SCHEME**

There is no Share Option Scheme adopted for the Company during the Reporting Period.

### **CAPITAL COMMITMENTS**

Details of capital commitments are set out in Note XI to the unaudited interim financial report.

### **SIGNIFICANT INVESTMENT HELD**

Except for investments in subsidiaries, the Company acquired 18% equity interests in Xi'an Dongfang Dairy Co., Ltd. (西安東方乳業有限公司) in 2013. There was no significant influence on the investee during the six months ended 30 June 2018.

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

During the six months ended 30 June 2018, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.



## Other Information

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

As at 30 June 2018, the interests and/or short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

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

*Notes:*

- (1) All interests in Shares were long positions.
- (2) Mr. Ma Hongfu holds 97.38% equity interests in Lanzhou Zhuangyuan Investment Co., Ltd.\* (蘭州莊園投資股份有限公司) ("Zhuangyuan Investment") and 39.44% equity interests in Gansu Lucky Cow Investment Co., Ltd.\* (甘肅福牛投資有限公司) ("Lucky Cow"). Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.

Save as disclosed above, as at 30 June 2018, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest and/or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.



## Other Information

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

As at 30 June 2018, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests and/or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares/ H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
<b>A Shares</b>				
Yang Xiuhua (Note 2)	Interest of spouse	78,092,100 (L)	51.31%	41.68%
Lanzhou Zhuangyuan Investment Co., Ltd. (Note 3)	Beneficial owner	30,894,700 (L)	20.30%	16.49%
Gansu Lucky Cow Investment Co., Ltd. (Note 3)	Beneficial owner	15,000,000 (L)	9.85%	8.01%
Chongqing Fukun Venture Investment Centre LLP	Beneficial owner	6,990,000 (L)	4.59%	3.73%
<b>H Shares</b>				
Hu Keliang	Beneficial owner	7,119,500 (L)	20.27%	3.80%
Li Yanling (Note 4)	Interests of spouse	7,119,500 (L)	20.27%	3.80%
Wang Wei (Note 5)	Beneficial owner	800,000 (L)	2.28%	0.43%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.49%
Li Qi (Note 5)	Interests of spouse	3,600,000 (L)	10.25%	1.92%
Venko Limited (Note 5)	Beneficial owner	2,800,000 (L)	7.97%	1.49%
Ren Qifeng (Note 6)	Interest of controlled corporation	3,523,000 (L)	10.03%	1.88%
Ren Songliu (Note 6)	Interests of spouse	3,523,000 (L)	10.03%	1.88%
Technoart Investments Limited (Note 6)	Beneficial owner	3,523,000 (L)	10.03%	1.88%
Hu Jiawu	Beneficial owner	2,800,000 (L)	7.97%	1.49%
Xi Xin (Note 7)	Interests of spouse	2,800,000 (L)	7.97%	1.49%



## Other Information

### Notes:

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

Save as disclosed above, as at 30 June 2018, the Company had not been notified by any other persons (other than Directors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

## REVIEW OF INTERIM RESULTS

The Company has established the audit committee (the "Audit Committee") with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. Ms. Liu Zhijun is the chairman of the Audit Committee. The Audit Committee is responsible for, amongst other matters, reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board. The Audit Committee has amongst others, reviewed and discussed with the management the accounting principles and practices adopted by the Group and the Group's internal controls and financial reporting matters, including the review of the unaudited interim results of the Group for the Reporting Period.

## DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (the six months ended 30 June 2017: Nil).

## SUFFICIENCY OF PUBLIC FLOAT

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

By order of the Board

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

**Ma Hongfu**

*Chairman and Executive Director*

Lanzhou, the PRC, 17 August 2018

# Review Report

## To all shareholders of Lanzhou Zhuangyuan Pasture Co., Ltd.:

We have reviewed the accompanying financial statements of Lanzhou Zhuangyuan Pasture Co., Ltd. ("Zhuangyuan Pasture"), which comprise the consolidated and the Company's balance sheets as at 30 June 2018, and the consolidated and the Company's income statements, the consolidated and the Company's cash flow statements and the consolidated and the Company's statements of changes in shareholders' equity for January to June 2018, and the notes to the financial statements. The preparation of these financial statements is the responsibility of Zhuangyuan Pasture's management. Our responsibility is to deliver a report on review of these financial statements based on our review.

We conducted our review in accordance with China Certified Public Accountant Review Standard No. 2101 – Review of Financial Statements. This Standard requires us to plan and perform the review to obtain limited assurance about whether these financial statements are free from material misstatements. A review is limited primarily to procedures as enquiry of entity's personnel and analytical review procedures applied to the financial information and thus provides less assurance than an audit. We have not performed an audit, and therefore we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not prepared in accordance with the requirement of Accounting Standards for Business Enterprises and can not present fairly, Zhuangyuan Pasture's financial position as at 30 June 2018, and operating results and cash flows for January to June 2018.

**Ruihua Certified Public Accountants LLP**

Chinese Certified Public Accountant: Li Zongyi

Beijing, the PRC

Chinese Certified Public Accountant: Zhang Youquan

17 August 2018



# Consolidated Balance Sheet

As at 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	30 June 2018	31 December 2017
<b>Current assets:</b>			
Cash at bank and on hand	VI. 1	<b>737,754,768.87</b>	747,642,372.75
Trading financial assets			
Bills receivable and trade receivables	VI. 2	<b>24,557,600.86</b>	24,403,065.85
Prepayments	VI. 3	<b>10,097,959.11</b>	6,131,850.02
Premiums receivable			
Reinsurance premium receivable			
Reinsurance contract reserves receivable			
Other receivables	VI. 4	<b>7,549,268.28</b>	13,290,298.02
Financial assets purchased under agreements to resell			
Inventories	VI. 5	<b>49,833,515.09</b>	71,078,079.91
Assets held for sale	VI. 6	<b>6,360,442.94</b>	6,458,501.72
Non-current assets due within 1 year			
Other current assets	VI. 7	<b>5,874,777.90</b>	3,087,413.98
<b>Total current assets</b>		<b>842,028,333.05</b>	872,091,582.25
<b>Non-current assets:</b>			
Long-term receivables			
Long-term equity investment			
Other equity instruments investment	VI. 8	<b>33,720,671.00</b>	33,720,671.00
Other non-current financial assets			
Fixed assets	VI. 9	<b>710,336,432.11</b>	625,799,144.70
Construction in progress	VI. 10	<b>22,971,640.55</b>	40,475,357.07
Bearer biological assets	VI. 11	<b>188,366,654.95</b>	175,815,804.71
Intangible assets	VI. 12	<b>20,818,549.08</b>	20,571,548.22
Goodwill			
Long-term deferred expenses	VI. 13	<b>4,272,761.52</b>	1,629,589.78
Deferred tax assets	VI. 14	<b>6,223,677.47</b>	4,877,752.80
Other non-current assets	VI. 15	<b>48,153,626.00</b>	28,736,250.06
<b>Total non-current assets</b>		<b>1,034,864,012.68</b>	931,626,118.34
<b>Total assets</b>		<b>1,876,892,345.73</b>	1,803,717,700.59

**Consolidated Balance Sheet (continued)**

As at 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	30 June 2018	31 December 2017
<b>Current liabilities:</b>			
Short-term borrowings	VI. 16	<b>466,000,000.00</b>	406,000,000.00
Trading financial liabilities			
Bills payable and trade payables	VI. 17	<b>142,863,946.00</b>	120,877,706.97
Advances from customers	VI. 18	<b>6,417,398.68</b>	24,062,136.66
Employee benefits payable	VI. 19	<b>3,191,960.48</b>	6,186,062.94
Taxes payable	VI. 20	<b>6,019,707.97</b>	8,674,754.06
Other payables	VI. 21	<b>39,278,881.88</b>	21,251,742.31
Liabilities held for sale			
Non-current liabilities due within 1 year	VI. 22	<b>15,563,180.42</b>	20,054,483.87
Other current liabilities			
<b>Total current liabilities</b>		<b>679,335,075.43</b>	607,106,886.81
<b>Non-current liabilities:</b>			
Long-term loans	VI. 23	<b>22,267,244.84</b>	26,559,671.60
Bonds payable			
Including: preferred shares			
Perpetual bonds			
Long-term payables	VI. 24		1,394,555.79
Long-term employee benefits payable			
Provisions			
Deferred income	VI. 26	<b>34,975,130.85</b>	40,991,391.67
Deferred income tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>57,242,375.69</b>	68,945,619.06
<b>Total liabilities</b>		<b>736,577,451.12</b>	676,052,505.87





**Consolidated Balance Sheet (continued)**

As at 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	30 June 2018	31 December 2017
<b>Shareholders' equity:</b>			
Share capital	VI. 27	<b>187,340,000.00</b>	187,340,000.00
Other equity instruments			
Including: preferred shares			
Perpetual bonds			
Capital reserves	VI. 28	<b>508,790,782.09</b>	508,790,782.09
Less: treasury stocks			
Other comprehensive income			
Special reserves			
Surplus reserves	VI. 29	<b>34,438,591.04</b>	32,051,090.62
Provisions for general risk			
Retained profit	VI. 30	<b>409,745,521.48</b>	399,483,322.01
Total equity attributable to shareholders of the Company		<b>1,140,314,894.61</b>	1,127,665,194.72
Non-controlling interests			
<b>Total shareholders' equity</b>		<b>1,140,314,894.61</b>	1,127,665,194.72
<b>Total liabilities and shareholders' equity</b>		<b>1,876,892,345.73</b>	1,803,717,700.59

The notes on pages 43 to 112 form part of these financial statements.

The financial statements on pages 25 to 42 have been signed by:

**Legal Representative: The person in charge of accounting affairs: The head of the accounting department:**

Ma Hongfu

Wang Guofu

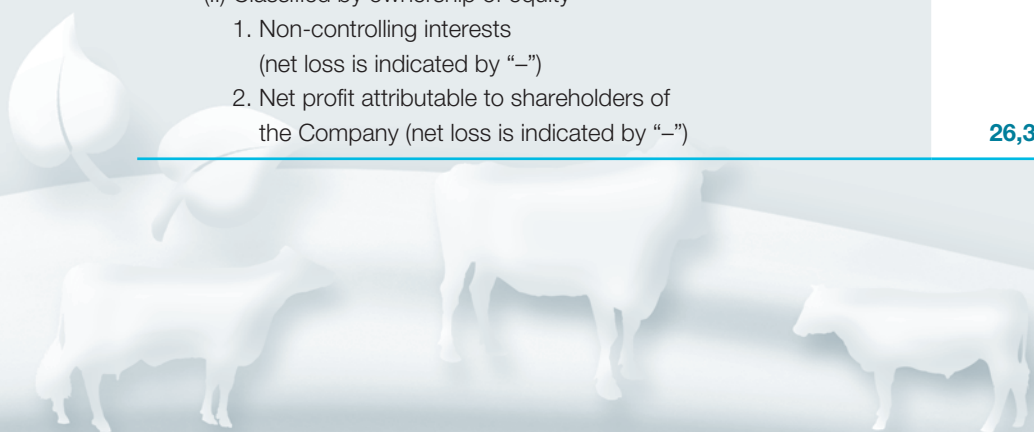
Chen Menggan

# Consolidated Income Statement

For the six months ended 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	January to June 2018	January to June 2017
<b>I. Total operating revenue</b>		<b>313,623,437.89</b>	311,123,706.21
Including: Operating revenue	VI. 31	<b>313,623,437.89</b>	311,123,706.21
<b>II. Total operating cost</b>		<b>280,174,108.40</b>	276,916,762.67
Including: Operating cost	VI. 31	<b>198,725,333.35</b>	212,307,379.34
Taxes and surcharges	VI. 32	<b>2,134,847.09</b>	1,926,182.57
Selling expenses	VI. 33	<b>45,163,226.69</b>	33,468,969.99
Administrative expenses	VI. 34	<b>25,783,244.68</b>	26,674,669.08
R&D expenses			
Financial expenses	VI. 35	<b>8,399,784.43</b>	2,437,213.96
Impairment loss on assets			
Impairment losses on credit	VI. 36	<b>-32,327.84</b>	102,347.73
Add: Other income	VI. 37	<b>4,499,043.57</b>	7,063,915.72
Investment income (loss is indicated by “-”)			
Including: Investment income from associated enterprises and joint ventures			
Exchange gains (loss is indicated by “-”)			
Gains from changes in fair value (loss is indicated by “-”)	VI. 38	<b>-8,898,409.86</b>	284,699.98
Gains from asset disposal (loss is indicated by “-”)	VI. 39	<b>-3,326.75</b>	
<b>III. Operating profit (loss is indicated by “-”)</b>		<b>29,046,636.45</b>	41,555,559.24
Add: Non-operating income	VI. 40	<b>455,801.11</b>	353,616.13
Less: Non-operating expenses	VI. 41	<b>1,777,250.90</b>	653,576.85
<b>IV. Total profit (total loss is indicated by “-”)</b>		<b>27,725,186.66</b>	41,255,598.52
Less: Income tax expenses	VI. 42	<b>1,399,666.77</b>	3,514,071.50
<b>V. Net profit (net loss is indicated by “-”)</b>		<b>26,325,519.89</b>	37,741,527.02
(I) Classified by continuity of operations			
1. Net profit from continuing operations (net loss is indicated by “-”)		<b>26,325,519.89</b>	37,741,527.02
2. Net profit from discontinued operations (net loss is indicated by “-”)			
(II) Classified by ownership of equity			
1. Non-controlling interests (net loss is indicated by “-”)			
2. Net profit attributable to shareholders of the Company (net loss is indicated by “-”)		<b>26,325,519.89</b>	37,741,527.02



**Consolidated Income Statement (continued)**

For the six months ended 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	January to June 2018	January to June 2017
<b>VI. Other net comprehensive income after tax</b>			
Other net comprehensive income after tax attributable to shareholders of the Company			
(I) Other comprehensive income that cannot be reclassified through profit or loss			
1. Changes arising from re-measurement of the defined benefit plan			
2. Other comprehensive income that cannot be reclassified into profits or losses under the equity method			
3. Changes in fair value of other equity instruments investment			
4. Change in fair value of the Company's own credit risk			
(II) Other comprehensive income that will be re-classified into profits or losses			
1. Other comprehensive income that can be reclassified into profits or losses under the equity method			
2. Change in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Credit impairment provision for other debt investments			
5. Reserve for cash flow hedging			
6. Translation differences of financial statements denominated in foreign currency			
7. Others			
Other net comprehensive income after tax attributable to non-controlling interests			
<b>VII. Total comprehensive income</b>		<b>26,325,519.89</b>	37,741,527.02
Total comprehensive income attributable to the shareholders of the Company		<b>26,325,519.89</b>	37,741,527.02
Total comprehensive income attributable to non-controlling interests			
<b>VIII. Earnings per share:</b>			
(I) Basic earnings per share		<b>0.14</b>	0.27
(II) Diluted earnings per share		<b>0.14</b>	0.27

The notes on pages 43 to 112 form part of these financial statements.

The financial statements on pages 25 to 42 have been signed by:

**Legal Representative:** Ma Hongfu      **The person in charge of accounting affairs:** Wang Guofu      **The head of the accounting department:** Chen Menggan

# Consolidated Cash Flow Statement

For the six months ended 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	January to June 2018	January to June 2017
<b>I. Cash flows from operating activities:</b>			
Proceeds from sale of goods and rendering of services		<b>320,925,930.12</b>	339,988,405.00
Proceeds from other operating activities		<b>16,301,723.42</b>	13,622,611.72
<b>Sub-total of cash inflows</b>		<b>337,227,653.54</b>	353,611,016.72
Payment for goods and services		<b>191,650,869.68</b>	172,326,786.94
Payment to and for employees		<b>27,860,559.56</b>	26,642,493.11
Payment of various taxes		<b>18,792,399.75</b>	30,146,053.47
Payment for other operating activities		<b>33,207,262.65</b>	42,117,433.25
<b>Sub-total of cash outflows</b>		<b>271,511,091.64</b>	271,232,766.77
<b>Net cash inflow from operating activities</b>		<b>65,716,561.90</b>	82,378,249.95
<b>II. Cash flows from investing activities:</b>			
Cash received from return on investments			
Cash received from government grants		<b>1,725,000.00</b>	520,000.00
Repayment of amount lending to a related party and proceeds relating to advances to third parties			5,854,314.00
Net proceeds from disposal of bearer biological assets		<b>5,860,460.00</b>	3,716,500.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>7,122,330.00</b>	60,000.00
Proceeds from other investing activities			4,558,423.01
Sub-total of cash inflows from investing activities		<b>14,707,790.00</b>	14,709,237.01
Payment for acquisition of fixed assets, intangible assets and other long-term assets		<b>89,384,106.26</b>	16,225,649.97
Payment for purchase of bearer biological assets		<b>68,800.00</b>	
Payments for breeding cost of bearer biological assets		<b>36,292,470.79</b>	10,488,309.56
Payments for amount lending to a related party and third parties			
Payment for other investing activities			14,247,547.14
<b>Sub-total of cash outflows from investing activities</b>		<b>125,745,377.05</b>	40,961,506.67
<b>Net cash outflow from investing activities</b>		<b>-111,037,587.05</b>	-26,252,269.66



**Consolidated Cash Flow Statement (continued)**

For the six months ended 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	January to June 2018	January to June 2017
<b>III. Cash flows from financing activities:</b>			
Proceeds from investors			
Proceeds from borrowings		<b>330,070,000.00</b>	275,380,000.00
<b>Sub-total of cash inflows</b>		<b>330,070,000.00</b>	275,380,000.00
Repayments of borrowings		<b>282,045,674.49</b>	197,682,521.20
Payment for dividends, profit distributions or interest		<b>11,425,667.11</b>	10,046,873.05
Cash paid relating to finance leases		<b>1,275,123.72</b>	2,321,403.64
Payment for other financing activities			
<b>Sub-total of cash outflows from financing activities</b>		<b>294,746,465.32</b>	210,050,797.89
<b>Net cash inflow from financing activities</b>		<b>35,323,534.68</b>	65,329,202.11
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		<b>109,886.59</b>	-448,476.60
<b>V. Net increase in cash and cash equivalents</b>			
		<b>-9,887,603.88</b>	121,006,705.80
Add: Cash and cash equivalents at the beginning of the year		<b>747,642,372.75</b>	273,352,017.83
<b>VI. Cash and cash equivalents at the end of the year</b>			
		<b>737,754,768.87</b>	394,358,723.63

The notes on pages 43 to 112 form part of these financial statements.

The financial statements on pages 25 to 42 have been signed by:

**Legal Representative: The person in charge of accounting affairs: The head of the accounting department:**

Ma Hongfu

Wang Guofu

Chen Menggan



# Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2018 – unaudited

(Unit: RMB)

Item	January to June 2018										
	Share capital	Other equity instruments			Capital reserves	Other comprehensive income	Special reserves	Surplus reserves	Provisions for general risk	Retained profit	Total shareholders' equity
<b>I. Balance at 31 December 2017</b>	187,340,000.00				508,790,782.09			32,051,090.62		399,483,322.01	1,127,665,194.72
Add: Changes in accounting policies											
Corrections on errors in previous period											
Business merger under common control											
Others											
<b>II. Balance at 1 January 2018</b>	187,340,000.00				508,790,782.09			32,051,090.62		399,483,322.01	1,127,665,194.72
<b>III. Changes in equity for the period (decrease is indicated by "-")</b>								2,387,500.42		10,262,199.47	12,649,699.89
(I) Total comprehensive income										26,325,519.89	26,325,519.89
(II) Shareholders' contributions and decrease of capital											
1. Ordinary shares invested by shareholders											
2. Capital contributed by other holders of other equities											
3. Amount of share-based payment recognized as shareholder's interests											
4. Others											
(III) Profit distribution								2,387,500.42		-16,063,320.42	-13,675,820.00
1. Appropriation to surplus reserves								2,387,500.42		-2,387,500.42	
2. Appropriation to provisions for general risk											
3. Distribution to shareholders											
4. Others											
(IV) Internal carry-over of shareholders' equity											
1. Capital reserve transferred to capital (or share capital)											
2. Surplus reserve transferred to capital (or share capital)											
3. Surplus reserves to recover loss											
4. Retained income transferred from the change in defined benefits plan											
5. Retained income transferred from the change in other comprehensive income											
6. Others											
(V) Special reserves											
1. Appropriation in current period											
2. Use in current period											
(VI) Others											
<b>IV. Balance at 30 June 2018</b>	187,340,000.00				508,790,782.09			34,438,591.04		409,745,521.48	1,140,314,894.61

The notes on pages 43 to 112 form part of these financial statements.

The financial statements on pages 25 to 42 have been signed by:

**Legal Representative: The person in charge of accounting affairs: The head of the accounting department:**

Ma Hongfu

Wang Guofu

Chen Menggan



# Company Balance Sheet

As at 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	30 June 2018	31 December 2017
<b>Current assets:</b>			
Cash at bank and on hand		<b>643,963,570.71</b>	685,225,413.30
Trading financial assets			
Bills receivable and trade receivables	XIII. 1	<b>18,344,852.62</b>	17,719,619.46
Prepayments		<b>3,935,324.30</b>	1,126,929.20
Other receivables	XIII. 2	<b>427,691,594.45</b>	394,958,085.86
Inventories		<b>18,075,933.28</b>	26,893,582.44
Assets held for sale		<b>6,360,442.94</b>	6,458,501.72
Non-current assets due within 1 year			
Other current assets		<b>5,874,777.90</b>	3,086,324.24
<b>Total current assets</b>		<b>1,124,246,496.20</b>	1,135,468,456.22
<b>Non-current assets:</b>			
Other debt investments			
Long-term receivables			
Long-term equity investment	XIII. 3	<b>234,013,711.60</b>	233,013,711.60
Other equity instruments investment		<b>33,720,671.00</b>	33,720,671.00
Other non-current financial assets			
Investment properties			
Fixed assets		<b>200,478,962.36</b>	152,026,789.22
Construction in progress		<b>7,218,167.11</b>	31,842,871.09
Bearer biological assets			
Intangible assets		<b>4,730,779.21</b>	4,636,409.36
R&D expenses			
Goodwill			
Long-term deferred expenses		<b>3,040,000.00</b>	
Deferred tax assets		<b>2,374,340.20</b>	3,000,352.28
Other non-current assets		<b>34,483,626.00</b>	15,066,250.06
<b>Total non-current assets</b>		<b>520,060,257.48</b>	473,307,054.61
<b>Total assets</b>		<b>1,644,306,753.68</b>	1,608,775,510.83



**Company Balance Sheet (continued)**

As at 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	30 June 2018	31 December 2017
<b>Current liabilities:</b>			
Short-term loans		440,000,000.00	350,000,000.00
Trading financial liabilities			
Bills payable and trade payables		54,356,936.50	71,795,379.01
Advances from customers		5,465,797.91	22,137,321.07
Contract liabilities			
Employee benefits payable		2,467,757.36	4,620,355.61
Taxes payable		5,480,288.99	7,683,607.30
Other payables		64,904,115.09	79,507,470.97
Liabilities held for sale			
Non-current liabilities due within 1 year		7,206,893.17	14,515,413.87
Other current liabilities			
<b>Total current liabilities</b>		<b>579,881,789.02</b>	550,259,547.83
<b>Non-current liabilities:</b>			
Long-term loans		19,267,244.84	21,559,671.60
Long-term payables			1,394,555.79
Long-term employee benefits payable			
Provisions			
Deferred income		13,547,900.00	14,151,100.00
Deferred income tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>32,815,144.84</b>	37,105,327.39
<b>Total liabilities</b>		<b>612,696,933.86</b>	587,364,875.22

**Company Balance Sheet (continued)**

As at 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	30 June 2018	31 December 2017
<b>Shareholders' equity:</b>			
Share capital		<b>187,340,000.00</b>	187,340,000.00
Capital reserves		<b>531,302,474.16</b>	531,302,474.16
Less: treasury stocks			
Other comprehensive income			
Special reserves			
Surplus reserves		<b>34,438,591.04</b>	32,051,090.62
Retained profit		<b>278,528,754.62</b>	270,717,070.83
<b>Total shareholders' equity</b>		<b>1,031,609,819.82</b>	1,021,410,635.61
<b>Total liabilities and shareholders' equity</b>		<b>1,644,306,753.68</b>	1,608,775,510.83

The notes on pages 43 to 112 form part of these financial statements.

The financial statements on pages 25 to 42 have been signed by:

**Legal Representative:    The person in charge of accounting affairs:    The head of the accounting department:**

Ma Hongfu

Wang Guofu

Chen Menggan





# Company Income Statement

For the six months ended 30 June 2018 – unaudited  
(Unit: RMB)

Item	Note	January to June 2018	January to June 2017
<b>I. Operating revenue</b>	XIV. 4	<b>237,782,163.43</b>	213,387,895.82
Less: Operating cost	XIV. 4	<b>158,160,505.09</b>	147,651,141.39
Taxes and surcharges		<b>1,550,800.44</b>	1,263,038.66
Selling expenses		<b>30,419,016.53</b>	23,614,549.62
Administrative expenses		<b>13,351,013.10</b>	14,708,925.18
R&D expenses			
Financial expenses		<b>6,985,698.36</b>	1,087,178.83
Including: interest expenses			
Interest income			
Impairment loss on assets		<b>41,408.00</b>	-110,921.84
Impairment losses on credit			
Add: Other income		<b>763,200.00</b>	953,396.72
Investment income (loss is indicated by “-”)			
Including: Investment income from associated enterprises and joint ventures			
Gain net exposure to hedging (loss is indicated by “-”)			
Gains from changes in fair value (loss is indicated by “-”)			
Gains from asset disposal (loss is indicated by “-”)			
<b>II. Operating profit (loss is indicated by “-”)</b>		<b>28,036,921.91</b>	26,127,380.70
Add: Non-operating income		<b>83,409.00</b>	4,447.00
Less: Non-operating expenses		<b>1,128,032.98</b>	205,827.23
<b>III. Total profit (total loss is indicated by “-”)</b>		<b>26,992,297.93</b>	25,926,000.47
Less: Income tax expenses		<b>3,117,293.72</b>	3,230,068.43
<b>IV. Net profit (net loss is indicated by “-”)</b>		<b>23,875,004.21</b>	22,695,932.04
(I) Net profit from continuing operations (net loss is indicated by “-”)			
(II) Net profit from discontinued operations (net loss is indicated by “-”)		<b>23,875,004.21</b>	22,695,932.04

**Company Income Statement (continued)**

For the six months ended 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	January to June 2018	January to June 2017
<b>V. Other net comprehensive income after tax</b>			
(I) Other comprehensive income that cannot be reclassified through profit or loss			
1. Changes caused by re-measurement of defined benefit plans			
2. Other comprehensive income not to be reclassified into profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment			
4. Change in fair value of the Company's own credit risk			
(II) Other comprehensive income that will be re-classified into profits or losses			
1. Other comprehensive income that can be reclassified into profits or losses under the equity method			
2. Change in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Credit impairment provision for other debt investments			
5. Reserve for cash flow hedging			
6. Translation differences of financial statements denominated in foreign currency			
7. Others			
<b>VI. Total comprehensive income</b>		<b>23,875,004.21</b>	22,695,932.04
<b>VII. Earnings per share:</b>			
(I) Basic earnings per share			
(II) Diluted earnings per share			

The notes on pages 43 to 112 form part of these financial statements.

The financial statements on pages 25 to 42 have been signed by:

**Legal Representative: The person in charge of accounting affairs: The head of the accounting department:**

Ma Hongfu

Wang Guofu

Chen Menggan

# Company Cash Flow Statement

For the six months ended 30 June 2018 – unaudited  
(Unit: RMB)

Item	Note	January to June 2018	January to June 2017
<b>I. Cash flows from operating activities:</b>			
Proceeds from sale of goods and rendering of services		<b>248,053,089.22</b>	231,346,207.81
Proceeds from other operating activities		<b>52,075,739.57</b>	11,734,741.85
<b>Sub-total of cash inflows</b>		<b>300,128,828.79</b>	243,080,949.66
Payment for goods and services		<b>275,849,755.26</b>	223,427,216.83
Payment to and for employees		<b>16,274,948.49</b>	17,039,237.77
Payment of various taxes		<b>16,047,905.15</b>	23,707,625.85
Payment for other operating activities		<b>44,578,396.31</b>	27,434,825.15
<b>Sub-total of cash outflows</b>		<b>352,751,005.21</b>	291,608,905.60
<b>Net cash inflow from operating activities</b>		<b>-52,622,176.42</b>	-48,527,955.94
<b>II. Cash flows from investing activities:</b>			
Cash received from return on investments			
Cash received from government grants		<b>200,000.00</b>	
Repayment of amount lending to a related party and proceeds relating to advances to third parties			3,274,314.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>7,000,000.00</b>	60,000.00
Proceeds from other investing activities			90,657,483.25
<b>Sub-total of cash inflows from investing activities</b>		<b>7,200,000.00</b>	93,991,797.25
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<b>63,970,657.73</b>	3,526,617.64
Cash paid for investments		<b>1,000,000.00</b>	
Payments for amount lending to a related party and third parties			
Payment for other investing activities			61,772,423.14
<b>Sub-total of cash outflows from investing activities</b>		<b>64,970,657.73</b>	65,299,040.78
<b>Net cash outflow from investing activities</b>		<b>-57,770,657.73</b>	28,692,756.47

**Company Cash Flow Statement (continued)**

For the six months ended 30 June 2018 – unaudited

(Unit: RMB)

Item	Note	January to June 2018	January to June 2017
<b>III. Cash flows from financing activities:</b>			
Proceeds from investors			
Proceeds from borrowings		<b>310,000,000.00</b>	245,380,000.00
<b>Sub-total of cash inflows</b>		<b>310,000,000.00</b>	245,380,000.00
Repayments of borrowings		<b>230,045,674.49</b>	125,182,521.20
Payment for dividends, profit distributions or interest		<b>9,658,096.82</b>	7,036,634.64
Cash paid relating to finance leases		<b>1,275,123.72</b>	2,321,403.64
Payment for other financing activities			
<b>Sub-total of cash outflows from financing activities</b>		<b>240,978,895.03</b>	134,540,559.48
<b>Net cash inflow from financing activities</b>		<b>69,021,104.97</b>	110,839,440.52
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		<b>109,886.59</b>	-448,476.60
<b>V. Net increase in cash and cash equivalents</b>			
		<b>-41,261,842.59</b>	90,555,764.45
Add: Cash and cash equivalents at the beginning of the year		<b>685,225,413.30</b>	152,659,036.55
<b>VI. Cash and cash equivalents at the end of the year</b>			
		<b>643,963,570.71</b>	243,214,801.00

The notes on pages 43 to 112 form part of these financial statements.

The financial statements on pages 25 to 42 have been signed by:

**Legal Representative:    The person in charge of accounting affairs:    The head of the accounting department:**

Ma Hongfu

Wang Guofu

Chen Menggan







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

For the six months ended 30 June 2018 – unaudited

(Unit: RMB)

	2017										Total shareholders' equity	
	Share capital	Share capital	preferred shares	Perpetual bonds	Other	Capital reserves	Other comprehensive income	Special reserves	Surplus reserves	Provisions for general risk		Retained profit
<b>I. Balance at 31 December 2017</b>	140,500,000.00					268,638,774.16			28,203,412.51		246,513,067.83	683,855,254.50
Add: Changes in accounting policies												
Corrections on errors in previous period												
Others												
<b>II. Balance at 1 January 2018</b>	140,500,000.00					268,638,774.16			28,203,412.51		246,513,067.83	683,855,254.50
<b>III. Changes in equity for the period (decrease is indicated by "-")</b>	46,840,000.00					262,663,700.00			3,847,678.11		24,204,003.00	337,555,381.11
(I) Total comprehensive income											38,476,781.11	38,476,781.11
(II) Shareholders' contributions and decrease of capital	46,840,000.00					262,663,700.00						309,503,700.00
1. Ordinary shares invested by shareholders	46,840,000.00					262,663,700.00						
2. Capital contributed by other holders of other equities												
3. Amount of share-based payment recognized as shareholder's interests												
4. Others												
(III) Profit distribution									3,847,678.11		-14,272,778.11	-10,425,100.00
1. Appropriation to surplus reserves									3,847,678.11		-3,847,678.11	
2. Appropriation to provisions for general risk												
3. Distribution to shareholders												
4. Others											-10,425,100.00	
(IV) Internal carry-over of shareholders' equity												
1. Capital reserve transferred to capital (or share capital)												
2. Surplus reserve transferred to capital (or share capital)												
3. Surplus reserves to recover loss												
4. Retained income transferred from the change in defined benefits plan												
5. Retained income transferred from the change in other comprehensive income												
6. Others												
(V) Special reserves												
1. Appropriation in current period												
2. Use in current period												
(VI) Others												
<b>IV. Balance at 30 June 2018</b>	187,340,000.00					531,302,474.16			32,051,090.62		270,717,070.83	1,021,410,635.61

The notes on pages 43 to 112 form part of these financial statements.

The financial statements on pages 25 to 42 have been signed by:

**Legal Representative**    **The person in charge of accounting affairs:**    **The head of the accounting department:**  
 Ma Hongfu                      Wang Guofu                      Chen Menggan

# Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

## I. COMPANY STATUS

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

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15 October 2015, and listed on the SME Board of Shenzhen Stock Exchange on 31 October 2017.

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

10 subsidiaries were included in the scope of consolidation of the Company in 2018. Please refer to note. VIII “Equity in other entities” for details. 1 more subsidiary was added during the year compared with the previous year, please refer to note. VII “Change to consolidation scope”.

The Company is primary involved in manufacturing and selling dairy products and breeding dairy cows.

## II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### 1. Basis of Preparation

The financial statements have been prepared by the Company on the basis of going concern, actual transactions and events. The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards (issued as MOF Decree No. 33, revised as MOF Decree No. 76), and another 42 specific accounting standards amended on or after 15 February 2006. The financial statements were also prepared based on the Accounting Standards for Business Enterprises – Application Guide, interpretations to the Accounting Standards for Business Enterprises and the other related provisions (together the “Accounting Standards for Business Enterprises”), and the disclosure provisions of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2014) issued by the China Securities Regulatory Commission and after consideration to the requirements on disclosure under the Hong Kong Companies Ordinance and the Hong Kong Listing Rules.

## III. STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises, which truly and completely present the information on the financial conditions of the Company as at 30 June 2018 and the results and cash flow of the Company for January to June of 2018. In addition, the financial statements of the Company, in all material aspects, comply with the disclosure requirements of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2014) issued by the China Securities Regulatory Commission on financial statements and notes thereof, and give consideration to the requirements on disclosure under the Hong Kong Companies Ordinance and the Hong Kong Listing Rules.

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company is primarily involved in manufacturing and selling dairy products and breeding dairy cows. The Company has prepared several specific accounting policies and accounting estimates for transactions and events subject to revenue recognition in accordance with the actual production and operation characteristics and the provisions under the Accounting Standards for Business Enterprises. See note IV. 20 "Revenue" for descriptions. Please refer to note IV. 29 "Significant accounting estimates and judgements" for explanations on the significant accounting estimates and judgements made by the management.

#### 1. Accounting period

The accounting period of the Company is classified into an accounting year and an interim accounting period. The interim accounting period is a Reporting Period shorter than a full accounting year. The accounting year of the Company is a calendar year, that is, from 1 January to 31 December in each year.

#### 2. Operating cycle

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

#### 3. Functional currency

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

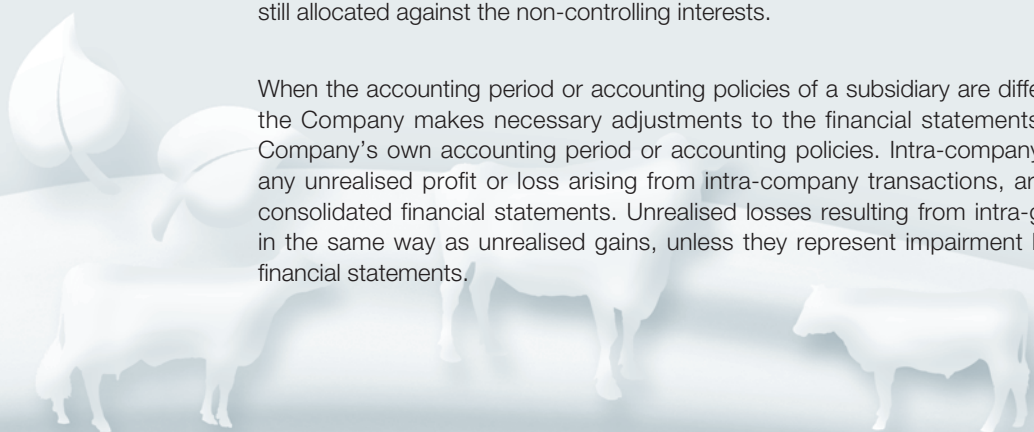
#### 4. Consolidated financial statements

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

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

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

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



## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily withdrawn on demand, and short-term (generally due within three months from the date of purchase), highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value held by Company.

#### 6. Foreign currency transactions

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

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

#### 7. Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the financial instrument contracts.

##### (1) Financial assets

###### ① Classification of financial assets

The Company classifies financial assets as financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and financial asset measured at fair value through profit or loss of the current period in accordance with the business model for management of the financial assets and contractual cash flow characteristics of financial assets.

###### ② Recognition of financial assets

Financial assets are classified as financial assets measured at amortized cost if the financial assets meet the following conditions: (1) it is held within a business model whose objective is achieved by both collecting contractual cash flows; (2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at fair value through other comprehensive income (FVOCI) refer to the financial assets meeting the following conditions:

- ① it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- ② its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through profit or loss (FVTPL) refer to the financial assets other than those classified as measured at amortised cost and at FVOCI.

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 7. Financial instruments (Continued)

##### (1) Financial assets (Continued)

###### ③ Measurement of financial assets

All financial assets and financial liabilities are initially measured at fair value. For the financial assets and financial liabilities measured at FVTPL, relevant transaction expenses shall be directly recognised as profit and loss; for the financial assets and financial liabilities of other categories, relevant transaction expenses shall be recognised as initial recognition amount.

A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised as profit or loss when the financial asset is derecognized, through the amortisation process or in order to recognise impairment gains or losses.

For financial assets measured at FVOCI (other than the equity investment that is not held for trading designated to be measured at FVOCI), the gain or loss other than impairment gain or loss, exchange gain or loss and the interests of financial assets recognised as profit or loss calculated with the effective interest method shall be recognized as other comprehensive income. For the equity investment that is not held for trading designated to be measured at FVOCI by the Company, the changes in fair value shall be recognised as other comprehensive income.

For financial assets measured at FVTPL, the changes in fair value shall be recognised as current profit or loss.

###### ④ Derecognition of financial assets

Financial assets is derecognised when one of the following conditions is met: A. the contractual rights to the cash flows from the financial asset expire; B. the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; C. the financial asset has been transferred, although the Company neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

If the equity investment that is not held for trading is designated as financial asset measured at FVOCI, at derecognition of the financial asset, the accumulated gain or loss previously recognized as other comprehensive income shall be written off from other comprehensive income and recognised as retained profit.





## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 7. Financial instruments *(Continued)*

##### (1) Financial assets *(Continued)*

###### ⑤ *Impairment test and accounting treatment for financial assets*

The following items are always measured at an amount equal to lifetime ECL:

For the accounts receivable or contract assets recognised according the transactions under the CAS No.14 – Revenue, the initial measurement does not include significant financing components or consider financing components not exceeding one year.

Financial assets and financial assets measured at FVOCI (other than the equity investment that is not held for trading designated as financial assets measured at FVOCI) are subject to impairment accounting treatment and recognition of provision for losses. Details are as follows:

- A. The Company measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition.
- B. The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition.
- C. The Group has measured the loss allowance for a financial instrument at an amount equal to the lifetime ECL in the previous reporting period, but determines to measure it at an amount equal to the next 12 months ECL at the current reporting date since the credit risk of that financial instrument has increased significantly since initial recognition is no longer met.

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 7. Financial instruments (Continued)

##### (2) Financial liabilities

###### ① Classification and re-classification of financial liabilities

Other than the following items, the Company classifies financial liabilities as financial liabilities measured at amortised cost: (1) Financial liabilities measured at FVTPL including trading financial liabilities (including derivatives as financial liabilities) and financial liabilities designated to be measured at FVTPL. (2) financial liabilities the transfer of which does not meet derecognition conditions or formed by continuing involvement in the transferred financial asset. Such financial liabilities are measured in accordance with relevant requirements under CAS No.23 – Transfer of Financial Assets.

###### ② Derecognition of financial liabilities

The Company derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished. An agreement between the Company and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. As for substantive changes made to the contract terms (whole or in part) of the existing financial liabilities, the existing financial liabilities (or part of it) will be derecognized. And financial liabilities after term revision will be recognized as a new financial liability.

The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss for the period.

#### 8. Receivables

Receivables include trade receivables and other receivables, of which the other receivables of the Company mainly represent advances, deposits, quality assurance deposit, etc.

##### (1) Recognition criteria of bad debt provision

The Company measures the expected credit loss and determines the bad debt provision of relevant receivables at each balance sheet date based on the expected credit loss.



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(Continued)***8. Receivables (Continued)****(2) Method of provision for bad debt**

The Company assesses the credit risk of individually significant receivables on an individual basis at the balance sheet date and makes bad debt provision based on the expected credit loss. Receivables with similar credit risk characteristics are measured for expected credit risk on a group basis for provision of bad debts.

① *Receivables that are individually significant and assessed individually for impairment*

Judgement basis or criteria for receivables that are individually significant

Receivables individually greater than RMB500 thousand are significant.

Method of provision for receivables that are individually significant for which provision for bad debt is made individually

The Group shall assess the asset individually for impairment, and test financial assets without impairment separately, including conducting impairment test on financial asset groups with similar credit risk characteristics.

② *Receivables for which the provision for bad debt is made on group basis by credit risks*

## A. Recognition criteria for groups of credit risk characteristics

The Company puts receivables that are not individually significant and those that are individually significant but have not incurred credit impairment in the individual assessment into group based on the similarity and relevance of credit risk characteristics. Such credit risks generally reflect the debtors' ability to repay all amounts due in accordance with the contractual terms of the assets and are relevant to the estimation of future cash flow of the assets concerned.

Basis for determination of different groups:

Item	Basis for grouping
Related Parties Group	Related parties of the Company
Aging Group	Aging analysis

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(Continued)***8. Receivables** *(Continued)***(2) Method of provision for bad debts** *(Continued)*② *Recognition criteria for groups of credit risk characteristics* *(Continued)*

- B. Method of provision for bad debts recognised based on group by credit risk characteristics  
Method of provision for bad debt for different groups:

Item	Basis for provision
Related Parties Group	The Group recognized no impairment loss for Related Parties Group as the credit risks assessed as low for the year.
Aging Group	ageing analysis method

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

Ageing	Provision as a percentage of accounts receivable	Provision as a percentage of other receivables
Including: 0-6 months		
7-12 months	5.00%	5.00%
1-2 years	20.00%	20.00%
2-3 years	50.00%	50.00%
Over 3 years	100.00%	100.00%

③ *Receivables that are not individually significant but for which the credit risk is assessed individually and the provision for bad debt is made individually*

Reason for making bad debt provision individually	Evidence shows the receivables are difficult or have special risk to recover
Method of provision for bad debts	The Group shall assess the asset individually for impairment and recognize the amount of impairment in profit or loss if there is objective evidence of impairment. An impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows. If no objective evidence of impairment exists, it shall include the asset in the ageing group and recognize the impairment loss with ageing method.



## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 9. Inventories

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

##### 1. Consumable biological assets

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

##### 2. Other inventories

Other inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditure incurred in bringing the inventories to their present location and condition. Borrowing costs directly related to the production of qualifying inventories are also included in the cost of inventories (see Note IV.13 "Borrowing costs"). In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

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

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

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

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

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

The Company maintains a perpetual inventory system.



## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 10. Long-term equity investment

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

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

##### (2) Subsequent measurement and recognition of profit or loss of long-term equity investment

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

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

For the impairment test and recognition of profit or loss of the investments in subsidiaries, refer to Note IV.17 "Impairment of long-term assets".

In the Company's consolidated financial statements, subsidiaries are accounted for in accordance with the policies described in Note IV.4 "Consolidated financial statements".

#### 11. Fixed assets

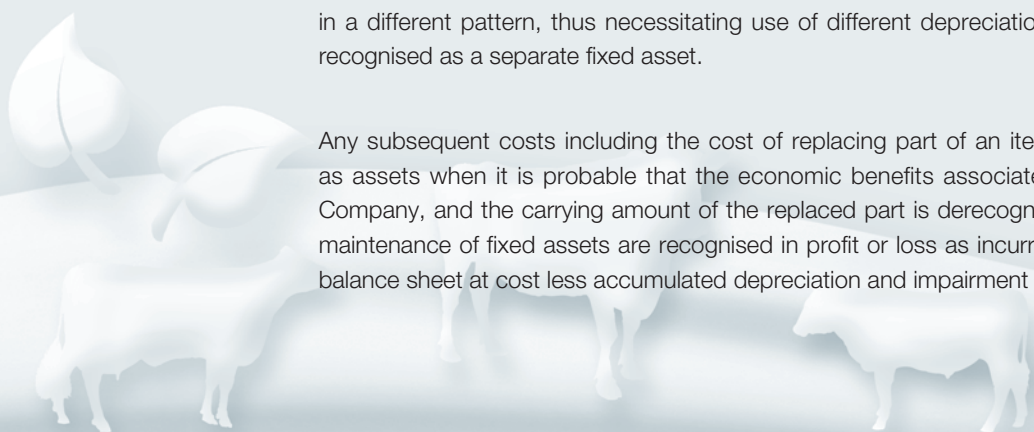
##### (1) Recognition of fixed assets

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

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets is measured in accordance with the policy set out in Note IV.12 "Construction in progress".

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

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Company, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred. Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(Continued)***11. Fixed assets** *(Continued)***(2) Depreciation of fixed assets**

Fixed assets are depreciated using the straight-line method over their estimated useful lives from the month following the month when they are available for intended use. The useful lives, estimated residual value rates and annual depreciation rates of each class of fixed assets are as follows:

Class	Depreciation method	Depreciation period (years)	Residual value rate (%)	Annual depreciation rate (%)
Plant and buildings	Straight-line method	30 years	3.00%	3.23%
Machinery and equipment	Straight-line method	5~10 years	5.00%	9.50%-19.00%
Motor vehicles	Straight-line method	4 years	5.00%	23.75%
Other equipment	Straight-line method	5 years	5.00%	19.00%

Useful lives, estimated residual values and depreciation methods are reviewed at least at each yearend.

**(3) Impairment test and provision for impairment of fixed assets**

For details of impairment test and provision for impairment of fixed assets, please refer to note IV. 17 "Impairment of long-term assets".

**(4) Disposal of fixed assets**

The carrying amount of a fixed asset is derecognised:

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

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

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 12. Construction in progress

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

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

For details of impairment test and provision for impairment of construction in progress, please refer to note IV.17 "Impairment of long-term assets".

#### 13. Borrowing costs

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

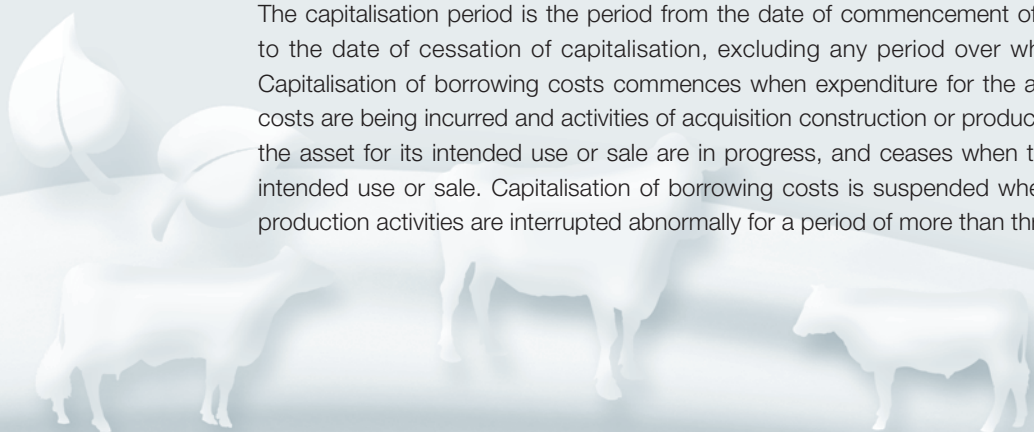
During the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

Where funds are borrowed specifically for the acquisition construction or production of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

To the extent that the Company borrows funds generally and uses them for the acquisition construction or production of a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

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

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



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(Continued)***14. Bearer biological assets**

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

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

The feeding costs and other related costs such as staff costs, depreciation and amortisation expenses and utilities cost incurred for raising calves and heifers are capitalised until they begin to produce milk and transfer to the group of milkable cows. Such costs incurred for milkable cows are also capitalised while upon milking, the costs incurred to bring the raw milk are transferred to inventories (see Note IV.9 Inventories).

**15. Intangible assets**

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see 17. Impairment of long-term assets). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

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

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

At the balance sheet date, the Group does not have any intangible assets with indefinite useful lives.

**16. Long-term deferred expenses**

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

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 17. Impairment of long-term assets

The carrying amounts of fixed assets, construction in progress, intangible assets, long-term equity investment, long-term deferred expenses and other non-current assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment.

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

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value (see Note IV.30 Changes in significant accounting policies) less costs to sell and its present value of expected future cash flows.

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

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

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

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





## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 18. Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Valuation techniques mainly include the market approach, the income approach and the cost approach.

#### 19. Provisions

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

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

Where the contingency involves a single item, the best estimate is the most likely outcome.

Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

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

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 20. Revenue

Revenue is the gross inflow of economic benefits arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders. The operating revenue of the Company mainly include revenue from dairy products and the Company discharges its obligations in performance of contract, i.e. recognition of revenue when customer obtains the control of relevant commodities. Revenue is recognised in profit or loss when the following conditions are met:

##### (1) Sale of goods

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

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

##### (2) Interest income

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



## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 21. Employee benefits

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

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

##### (2) Post-employment benefits

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

##### (3) Termination benefits

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

When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;

When the Company has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 22. Government grants

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

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

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

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

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

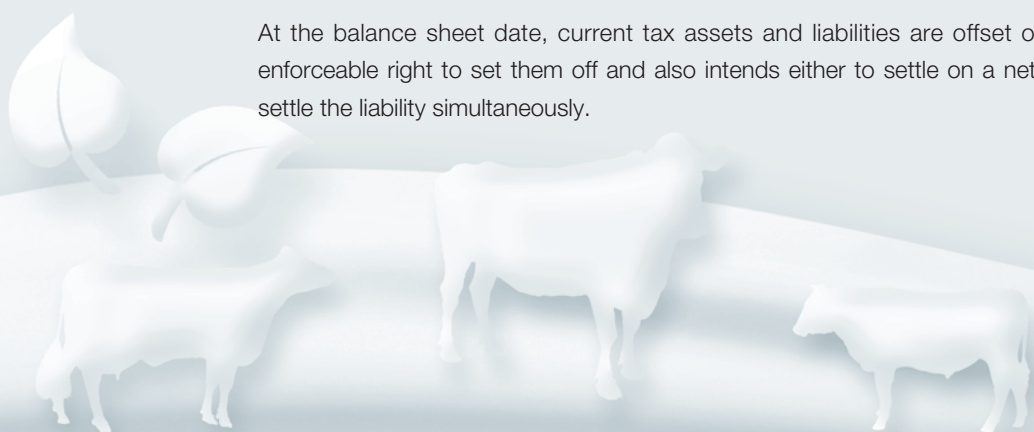
The interest subsidies obtained by the Group are appropriated directly by the government to the Group to compensate the incurred interest expense. The interest subsidies obtained before 1 January 2017 is included in non-operating income and offset against related interest expense after 1 January 2017.

#### 23. Income tax

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

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

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



## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 23. Income tax *(Continued)*

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

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

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

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

the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;

they relate to income taxes levied by the same tax authority on either: the same taxable entity; or different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.



## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

#### 24. Operating leases and finance leases

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

##### (1) Operating lease charges

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

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

When the Company acquires an asset under a finance lease, the asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, each determined at the inception of the lease. At the commencement of the lease term, the minimum lease payments are recorded as long-term payables. The difference between the carrying amounts of the leased assets and the minimum lease payments is accounted for as unrecognised finance charges. Initial direct costs attributable to a finance lease that are incurred by the Group are added to the carrying amount of the leased asset. Depreciation and impairment losses are accounted for in accordance with the accounting policies described in “note IV. 11. Fixed assets (2)” and “note IV. 17. Impairment of long-term assets”, respectively.

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

Unrecognised finance charges arising from a finance lease are recognised using an effective interest method over the lease term. The amortisation is accounted for in accordance with the principles of borrowing costs (see Note IV. 13. Borrowing costs).

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

Contingent lease payments are expensed as incurred.



## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 25. Assets held for sale and disposal group

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

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

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

According to the customary practices of selling such asset or disposal group in similar transactions, the non-current asset or disposal group must be available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups;

Its sale is highly probable, that is, the Company has made a resolution on a sale plan and has obtained a firm purchase commitment. The sale is to be completed within one year.

Non-current assets or disposal groups held for sale are stated at the lower of carrying amount and fair value (see Note IV. 30 Changes in significant accounting policies) less costs to sell (except financial assets (see 7. Financial instruments), deferred tax assets (see Note IV. 23 income tax)) or disposal group initially and subsequently. Any excess of the carrying amount over the fair value less costs to sell is recognised as an impairment loss in profit or loss.

#### 26. Dividends distributions

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

#### 27. Related parties

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

In addition, the Company also determined its related parties in accordance with the Measures for Administration of Information Disclosure by Listed Companies issued by the CSRC.

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### 28. Segment reporting

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

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

#### 29. Significant accounting estimates and judgements

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

Except for accounting estimates relating to depreciation and amortisation of assets such as fixed assets, intangible assets and long-term deferred expenses (see Notes IV. 11, 15 and 16), fair value of biological assets (see Note IV. 14) and provision for impairment of various types of assets (see Notes VI.2, 4 and Notes XIV 1, 2) and recognition of deferred tax assets (see Note VI.14), the Company has no other significant accounting estimates.

#### 30. Changes in significant accounting policies

##### (1) Description and reasons of changes in accounting policies

The MOF issued the Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (Revised in 2017) (Cai Kuai [2017] No. 7), Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets (Revised in 2017) (Cai Kuai [2017] No. 8) and Accounting Standard for Business Enterprises No. 24 – Hedge Accounting (Revised in 2017) (Cai Kuai [2017] No. 9) on 31 March 2017 and the Accounting Standard for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments (Revised in 2017) (Cai Kuai [2017] No. 14) on 2 May 2017 (collectively the “New ASBEs on Financial Instruments”); and issued the Accounting Standard for Business Enterprises No. 14 – Revenue (Revised in 2017) (Cai Kuai [2017] No. 22) on 5 July 2017 (the “New ASBEs on Revenue”). Enterprises listed in both domestic and overseas markets and enterprises listed overseas and applying International Financial Reporting Standards or Accounting Standards for Business Enterprises to prepare financial statements are required to apply the New ASBEs on Financial Instruments and New ASBEs on Revenue from 1 January 2018.

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES***(Continued)***30. Changes in significant accounting policies** *(Continued)***(2) Major effects of the changes**

The Company started to adopt the above five accounting standards at the time stipulated by the MOF, i.e. 1 January 2018. The adoption of such standards has no material impact on the Company.

The significant accounting policies after adopting the above accounting standards are detailed in Note IV.

On 15 June 2018, the MOF issued the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the year 2018 (Cai Kuai [2018] No.15), which revised the presentation format of financial statements of general enterprises. The Company has prepared the interim statements for 2018 in accordance with the requirements and made adjustment to the presentation of the statements for the previous period retrospectively. Details are as follows:

① *Consolidated Balance Sheet:*

Item	Before adjustment	After adjustment
Trade receivables	24,403,065.85	
Bills receivable and trade receivables		24,403,065.85
Available-for-sale financial assets	33,720,671.00	
Other equity instruments investment		33,720,671.00
Bills payable	19,492,581.98	
Trade payables	101,385,124.99	
Bills payable and trade payables		120,877,706.97
Interests payable	403,694.71	
Other payables	20,848,047.60	21,251,742.31

② *Company Balance Sheet:*

Item	Before adjustment	After adjustment
Trade receivables	17,719,619.46	
Bills receivable and trade receivables		17,719,619.46
Available-for-sale financial assets	33,720,671.00	
Other equity instruments investment		33,720,671.00
Bills payable	19,492,581.98	
Trade payables	52,302,797.03	
Bills payable and trade payables		71,795,379.01
Interests payable	237,351.61	
Other payables	79,270,119.36	79,507,470.97

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### V. TAXATION

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

Tax type	Tax basis	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	16%/10%
City maintenance and construction tax	Based on business tax and VAT paid	7%/5%/1%
Additional education fee	Based on business tax and VAT paid	3%/2%
Corporate income tax	Based on taxable profits	15%

Note 1: The previous VAT rate applicable to the sales of the Company was 17%/11%. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2018] No. 32), from 1 May 2018 onwards, the applicable tax rate is adjusted to 16%/10%.

Note 2: The income tax rate applicable to the Company for 2017 was 15%. As for tax preferences applicable to Group, please see Note V.2.

#### 2. VAT preferences and approvals

##### (1) VAT

- ① During the year, the wholly-owned subsidiaries of the Company, Qinghai Shengya Plateau Pasture Co., Ltd., Qinghai Shengyuan Pasture Co., Ltd., Linxia County Ruiyuan Pasture Co., Ltd., Lanzhou Ruixing Farming Co., Ltd., are exempted from VAT for dairy cows breeding in accordance with Article 15 of the Provisional Regulations of the People's Republic of China on Value-added Tax.
- ② During the year, the wholly-owned subsidiaries of the Company, Yuzhong Ruifeng Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Ningxia Zhuangyuan Pasture Co., Ltd., are exempted from VAT for sales of feed in accordance with Article 15 of the Provisional Regulations of the People's Republic of China on Value-added Tax.





**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**V. TAXATION** *(Continued)***2. VAT preferences and approvals** *(Continued)***(2) Corporate income tax**

- ① In accordance with Article 27, Paragraph 1 of Corporate Income Tax Law of the People's Republic of China, Article 86, Paragraph 1 (7) of Implementation Regulations for the Corporate Income Tax Law of the People's Republic of China and Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Corporate Income Tax (for Trial Implementation) No.149 [2008] issued by the Ministry of Finance, the Company is exempted from the enterprise income tax for initial processing of dairy products, which include pasteurised milk and UHT milk, during the year.
- ② In accordance with Article 2 of Announcement of the Ministry of Finance, the General Administration of Customs, the State Administration of Taxation on Issues Concerning Corporate Income Tax Related to Enhancing the Western Region Development Strategy (Cai Shui [2011] 58) and the Announcement of the Local Taxation Bureau of Gansu Province on Corporate Income Tax in Relation to Implementation of Western Development (Gan Di Shui Han [2012] No. 136), the Company and its wholly-owned subsidiary Qinghai Qinghaihu Dairy Co., Ltd are entitled to a reduced corporate income tax rate of 15%.
- ③ In accordance with Article 27 (1) of Regulation on the Implementation of the Corporate Income Tax Law of the People's Republic of China, the wholly-owned subsidiaries of the Company, Qinghai Shengya Plateau Pasture Co., Ltd., Qinghai Shengyuan Pasture Co., Ltd., Yuzhong Ruifeng Pasture Co., Ltd., Linxia County Ruiyuan Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Ningxia Zhuangyuan Pasture Co., Ltd., and Lanzhou Ruixing Farming Co., Ltd. are exempted from corporate tax.

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. Cash at bank and on hand**

Item	30 June 2018	31 December 2017
Cash on hand	<b>24,452.78</b>	11,463.37
Deposits with banks	<b>737,730,316.09</b>	736,884,618.39
Other cash at bank and on hand		10,746,290.99
Total	<b>737,754,768.87</b>	747,642,372.75
Including: Total overseas deposits	<b>8,740,130.72</b>	9,995,244.85

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Bills receivable and trade receivables**

Item	30 June 2018	31 December 2017
Bills receivable		
Trade receivables	<b>24,557,600.86</b>	24,403,065.85
<b>Total</b>	<b>24,557,600.86</b>	24,403,065.85

**Trade receivables**① *Accounts receivable by category*

Category	30 June 2018				
	Book value		Provision for bad and doubtful debts		Carrying amount
	Amount	Percentage (%)	Amount	Provision Percentage (%)	
Individually significant and assessed for impairment individually					
Collectively assessed for impairment based on credit risk characteristics	24,662,539.24	100.00	104,938.38	0.43	24,557,600.86
Individually insignificant but assessed for impairment individually					
<b>Total</b>	<b>24,662,539.24</b>	<b>100.00</b>	<b>104,938.38</b>	<b>0.43</b>	<b>24,557,600.86</b>

Category	31 December 2017				
	Book value		Provision for bad and doubtful debts		Carrying amount
	Amount	Percentage (%)	Amount	Provision Percentage (%)	
Individually significant and assessed for impairment individually					
Collectively assessed for impairment based on credit risk characteristics	24,500,770.26	100.00	97,704.41	0.40	24,403,065.85
Individually insignificant but assessed for impairment individually					
<b>Total</b>	<b>24,500,770.26</b>	<b>100.00</b>	<b>97,704.41</b>	<b>0.40</b>	<b>24,403,065.85</b>

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Bills receivable and trade receivables (Continued)****Trade receivables (Continued)**

② Trade receivables for which the credit risks is assessed by ageing group and provision for bad and doubtful debts is made in the portfolio

Ageing	30 June 2018		
	Trade receivables	Provision for bad and doubtful debts	Provision percentage(%)
Within 1 year			
Including: within 6 months	<b>22,563,771.61</b>		
7-12 months	<b>2,098,767.63</b>	<b>104,938.38</b>	<b>5.00</b>
Subtotal of within 1 year	<b>24,662,539.24</b>	<b>104,938.38</b>	
1 to 2 years			
2 to 3 years			
Over 3 years			
<b>Total</b>	<b>24,662,539.24</b>	<b>104,938.38</b>	

③ Additions, recoveries or reversals of provision for bad and doubtful debts during the year:

The provision for bad and doubtful debts made in the year amounted to RMB7,233.97;

④ Five largest accounts receivable by debtor at the end of the year

Unit name	Nature of payment	30 June 2018	Ageing	Proportion of the total ending balance of accounts receivable (%)	Closing balance of provision for bad and doubtful debts
Customer 1	Payment for goods	<b>3,256,893.83</b>	1-6 months	13.21	
Customer 2	Payment for goods	<b>2,461,603.92</b>	1-6 months, 7-12 months	9.98	20,612.38
Customer 3	Payment for goods	<b>2,398,229.91</b>	1-6 months	9.72	
Customer 4	Payment for goods	<b>2,391,613.62</b>	1-6 months	9.70	
Customer 5	Payment for goods	<b>1,084,736.62</b>	1-6 months, 7-12 months	4.40	7,026.29
<b>Total</b>		<b>11,593,077.90</b>		<b>47.01</b>	<b>27,638.67</b>

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Prepayments**

Ageing	30 June 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	10,097,959.11	100.00	5,689,626.38	93.00
1 to 2 year			442,223.64	7.00
Total	10,097,959.11	100.00	6,131,850.02	100.00

**4. Other receivables**

Item	30 June 2018	31 December 2017
Other receivables	7,549,268.28	13,290,298.02
Total	7,549,268.28	13,290,298.02

**Other receivables****① Other receivables by category**

Category	30 June 2018				
	Book value		Provision for bad and doubtful debts		Carrying amount
	Amount	Percentage (%)	Amount	Provision percentage (%)	
Individually significant and assessed for impairment individually					
Collectively assessed for impairment based on credit risk characteristics	7,952,249.41	95.44	402,981.13	5.07	7,549,268.28
Individually insignificant but assessed for impairment individually	380,000.00	4.56	380,000.00	100.00	
Total	8,332,249.41	100.00	782,981.13	9.40	7,549,268.28



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Other receivables (Continued)****Other receivables (Continued)**① *Other receivables by category (Continued)*

Category	31 December 2017				
	Book value		Provision for bad and doubtful debts		Carrying amount
	Amount	Percentage (%)	Amount	Provision percentage (%)	
Individually significant and assessed for impairment individually					
Collectively assessed for impairment based on credit risk characteristics	13,123,019.51	92.99	184,873.29	1.41	12,938,146.22
Individually insignificant but assessed for impairment individually	989,821.45	7.01	637,669.65	64.42	352,151.80
<b>Total</b>	<b>14,112,840.96</b>	<b>100.00</b>	<b>822,542.94</b>	<b>5.83</b>	<b>13,290,298.02</b>

② *Other receivables for which the credit risks is assessed by ageing group and provision for bad and doubtful debts is made in the portfolio*

Ageing	30 June 2018		
	Trade receivables	Provision for bad and doubtful debts	Provision percentage (%)
Within 1 year			
Including: Within 6 months	<b>3,797,747.38</b>		
7-12 months	<b>3,292,010.14</b>	<b>164,600.51</b>	<b>5.00</b>
Subtotal of within 1 year	<b>7,089,757.52</b>	<b>164,600.51</b>	
1 to 2 years	<b>729,467.75</b>	<b>145,893.55</b>	<b>20.00</b>
2 to 3 years	<b>81,074.14</b>	<b>40,537.07</b>	<b>50.00</b>
Over 3 years	<b>51,950.00</b>	<b>51,950.00</b>	<b>100.00</b>
<b>Total</b>	<b>7,952,249.41</b>	<b>402,981.13</b>	

③ *Additions, recoveries or reversals of provision for bad and doubtful debts for other receivables during the year:*

The provision for bad and doubtful debts made in the year amounted to RMB-39,561.81.



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Other receivables (Continued)****Other receivables (Continued)**④ *Other receivables categorised by nature*

Nature of other receivables	30 June 2018	31 December 2017
Receivables for disposal of dairy cows		7,264,704.95
Deposits	<b>2,712,577.24</b>	2,827,920.24
Advances to staff	<b>2,542,475.95</b>	2,478,654.02
Others	<b>3,077,196.22</b>	1,541,561.75
Less: Provision for bad and doubtful debts	<b>782,981.13</b>	822,542.94
Total	<b>7,549,268.28</b>	13,290,298.02

⑤ *Five largest other receivables by debtor at the end of the year*

Debtor	Nature of the receivables	30 June 2018	Ageing	Percentage of total other receivables (%)	Balance of provision for bad and doubtful debts at the end of the year
Unit 1	Revolving funds	<b>273,599.80</b>	Within 1 year	3.28	
Unit 2	Deposit	<b>225,000.00</b>	Within 1 year	2.70	
Unit 3	Deposit	<b>215,000.00</b>	Within 1 year	2.58	
Unit 4	Deposit	<b>200,000.00</b>	Over 3 years	2.40	200,000.00
Unit 5	Revolving funds	<b>125,449.34</b>	Within 1 year	1.51	
Total	–	<b>1,039,049.14</b>	–	12.47	200,000.00



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (Continued)**5. Inventories**

Item	30 June 2018		
	Book value	Provision for depreciation	Carrying amount
Raw materials	<b>37,376,146.27</b>		<b>37,376,146.27</b>
Finished goods	<b>12,457,368.82</b>		<b>12,457,368.82</b>
Consumable biological assets			
Total	<b>49,833,515.09</b>		<b>49,833,515.09</b>

Item	31 December 2017		
	Book value	Provision for depreciation	Carrying amount
Raw materials	59,101,631.42		59,101,631.42
Finished goods	11,974,866.39		11,974,866.39
Consumable biological assets	1,582.10		1,582.10
Total	71,078,079.91		71,078,079.91

**6. Assets held for sale**

Item	30 June	31 December
	2018	2017
Fixed assets	<b>2,107,258.84</b>	2,152,380.47
Intangible assets	<b>4,253,184.10</b>	4,306,121.25
Total	<b>6,360,442.94</b>	6,458,501.72

In December 2017, the Company signed an agreement with a third party to sell a land use right as well as the plant and buildings in the land. The contract price is RMB10,300,000.00. As of the reporting date, the Company is handling assets handover procedures.

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Other current assets**

Item	30 June 2018	31 December 2017
Input tax for which no invoice is received	<b>1,589,753.12</b>	3,087,413.98
Cooperative agriculture related personal loan	<b>4,285,024.78</b>	
Total	<b>5,874,777.90</b>	3,087,413.98

**8. Other equity instruments investment****(1) Non-trading equity instruments designated to be measured at FVOCI**

Item	30 June 2018	31 December 2017
Xi'an Dongfang Dairy Co., Ltd.	<b>33,676,200.00</b>	33,676,200.00
Gansu Yuzhong Rural Cooperative Bank	<b>44,471.00</b>	44,471.00
Total	<b>33,720,671.00</b>	33,720,671.00

**9. Fixed assets**

Item	30 June 2018	31 December 2017
Fixed assets	<b>710,336,432.11</b>	625,799,144.70
Fixed assets		
Total	<b>710,336,432.11</b>	625,799,144.70



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Fixed assets (Continued)****(1) Fixed assets**① *Fixed assets*

Item	Plant and buildings	Machinery and equipment	Motor vehicles	Other equipment	Total
I. Cost at book					
1. Balance at the beginning of the year	537,766,031.00	334,804,368.73	8,355,774.21	12,783,933.84	893,710,107.78
2. Additions during the year	103,780,967.60	8,465,264.44	223,575.61	735,903.48	113,205,711.13
(1) Purchases	49,280,935.04	7,839,174.44	223,575.61	735,903.48	58,079,588.57
(2) Transfers from construction in progress	54,500,032.56	626,090.00			55,126,122.56
3. Decrease during the year	3,121,727.19	1,234,988.43			4,356,715.62
(1) Disposals or written-offs		1,234,988.43			1,234,988.43
(2) Other decreases	3,121,727.19				3,121,727.19
4. Balance at the end of the year	638,425,271.41	342,034,644.74	8,579,349.82	13,519,837.32	1,002,559,103.29
II. Accumulated depreciation					
1. Balance at the beginning of the year	98,846,505.81	153,556,454.13	6,095,090.47	9,412,912.67	267,910,963.08
2. Additions during the year	9,920,009.16	13,462,462.98	329,272.03	1,946,417.05	25,658,161.22
(1) Provision	9,920,009.16	13,462,462.98	329,272.03	1,946,417.05	25,658,161.22
3. Decrease during the year	604,986.85	741,466.27			1,346,453.12
(1) Disposals or written-offs		720,293.02			720,293.02
(2) Other decreases	604,986.85	21,173.25			626,160.10
4. Balance at the end of the year	108,161,528.12	166,277,450.84	6,424,362.50	11,359,329.72	292,222,671.18
III. Provision for impairment					
1. Balance at the beginning of the year					
2. Additions during the year					
(1) Provision					
3. Decrease during the year					
(1) Disposals or written-offs					
4. Balance at the end of the year					
IV. Carrying amount					
1. Carrying amount at the end of the year	530,263,743.29	175,757,193.90	2,154,987.32	2,160,507.60	710,336,432.11
2. Carrying amount at the beginning of the year	438,919,525.19	181,247,914.60	2,260,683.74	3,371,021.17	625,799,144.70

Note 1: The management of the Group considers that there is no impairment indicator of the fixed assets of the Group and therefore no provision for impairment of fixed assets has been recognised.

Note 2: For details of fixed assets for which the pledged ownership is restricted, please see note VI. 45 Assets for which the ownership and use right are restricted.

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Fixed assets (Continued)****(1) Fixed assets (Continued)**② *Fixed assets acquired under finance leases*

Item	Cost at book	Accumulated depreciation	Provision for impairment	Carrying amount
Vending machine	6,982,424.62	1,105,597.00		5,876,827.62
Total	6,982,424.62	1,105,597.00		5,876,827.62

③ *Fixed assets for which the title certificate is not obtained*

Item	Carrying amount	Reason for failure to obtain title certificate
Office building	54,500,032.56	Purchase of new office building, for which the Company is applying for title certificate
Total	54,500,032.56	

**10. Construction in progress****(1) Construction in progress**

Item	30 June 2018			31 December 2017		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Office building				29,581,971.49		29,581,971.49
Pasture construction and others	22,971,640.55		22,971,640.55	10,893,385.58		10,893,385.58
Total	22,971,640.55		22,971,640.55	40,475,357.07		40,475,357.07





**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Construction in progress (Continued)****(2) Movements of important construction projects in progress during the year**

Project	31 December 2017	Additions during the period	Transfers to fixed assets	Other decreases during the period	30 June 2018
Office building	29,581,971.49	24,918,061.07	54,500,032.56		
Pasture construction and others	10,893,385.58	12,704,344.97	626,090.00		<b>22,971,640.55</b>
Total	40,475,357.07	37,622,406.04	55,126,122.56		<b>22,971,640.55</b>

**11. Bearer biological assets**

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

**(1) The number of cows owned by the Company as at date of the statements is as follows:***Unit: Heads*

Category	30 June 2018	31 December 2017
Calves	<b>495.00</b>	723.00
Heifers	<b>3,701.00</b>	3,446.00
Milkable cows	<b>2,711.00</b>	2,803.00
Total	<b>6,907.00</b>	6,972.00

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

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Bearer biological assets (Continued)****(2) The Company is mainly exposed to the following operating risks in relation to bearer biological assets:****① Regulatory and environmental risks**

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

**② Climate, disease and other natural risks**

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

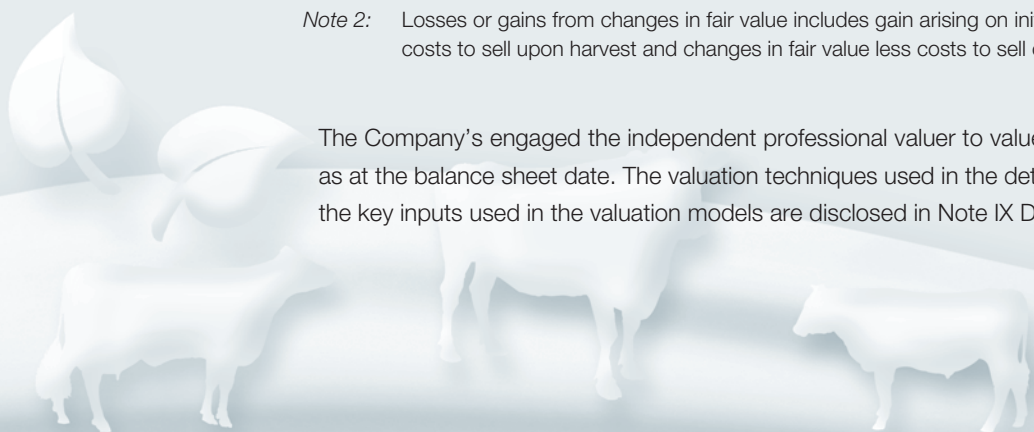
**(3) Value of the Company's bearer biological assets**

31 December 2017		Calves	Heifers	Milkable cows	Total
		7,189,600.00	78,903,700.00	89,722,504.71	175,815,804.71
Add: Purchase costs					
Breeding costs	Note 1	3,542,650.14	22,228,804.07	43,446,257.68	69,217,711.89
Transfer between groups:					
transfer in			3,868,989.95	6,812,217.70	10,681,207.65
transfer out		-3,868,989.95	-6,812,217.70		-10,681,207.65
Transfer to inventories upon milking				-40,053,695.13	-40,053,695.13
Decrease due to disposal and sale		-760,087.46	-2,000,174.16	-4,954,495.04	-7,714,756.66
Gains or losses from changes					
in fair value	Note 2	-1,107,872.73	-21,102.16	-7,769,434.97	-8,898,409.86
30 June 2018		4,995,300.00	96,168,000.00	87,203,354.95	188,366,654.95

Note 1: Breeding costs incurred for dairy cows mainly include feeding costs, staff costs, depreciation and amortisation expenses and utilities costs incurred.

Note 2: Losses or gains from changes in fair value includes gain arising on initial recognition of milk at fair value less costs to sell upon harvest and changes in fair value less costs to sell of biological assets.

The Company's engaged the independent professional valuer to value the fair value of biological assets as at the balance sheet date. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in Note IX Disclosure of fair value.



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Intangible assets**

Item	Land use rights	Computer software	Total
<b>I. Cost at book</b>			
1. Balance at the beginning of the year	20,060,100.16	3,073,964.75	23,134,064.91
2. Additions during the year	340,904.86	277,025.07	617,929.93
(1) Purchases	340,904.86	277,025.07	617,929.93
3. Decrease during the year		12,563.34	12,563.34
(1) Disposal		12,563.34	12,563.34
4. Balance at the end of the year	20,401,005.02	3,338,426.48	23,739,431.50
<b>II. Accumulated amortisation</b>			
1. Balance at the beginning of the year	1,809,403.22	753,113.47	2,562,516.69
2. Additions during the year	212,285.25	146,080.48	358,365.73
(1) Provision	212,285.25	146,080.48	358,365.73
3. Decrease during the year			
(1) Disposal			
4. Balance at the end of the year	2,021,688.47	899,193.95	2,920,882.42
<b>III. Provision for impairment</b>			
1. Balance at the beginning of the year			
2. Additions during the year			
(1) Provision			
3. Decrease during the year			
(1) Disposal			
4. Balance at the end of the year			
<b>IV. Carrying amount</b>			
1. Carrying amount at the end of the year	18,379,316.55	2,439,232.53	20,818,549.08
2. Carrying amount at the beginning of the year	18,250,696.94	2,320,851.28	20,571,548.22

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Long-term deferred expenses**

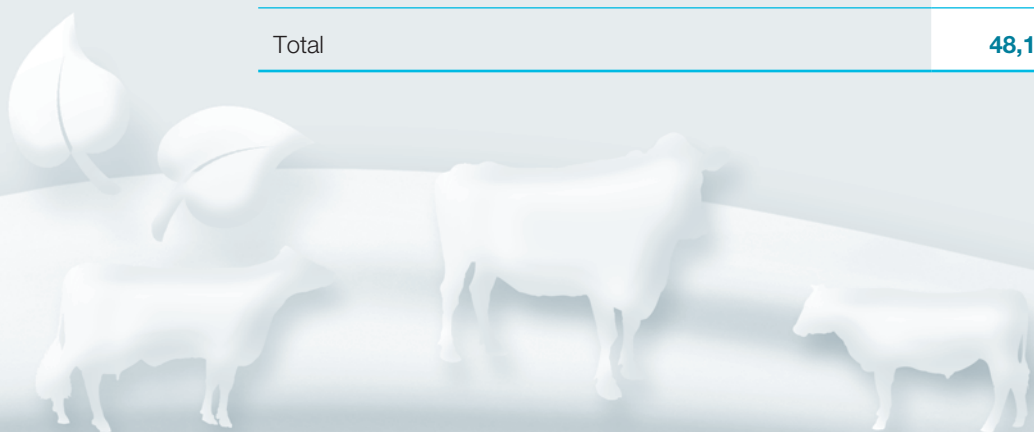
Item	31 December 2017	Additions during the year	Amortisation in the year	Other decreases	30 June 2018
Office building decoration expenses		3,200,000.00	160,000.00		<b>3,040,000.00</b>
Lease prepayments	979,778.46	773,217.00	520,233.94		<b>1,232,761.52</b>
Others	649,811.32			649,811.32	
Total	1,629,589.78	3,973,217.00	680,233.94	649,811.32	<b>4,272,761.52</b>

**14. Deferred tax assets/deferred income tax liabilities****(1) Deferred tax assets not yet eliminated**

Item	30 June 2018		31 December 2017	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provisions for impairment of assets	<b>621,504.00</b>	<b>93,225.60</b>	722,672.50	108,400.88
Deductible losses	<b>14,707,248.87</b>	<b>2,206,087.34</b>	6,863,465.91	1,029,519.89
Depreciation of fixed assets	<b>3,930,546.87</b>	<b>589,582.03</b>	3,857,213.56	578,582.03
Government grants	<b>22,231,883.36</b>	<b>3,334,782.50</b>	21,075,000.00	3,161,250.00
Total	<b>41,491,183.10</b>	<b>6,223,677.47</b>	32,518,351.97	4,877,752.80

**15. Other non-current assets**

Item	30 June 2018	31 December 2017
Advances to farmers		8,066,250.06
Prepayments for purchase of dairy cows	<b>20,670,000.00</b>	20,670,000.00
Payments for purchase of land	<b>27,483,626.00</b>	
Less: The portion due within one year		
Total	<b>48,153,626.00</b>	28,736,250.06



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. Short-term loans****(1) Classification of short-term loans**

Item	30 June 2018	31 December 2017
Pledged loans		310,000,000.00
Loans secured by mortgages	<b>250,000,000.00</b>	
Guaranteed loans	<b>26,000,000.00</b>	56,000,000.00
Unsecured loans	<b>190,000,000.00</b>	40,000,000.00
Total	<b>466,000,000.00</b>	406,000,000.00

The interest rates for the above loans was 4.35%-6.84%.

**17. Bills payable and trade payables**

Item	30 June 2018	31 December 2017
Bills payable		19,492,581.98
Trade payables	<b>142,863,946.00</b>	101,385,124.99
Total	<b>142,863,946.00</b>	120,877,706.97

**(1) Bills payable**

Item	30 June 2018	31 December 2017
Bank acceptance bills		19,492,581.98
Total		19,492,581.98

**(2) Trade payables**

Item	30 June 2018	31 December 2017
Within 1 year (inclusive)	<b>122,070,323.60</b>	92,041,617.19
1-2 years (inclusive)	<b>19,194,101.90</b>	5,195,443.88
2-3 years (inclusive)	<b>1,522,619.00</b>	4,148,063.92
Over 3 years	<b>76,901.50</b>	
Total	<b>142,863,946.00</b>	101,385,124.99



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18. Advances from customers**

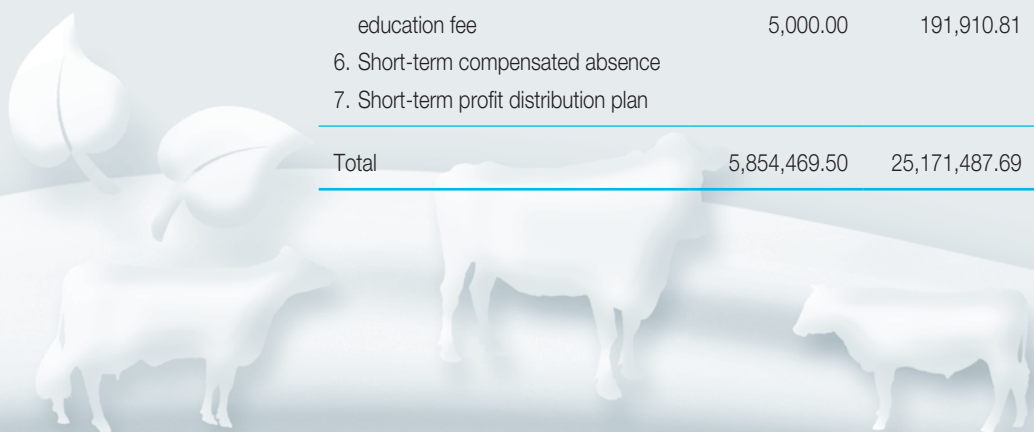
Item	30 June 2018	31 December 2017
Sales of goods	<b>6,417,398.68</b>	24,062,136.66
Total	<b>6,417,398.68</b>	24,062,136.66

**19. Employee benefits payable****(1) Employee benefits payable**

Item	31 December 2017	Accrued during the year	Decreased during the year	30 June 2018
I. Short-term employee benefits	5,854,469.50	25,171,487.69	27,833,996.71	<b>3,191,960.48</b>
II. Post-employment benefits-defined contribution plans	331,593.44	1,716,149.63	2,047,743.07	
III. Termination benefits				
IV. Other benefits due within one year				
Total	6,186,062.94	26,887,637.32	29,881,739.78	<b>3,191,960.48</b>

**(2) Short-term employee benefits**

Item	31 December 2017	Accrued during the year	Decreased during the year	30 June 2018
1. Salaries, bonuses, allowances	5,519,167.45	22,501,558.28	24,828,765.25	<b>3,191,960.48</b>
2. Staff welfare	50,000.00	982,913.66	1,032,913.66	
3. Social insurance	91,290.05	849,557.44	940,847.49	
Including: Medical insurance	91,077.46	644,813.13	735,890.59	
Work-related injury insurance	157.84	73,536.54	73,694.38	
Maternity insurance	54.75	131,207.77	131,262.52	
4. Housing fund	189,012.00	645,547.50	834,559.50	
5. Labour union fee, staff and workers' education fee	5,000.00	191,910.81	196,910.81	
6. Short-term compensated absence				
7. Short-term profit distribution plan				
Total	5,854,469.50	25,171,487.69	27,833,996.71	<b>3,191,960.48</b>



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****19. Employee benefits payable (Continued)****(3) Defined contribution plans**

Item	31 December 2017	Accrued during the year	Decreased during the year	30 June 2018
1. Basic pension insurance	319,352.89	1,643,907.72	1,963,260.61	
2. Unemployment insurance	12,240.55	72,241.91	84,482.46	
3. Enterprise annuity contribution				
Total	331,593.44	1,716,149.63	2,047,743.07	

**20. Taxes payable**

Item	30 June 2018	31 December 2017
VAT	<b>1,306,896.19</b>	1,479,858.94
Corporate income tax	<b>4,398,355.68</b>	6,922,182.62
Others	<b>314,456.10</b>	272,712.50
Total	<b>6,019,707.97</b>	8,674,754.06

**21. Other payables****(1) Details of other payables by nature are as follows:**

Item	30 June 2018	31 December 2017
Other payables	<b>25,440,193.85</b>	20,848,047.60
Including: Conditional government grants received but not yet recognized	<b>3,981,720.00</b>	3,981,720.00
Deposit from third party	<b>5,070,576.20</b>	7,958,721.42
Payables for advertising and promotion expenses		1,006,807.22
Payable for professional service	<b>970,122.80</b>	2,200,000.00
Others	<b>15,417,774.85</b>	5,700,798.96
Interests payable	<b>162,868.03</b>	403,694.71
Dividends payable	<b>13,675,820.00</b>	
Total	<b>39,278,881.88</b>	21,251,742.31

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****21. Other payables (Continued)****(2) Other significant payables with the ageing of over 1 year**

Item	30 June 2018	Reasons for outstanding or carrying forward
Unit 1	171,715.24	Union fund
Unit 2	150,000.00	Logistics deposit
Unit 3	150,000.00	Logistics deposit
Unit 4	103,794.87	Guarantee deposit
Unit 5	100,000.00	Logistics deposit
Total	675,510.11	

**(3) Interests payable**

Item	30 June 2018	31 December 2017
Interest payable for long-term loans with interest paid in installments and principal repaid on maturity	77,451.37	
Interests payable on short-term loans	269,833.34	
Total	347,284.71	

**(4) Dividends payable**

Item	30 June 2018	31 December 2017
Dividends payable on ordinary shares	13,675,820.00	
Total	13,675,820.00	

**22. Non-current liabilities due within 1 year**

Item	30 June 2018	31 December 2017
Long-term loans due within 1 year (Note VI. 23)	7,367,125.96	15,120,372.33
Long-term payables due within 1 year (Note VI. 24)	2,313,367.21	1,908,641.54
Deferred income due within 1 year	5,882,687.25	3,025,470.00
Total	15,563,180.42	20,054,483.87

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****23. Long-term loans**

Item	30 June 2018	31 December 2017
Loans secured by mortgages	<b>22,634,370.80</b>	9,000,000.00
Guaranteed loans	<b>7,000,000.00</b>	32,680,043.93
Unsecured loans		
Less: Long-term loans due within 1 year (Note VI. 22)	<b>7,367,125.96</b>	15,120,372.33
Total	<b>22,267,244.84</b>	26,559,671.60

The interest rate of the above loans is 4.35%-6.84%.

**24. Long-term payables**

Item	30 June 2018	31 December 2017
Obligations under finance leases	<b>2,313,367.21</b>	3,303,197.33
Less: The portion due within one year	<b>2,313,367.21</b>	1,908,641.54
Total	<b>0.00</b>	1,394,555.79

**25. Government grants****(1) Basic information on government grants recognised at the beginning of period**

Item	Amount	Related to assets		Related to income			Written down of costs	Received
		Deferred income	Written down of carrying amount of assets	Deferred income	Other income	Non-operating income		
Subsidies for foreign investment in development and construction of Yuzhong County	200,000.00	200,000.00						Yes
Subsidies for development projects of small and medium-sized technology-based enterprises	530,000.00				530,000.00			Yes
Subsidies for cozy house for female employees of the province	5,000.00					5,000.00		Yes
Subsidies for replacement of grain with feed in 2017	370,000.00				370,000.00			Yes
Subsidies from the Agriculture and Animal Husbandry Bureau for large-scale standard reconstruction of breeding industry	150,000.00	150,000.00						Yes
Subsidies for the third batch of projects of Gansu Province in 2015	10,000.00				10,000.00			Yes
Subsidies for the project of utilisation of straw as feed at the grassland station of the county	80,000.00				80,000.00			Yes
Total	1,345,000.00	350,000.00			990,000.00	5,000.00		-

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****25. Government grants (Continued)****(2) Government grants recognised as profit or loss for the year**

Item	Related to assets/ income	Recognised as other income	Recognised as non-operating income	Writing-down of costs
Subsidies for development projects of small and medium-sized technology-based enterprises	Related to income	530,000.00		
Subsidies for cozy house for female employees of the province	Related to income		5,000.00	
Subsidies for replacement of grain with feed in 2017	Related to income	370,000.00		
Subsidies for the third batch of projects of Gansu Province in 2015	Related to income	10,000.00		
Subsidies for the project of utilisation of straw as feed at the grassland station of the county	Related to income	80,000.00		
Interest subsidies for policy-related preferential loans	Related to income			450,000.00
Amortisation of dairy farming project	Related to assets	2,202,426.63		
Dairy product production project	Related to assets	260,583.30		
Biogas project	Related to assets	134,333.31		
Others	Related to assets	911,700.33		
<b>Total</b>	<b>-</b>	<b>4,499,043.57</b>	<b>5,000.00</b>	<b>450,000.00</b>

**26. Deferred income**

Item	31 December 2017	Increase in the year	Decrease in the year	31 June 2018
Government grants	44,016,861.67	350,000.00	3,509,043.57	<b>40,857,818.10</b>
Less: Deferred income amortised over one year	3,025,470.00			<b>5,882,687.25</b>
<b>Total</b>	<b>40,991,391.67</b>			<b>34,975,130.85</b>

Of which, projects involving government grants:

Item	31 December 2017	Increase in the year	Decrease in the year				30 June 2018	Related to assets/income
			Recognised as non-operating income	Recognised as other income	Writing-down of costs	Other decreases		
Dairy farming project	23,005,360.02	150,000.00		2,202,426.64		20,952,933.38	Related to assets	
Dairy product production project	8,837,499.98			260,583.30		8,576,916.68	Related to assets	
Biogas project	5,447,000.34			134,333.31		5,312,667.03	Related to assets	
Others	6,727,001.33	200,000.00		911,700.32		6,015,301.01	Related to assets	
<b>Total</b>	<b>44,016,861.67</b>	<b>350,000.00</b>		<b>3,509,043.57</b>		<b>40,857,818.10</b>		



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****27. Share capital**

Item	31 December 2017	Issue of new shares	Increase or decrease (+, -)			Subtotal	30 June 2018
			Bonus shares	Shares converted from reserves	Others		
Total number of shares	187,340,000.00						187,340,000.00
Total	187,340,000.00						187,340,000.00

**28. Capital reserves**

Item	31 December 2017	Increase in the year	Decrease in the year	30 June 2018
Capital premium	508,790,782.09			508,790,782.09
Total	508,790,782.09			508,790,782.09

**29. Surplus reserves**

Item	31 December 2017	Increase in the year	Decrease in the year	30 June 2018
Statutory surplus reserve	32,051,090.62	2,387,500.42		34,438,591.04
Total	32,051,090.62	2,387,500.42		34,438,591.04

Note: In accordance with the Company Law and the Articles of Association, the The Company accrued the surplus reserve by 10% of the net profit. When the accumulated statutory surplus reserve reaches over 50% of the registered capital of the Company, no statutory surplus reserve will be accrued.

After the appropriation of the statutory surplus reserve, the Company may appropriate the discretionary surplus reserve. When approved, the discretionary surplus reserve can be used to recover accumulated losses or increase the share capital.

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****30. Retained profit**

Item	30 June 2018	31 December 2017
Retained profit for the previous year before adjustment	<b>399,483,322.01</b>	345,404,214.95
Total amount of adjustment on opening balance of retained profit (increase+, decrease-)		
Retained profit Retained profit at the beginning of the year after adjustment	<b>399,483,322.01</b>	345,404,214.95
Add: Net profit attributable to shareholders of the Company for the year	<b>26,325,519.89</b>	68,351,885.17
Less: Appropriation to statutory surplus reserve	<b>2,387,500.42</b>	3,847,678.11
Appropriation to any surplus reserves		
Appropriation to provisions for general risk		
Dividends payable on ordinary shares	<b>13,675,820.00</b>	10,425,100.00
Dividends of ordinary shares capitalised		
Retained profit at the end of the year	<b>409,745,521.48</b>	399,483,322.01

It was resolved at the 2017 annual general meeting of the Company convened on 20 June 2018 to distribute dividends in cash at RMB0.73 (tax inclusive) per 10 shares to all shareholders with the profit available for distribution realized in 2017 and the total dividends distributed amounted to RMB13,675,820.00.

**31. Operating revenue and operating cost****(1) Operating revenue and operating cost**

Item	January to June 2018		January to June 2017	
	Income	Cost	Income	Cost
Principal activities	<b>300,399,252.64</b>	<b>188,773,389.08</b>	291,675,415.69	198,578,900.91
Other operating activities	<b>13,224,185.25</b>	<b>9,951,944.27</b>	19,448,290.52	13,728,478.43
Total	<b>313,623,437.89</b>	<b>198,725,333.35</b>	311,123,706.21	212,307,379.34

**(2) Breakdown of operating income from principal activities***① Breakdown by major operating regions*

By operating regions	Amount		Percentage in operating revenue, cost (%)	
	Income	Cost	Income	Cost
Gansu Province	234,511,185.74	136,998,587.77	74.77	68.98
Qinghai Province	54,011,778.11	41,385,295.23	17.23	20.80
Others	25,100,474.04	20,341,450.35	8.00	10.22
Total	313,623,437.89	198,725,333.35	100.00	100.00

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****31. Operating revenue and operating cost (Continued)****(2) Breakdown of operating income from principal activities (Continued)**

② Breakdown by major product types

By products	Amount		Percentage in operating revenue, cost (%)	
	Income	Cost	Income	Cost
Principal activities:				
UHT milk	77,007,761.27	59,520,011.83	24.55	29.95
Pasteurised milk	10,763,171.45	6,068,810.58	3.43	3.05
Modified milk	108,519,532.24	56,312,803.80	34.60	28.34
Yogurt	101,245,179.64	63,954,493.58	32.28	32.18
Milk beverages	599,760.54	565,297.67	0.19	0.28
Milk powder	1,487,065.29	1,981,057.38	0.47	1.00
Milk tea	776,782.21	455,066.94	0.26	0.23
Subtotal	300,399,252.64	188,857,541.78	95.78	95.03
Other activities:				
Sales of materials	1,152,227.33	1,090,906.88	0.37	0.55
Sales of feed	12,071,957.92	8,776,884.69	3.85	4.42
Subtotal	13,224,185.25	9,867,791.57	4.22	4.97
Total	313,623,437.89	198,725,333.35	100.00	100.00

**32. Taxes and surcharges**

Item	January to June 2018	January to June 2017
City maintenance and construction tax	<b>603,286.36</b>	747,621.46
Education surcharges and local education surcharges	<b>574,064.86</b>	802,614.89
Others	<b>957,495.87</b>	375,946.22
Total	<b>2,134,847.09</b>	1,926,182.57

Note: For details of basis of calculations for taxes and surcharges, please refer to note V. Taxation.

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)***33. Selling expenses**

Item	January – June 2018	January – June 2017
Staff cost	<b>8,677,606.71</b>	9,262,628.14
Freight and miscellaneous charges	<b>13,559,759.11</b>	9,665,226.52
Low cost and short-lived consumable items	<b>6,675,652.76</b>	4,150,916.88
Travel expenses	<b>1,533,838.57</b>	2,238,238.90
Promotional fees	<b>12,333,921.02</b>	4,919,232.25
Depreciation and amortisation	<b>1,157,675.13</b>	1,247,644.13
Others	<b>1,224,773.39</b>	1,985,083.17
Total	<b>45,163,226.69</b>	33,468,969.99

**34. General and administrative expenses**

Item	January – June 2018	January – June 2017
Staff cost	<b>9,589,896.51</b>	8,169,435.32
Maintenance fees	<b>7,148,860.78</b>	5,785,475.81
Professional service fees	<b>1,852,296.88</b>	5,093,526.27
Travel expenses	<b>326,295.75</b>	1,499,682.03
Depreciation and amortisation	<b>1,737,380.37</b>	1,648,668.52
Administrative expenses	<b>1,951,994.56</b>	1,888,703.74
Business entertainment	<b>233,463.37</b>	584,734.12
Others	<b>2,943,056.46</b>	2,004,443.27
Total	<b>25,783,244.68</b>	26,674,669.08



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****35. Financial expenses**

Item	January to June 2018	January to June 2017
Interest expenses from loans and payables	<b>9,353,796.48</b>	1,608,423.07
Including: Interest expenses	<b>9,803,796.48</b>	10,210,823.07
Interest subsidies for policy-related preferential loans	<b>-450,000.00</b>	-8,602,400.00
Less: Interest income	<b>1,495,339.94</b>	824,451.11
Less: Exchange gains	<b>78,069.00</b>	-448,476.60
Others	<b>619,396.89</b>	1,204,765.40
Total	<b>8,399,784.43</b>	2,437,213.96

**36. Impairment losses on credit**

Item	January to June 2018	January to June 2017
Loss on bad debts	<b>-32,327.84</b>	102,347.73
Total	<b>-32,327.84</b>	102,347.73

**37. Other income**

Item	January to June 2018	January to June 2017	Amount recognised as non-recurring gains or losses for the year
Government grants	<b>4,499,043.57</b>	7,063,915.72	4,499,043.57
Total	<b>4,499,043.57</b>	7,063,915.72	4,499,043.57



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****38. Gains from changes in fair value**

Source of gains from changes in fair value	January to June 2018	January to June 2017
1. Bearer biological assets		
Including: Loss arising from changes in fair value less costs to sell of bearer biological assets	<b>-8,800,161.77</b>	-6,894,343.78
Gain arising on initial recognition of agricultural produce at value less costs to sell at the point of harvest	<b>-98,248.09</b>	7,179,043.76
Total	<b>-8,898,409.86</b>	284,699.98

The bearer biological assets held by the Group, the dairy cows, are independently valued by the independent valuers at the balance sheet date. The changes in fair value are recognised in profit or loss.

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

**39. Gains from asset disposal**

Item	January to June 2018	January to June 2017	Amount recognised as non-recurring gains or losses for the year
Losses from disposal of fixed assets	<b>-3,326.75</b>		-3,326.75
Total	<b>-3,326.75</b>		-3,326.75

**40. Non-operating income**

Item	January to June 2018	January to June 2017	Amount recognised as non-recurring gains or losses for the year
Government grants irrelevant to daily activities of the Company	<b>5,000.00</b>		5,000.00
Disposal of cowpat	<b>296,840.00</b>		296,840.00
Others	<b>153,961.11</b>	353,616.13	153,961.11
Total	<b>455,801.11</b>	353,616.13	455,801.11

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****41. Non-operating expenses**

Item	January to June 2018	January to June 2017	Amount recognised as non-recurring gains or losses for the year
Loss on destroyed and damaged non-current assets	<b>427,717.82</b>	521,706.86	427,717.82
Penalties	<b>14,806.90</b>		14,806.90
Donations	<b>1,281,500.00</b>		1,281,500.00
Others	<b>53,226.18</b>	131,869.99	53,226.18
Total	<b>1,777,250.90</b>	653,576.85	1,777,250.90

**42. Income tax expenses****(1) Income tax expenses**

Item	January to June 2018	January to June 2017
Current income tax expenses	<b>2,745,591.44</b>	3,361,034.97
Deferred income tax expenses	<b>-1,345,924.67</b>	153,036.53
Total	<b>1,399,666.77</b>	3,514,071.50

**(2) Reconciliation between accounting profit and income tax expenses**

Item	January to June 2018
Total profit	<b>27,725,186.66</b>
Income tax expense calculated at statutory/the applicable tax rate	<b>4,158,778.00</b>
Effect of different tax rates applied by subsidiaries	<b>-1,295,769.01</b>
Effect of adjustment to income tax of previous periods	<b>70,322.88</b>
Effect of non-taxable income	<b>-1,492,958.25</b>
Effect of non-deductible costs, expenses and losses	<b>-40,706.85</b>
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	
Effect of deductible temporary difference or deductible losses of deferred tax assets not recognised at the end of the year	
Changes in balance of deferred tax assets/liabilities at the beginning of the year arising from adjustment to tax rate	
Income tax expenses	<b>1,399,666.77</b>

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)***43. Cash Flow Statement Item****(1) Proceeds from other operating activities**

Item	January – June 2018	January – June 2017
Repayment of loans by farmers and employees	<b>8,404,483.32</b>	5,933,007.18
Bank interests	<b>1,501,771.43</b>	558,423.04
Deposits	<b>2,323,000.00</b>	2,154,378.72
Others	<b>4,072,468.67</b>	4,976,802.78
Total	<b>16,301,723.42</b>	13,622,611.72

**(2) Payment for other operating activities**

Item	January – June 2018	January – June 2017
Administrative and travel fees	<b>3,118,834.59</b>	6,211,358.79
Maintenance fees	<b>7,148,860.78</b>	6,049,193.87
Freight and miscellaneous charges	<b>6,639,471.14</b>	9,665,226.52
Professional service fees	<b>2,566,235.65</b>	5,696,160.54
Advertising and promotion fees	<b>2,944,999.58</b>	6,002,534.89
Others	<b>10,788,860.91</b>	8,492,958.64
Total	<b>33,207,262.65</b>	42,117,433.25



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****44. Supplementary information on cash flow statement****(1) Supplementary information on cash flow statement**

Supplementary information	Amount for the year	Amount for the previous year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	<b>26,325,519.89</b>	37,741,527.02
Add: Provisions for impairment of assets	<b>-32,327.84</b>	102,347.73
Depreciation of fixed assets, oil and gas assets and bearer biological assets	<b>25,658,161.22</b>	22,218,032.55
Amortisation of intangible assets	<b>358,365.73</b>	404,180.68
Amortisation of government grants	<b>-3,509,043.57</b>	-6,036,619.03
Amortisation of long-term deferred expenses	<b>680,233.94</b>	493,616.55
Losses from disposal of fixed assets, intangible assets and other long-term assets (gain is indicated by “-”)	<b>3,326.75</b>	521,706.86
Loss on retirement of fixed assets (gain is indicated by “-”)	<b>427,717.82</b>	
Losses from changes in fair value (gain is indicated by “-”)	<b>8,898,409.86</b>	6,894,343.78
Financial expenses (gain is indicated by “-”)	<b>7,858,456.54</b>	9,834,848.56
Investments losses (gain is indicated by “-”)		
Decrease in deferred tax assets (increase is indicated by “-”)	<b>-1,345,924.67</b>	153,036.53
Increase in deferred income tax liabilities (decrease is indicated by “-”)		
Decrease in inventories (increase is indicated by “-”)	<b>21,244,564.82</b>	20,488,682.93
Decrease in trade receivables (increase is indicated by “-”)	<b>-4,120,644.10</b>	-3,572,846.24
Increase in trade payables (decrease is indicated by “-”)	<b>-16,730,254.49</b>	-6,864,607.97
Others		
Net cash inflow from operating activities	<b>65,716,561.90</b>	82,378,249.95
<b>2. Significant investing and financing activities not requiring the use of cash:</b>		
Liabilities converted into capital		
Convertible corporate bonds due within one year		
Acquisition of fixed assets under finance leases		
<b>3. Net changes in cash and cash equivalents:</b>		
Balance of cash at the end of the year	<b>737,754,768.87</b>	747,642,372.75
Less: Balance of cash at the beginning of the year	<b>747,642,372.75</b>	277,352,017.83
Add: Balance of cash equivalents at the end of the year		
Less: Balance of cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	<b>-9,887,603.88</b>	470,290,354.92

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****44. Supplementary information on cash flow statement (Continued)****(2) Details of cash and cash equivalents**

Item	30 June 2018	31 December 2017
<b>I. Cash</b>	<b>737,754,768.87</b>	736,896,081.76
Including: Cash on hand	<b>24,452.78</b>	11,463.37
Bank deposits available on demand	<b>737,730,316.09</b>	736,884,618.39
Other cash at bank and on hand available for payment		
Deposits with the central bank available for payment		
<b>II. Cash equivalents</b>		
Including: Bond investment due within three months		
<b>III. Closing balance of cash and cash equivalents</b>	<b>737,754,768.87</b>	736,896,081.76
Including: Cash and cash equivalents the use of which by the parent or subsidiaries of the Company is restricted		10,746,290.99

**45. Assets with restricted ownership or use right**

Item	Carrying amount at the end of the year	Reasons for restriction
Fixed assets	303,402,770.74	Mortgage of short-term loans
Intangible assets	4,226,151.20	Mortgage of short-term loans
<b>Total</b>	<b>307,628,921.94</b>	





**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**VII. CHANGE IN THE SCOPE OF CONSOLIDATION**

During the period, the Company invested in establishment of Gansu Ruijia Farming Co., Ltd. which is held as to 100.00% by the Company and is thus included in the scope of consolidation.

**VIII. INTERESTS IN OTHER ENTITIES****1. Interests in subsidiaries****(1) Composition of the Company**

Name of the subsidiary	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%)		Acquisition method
				Direct	Indirect	
Qinghai Qinghaihu Dairy Co., Ltd.	Xining, Qinghai	Xining, Qinghai	Dairy products production	100.00		Investment in establishment
Qinghai Shengyuan Plateau Pasture Co., Ltd.	Huangyuan County, Xining, Qinghai	Huangyuan County, Xining, Qinghai	Dairy farming	100.00		Investment in establishment
Qinghai Shengya Plateau Pasture Co., Ltd.	Huangzhong County, Xining, Qinghai	Huangzhong County, Xining, Qinghai	Dairy farming	100.00		Investment in establishment
Yuzhong Ruifeng Pasture Co., Ltd.	Yuzhong County, Lanzhou, Gansu	Yuzhong County, Lanzhou, Gansu	Dairy farming	100.00		Investment in establishment
Linxia County Ruiyuan Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu	Linxia County, Linxia Prefecture, Gansu	Dairy farming	100.00		Investment in establishment
Linxia County Ruian Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu	Linxia County, Linxia Prefecture, Gansu	Dairy farming	100.00		Investment in establishment
Wuwei Ruida Pasture Co., Ltd.	Wuwei County, Gansu	Wuwei County, Gansu	Dairy farming	100.00		Investment in establishment
Ningxia Zhuangyuan Pasture Co., Ltd.	Wuzhong, Ningxia Hui Autonomous Region	Wuzhong, Ningxia Hui Autonomous Region	Dairy farming	100.00		Investment in establishment
Lanzhou Ruixing Farming Co., Ltd.	Yongdeng County, Lanzhou, Gansu	Yongdeng County, Lanzhou, Gansu	Dairy farming	100.00		Investment in establishment
Gansu Ruijia Farming Co., Ltd.	Jinchang, Gansu	Jinchang, Gansu	Dairy farming	100.00		Investment in establishment

## Notes to the Financial Statements (continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

### IX. FAIR VALUE DISCLOSURE

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Company's assets and liabilities which are measured at fair value at each balance sheet date on a recurring or non-recurring basis. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities;

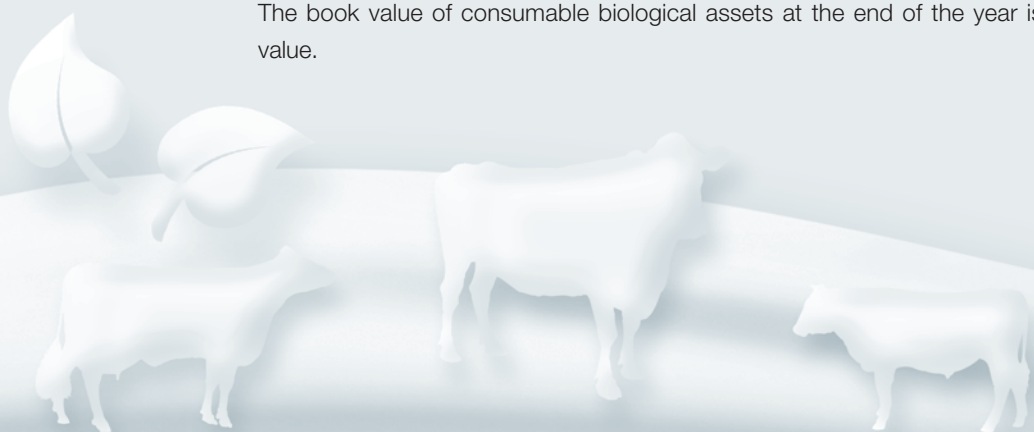
Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

#### 1. Fair value of assets and liabilities measured at fair value at the end of the year

Item	30 June 2018			Total
	Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
Fair value measurement on a recurring basis			188,366,654.95	188,366,654.95
Bearer biological assets			188,366,654.95	188,366,654.95

Item	31 December 2017			Total
	Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
Fair value measurement on a recurring basis			175,815,804.71	175,815,804.71
Bearer biological assets			175,815,804.71	175,815,804.71

The book value of consumable biological assets at the end of the year is immaterial and close to the fair value.



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**IX. FAIR VALUE DISCLOSURE (Continued)****2. Valuation techniques used and the qualitative and quantitative information of key parameters for bearer biological assets**

The quantitative fair value information at Level 3 is as follows:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers	The fair value of 14 months old heifers is determined by referring to the market price of the actively traded market.	Average market price of the local heifers of 14 months old: RMB18,800 for the year ended 31 December 2018 (2017: RMB18,800). Average market price of the imported heifers of 14 months old: RMB20,800 for the year ended 31 December 2018 (2017: RMB20,800).	The estimated fair value increases when the market price increases.
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.	<p>For the quantity of the milkable cows, assuming the number of the existing milkable cows as of the end of relevant period will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or finish of all lactation periods. Estimated overall culling rate for the year is ranged from over 5.0% up to 100% along with the increase of the number of the lactation periods (2016: 4.7% to 100%).</p> <p>A milkable cow could have as many as five to six lactation periods. Estimated average raw milk production volume per head for one lactation period is ranged from 5.2 tonnes to 10.9 tonnes depending on the number of the lactation periods and the individual physical condition (2017: 6.0 tonnes to 10.8 tonnes).</p> <p>Estimated future raw milk local market prices per tonne for the year: RMB3,967 (2017: RMB3,921).</p> <p>Discount rate is 10.03% for the year (2017: 12.4%) calculated by using the Capital Asset Pricing Model.</p>	<p>The estimated fair value decreases when the estimated culling rates increase.</p> <p>The estimated fair value increases when the estimated raw milk production volume increases.</p> <p>The estimated fair value increases when the estimated future raw milk local market price increases.</p> <p>The estimated fair value decreases when discount rate increases.</p>

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS****1. Information about the parent of the Company**

The Group has no parent company and the ultimate controller is a natural person Mr. Ma Hongfu.

**2. Information about the subsidiaries of the Company**

See Note VIII. 1. Interests in subsidiaries for details.

**3. Information about other related parties of the Company**

Name of entity	Relationship with the Company
Linxia Ruihua Pasture Co., Ltd.	Company joint controlled by the spouse of the controlling shareholder Mr. Ma Hongfu's family member
Hu Keliang	Shareholder holding more than 5% of the Company's equity during 2016
Xi'an Dongfang Dairy Co., Ltd.	Associate of the Company and company controlled by Hu Keliang
Shaanxi Duoxian Farming Co., Ltd.	Wholly-owned subsidiary of the associate of the Company and of company controlled by Hu Keliang

**4. Related Party Transactions****(1) Related Guarantee**

None

**(2) Remuneration of key management personnel**

Item	January to June 2018	January to June 2017
Remuneration of key management personnel	<b>1,463,726.77</b>	1,288,389.20



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (Continued)**4. Related Party Transactions** (Continued)**(3) Remuneration of Directors and Supervisors**

Category	January to June 2018				Total
	Directors' and Supervisors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefits	
Executive Directors					
Ma Hongfu		180,000.00			180,000.00
Wang Guofu		180,000.00			180,000.00
Chen Yuhai		180,000.00			180,000.00
Yan Bin		60,000.00			60,000.00
Zhang Qianyu		60,000.00			60,000.00
Non-Executive Directors					
Yap Kean Chong					-
Song Xiaopeng					-
Independent Non-Executive Directors					
Liu Zhijun	12,498.00				12,498.00
Xin Shihua	4,998.00				4,998.00
Wong Cho Hang Stanley	50,604.00				50,604.00
Zhao Xinming	7,500.00				7,500.00
Supervisors					
Wei Lin	12,498.00				12,498.00
Du Wei	76,212.90				76,212.90
Pan Jin					
Sun Chuang					
<b>Total</b>	<b>164,310.90</b>	<b>600,000.00</b>			<b>824,310.90</b>



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XI. COMMITMENTS AND CONTINGENCIES****Significant commitments****(1) Capital commitments**

Item	30 June 2018	31 December 2017
Contracted for but not recognised in the financial statements	<b>51,069,231.10</b>	30,479,999.95
<b>Total</b>	<b>51,069,231.10</b>	30,479,999.95

**XII. EVENTS SUBSEQUENT TO BALANCE SHEET DATE****Acquisition of Equity Interests**

As approved at the sixth meeting of the third session of the Board of the Company convened on 26 July 2018, the Company proposed to acquire the 82% equity interests in Dongfang Dairy from Hu Keliang, Li Ya'nan, Ding Jianping, Zhang Chenbin and Beijing Ruili Caifu Investment Partnership Enterprise (Limited Partnership) (北京睿理财富投资合夥企业(有限合伙)), all being equity interest holders of Dongfang Dairy, by payment of cash at an aggregate consideration of RMB249,000,000. Upon completion of the transaction, the Company will hold an aggregate of 100% equity interest in Dongfang Dairy and Dongfang Dairy will become a wholly-owned subsidiary of the Company. The transaction is still subject to consideration at the general meeting of the Company.

**XIII. OTHER SIGNIFICANT EVENTS****Segment reporting**

Considering the framework of internal organization, requirements of management and the system of internal reporting, the Company has presented two reportable segments, which are Dairy Farming and Dairy Products Production. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and market strategies. The financial statement of the different segments is regularly reviewed by the Company's management to make decisions about resources to be allocated to each segment and assess its performance.

Segment	Principal activities
Dairy farming	Breeding dairy cows to produce and sell raw milk
Dairy products production	Producing and selling Pasteurized milk, Ultra High Temperature milk, Modified milk, Yogurt and Other Dairy products



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XIII. OTHER SIGNIFICANT EVENTS (Continued)****Segment reporting (Continued)****(1) Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Company's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other non-current and current assets, such as receivable, with the exception of deferred tax assets and other unallocated corporate assets (if any). Segment liabilities include current and non-current liabilities, such as payables, bank borrowings attributable to the individual segments, but exclude deferred tax liabilities (if any).

Financial performance is operating income (including operating income from external customers and inter-segment operating income) after deducting operating costs, taxes and surcharges, selling and distribution expenses, general and administrative expenses, financial expenses and non-operating income and expenses attributable to the individual segments but exclude unallocated corporate expenses (if any). Transfer pricing of income among reportable segments is in accordance with the similar terms of transaction with external parties.

Information regarding the Company's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

Item	Dairy farming		Dairy products production		Elimination among segments		Total	
	January to June 2018	January to June 2017	January to June 2018	January to June 2017	January to June 2018	January to June 2017	January to June 2018	January to June 2017
Operating income from external customers	13,224,185.25	23,991,060.53	300,399,252.64	287,132,645.68			313,623,437.89	311,123,706.21
Inter-segment operating income	81,108,623.99	75,777,806.17			-81,108,623.99	-75,777,806.17		
Depreciation and amortisation	10,840,842.59	7,827,435.75	11,089,611.08	15,288,394.03			21,930,453.67	23,115,829.78
Interest income	1,338,458.87	397,940.10	156,881.07	426,511.01			1,495,339.94	824,451.11
Interest expenses		-	9,353,796.48	1,608,423.07			9,353,796.48	1,608,423.07
Total profit/(loss)	8,045,070.50	13,722,657.68	19,680,116.17	27,532,940.84			27,725,186.67	41,255,598.52
Income tax expenses		-	1,399,666.78	3,514,071.50			1,399,666.78	3,514,071.50
Net profit/(loss)	7,917,915.59	13,722,657.68	18,407,604.30	24,018,869.34			26,325,519.89	37,741,527.02
Total assets	749,279,778.91	692,656,596.68	1,596,063,958.22	1,218,817,153.36	-468,451,391.24	-474,677,352.72	1,876,892,345.89	1,436,796,397.32
Total liabilities	524,489,627.01	499,551,381.79	680,539,215.39	624,371,231.68	-468,451,391.24	-474,677,352.72	736,577,451.16	649,245,260.75
Other items							-	-
Additions on non-current assets	103,237,894.34	5,000,898.98		5,532,930.18			103,237,894.34	10,533,829.16

**(2) Major customers**

In January to June 2018 and 2017, there was no case in which revenue to a single customer exceeded 10% of the total revenue of the Group.

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS****1. Bills receivable and trade receivables**

Item	30 June 2018	31 December 2017
Trade receivables	<b>18,344,852.62</b>	17,719,619.46
Total	<b>18,344,852.62</b>	17,719,619.46

**Trade receivables**① *Accounts receivable by category*

Category	30 June 2018				
	Book value		Provision for bad and doubtful debts		Book value
	Amount	Percentage (%)	Amount	Percentage (%)	
Individually significant and assessed for impairment individually					
Collectively assessed for impairment based on credit risk characteristics	<b>18,408,361.42</b>	<b>100.00</b>	<b>63,508.80</b>	<b>0.34</b>	<b>18,344,852.62</b>
Individually insignificant but assessed for impairment individually					
Total	<b>18,408,361.42</b>	<b>100.00</b>	<b>63,508.80</b>	<b>0.34</b>	<b>18,344,852.62</b>

Category	31 December 2017				
	Book value		Provision for bad and doubtful debts		Book value
	Amount	Percentage (%)	Amount	Percentage (%)	
Individually significant and assessed for impairment individually					
Collectively assessed for impairment based on credit risk characteristics	17,810,134.19	100.00	90,514.73	0.51	17,719,619.46
Individually insignificant but assessed for impairment individually					
Total	17,810,134.19	100.00	90,514.73	0.51	17,719,619.46



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)****1. Bills receivable and trade receivables (Continued)****Trade receivables (Continued)**

② Trade receivables for which the credit risks is assessed by ageing group and provision for bad and doubtful debts is made in the portfolio

Ageing	30 June 2018		Provision percentage (%)
	Trade receivables	Provision for bad and doubtful debts	
Within 1 year			
Including: Within 6 months	<b>14,428,102.70</b>		
7-12 months	<b>1,270,175.97</b>		
Subtotal of within 1 year	<b>15,698,278.67</b>	<b>63,508.80</b>	<b>5.00</b>
1 to 2 years			
2 to 3 years			
Over 3 years	<b>2,710,082.75</b>		
<b>Total</b>	<b>18,408,361.42</b>	<b>63,508.80</b>	

③ Additions, recoveries or reversals of provision for bad and doubtful debts during the year:  
The provision for bad and doubtful debts made in the year amounted to RMB – 27,005.93.

④ Five largest accounts receivable by debtor at the end of the year:

Debtor	Nature of receivables	30 June 2018	Provision for bad and doubtful debts	
			Ageing	Percentage of total receivables (%)
Customer 1	Payment for goods	<b>3,256,893.83</b>	1-6 months	17.69
Customer 2	Payment for goods	<b>2,461,603.92</b>	1-6 months, 7-12 months	13.37
Customer 3	Payment for goods	<b>2,398,229.91</b>	1-6 months	13.03
Customer 4	Payment for goods	<b>2,391,613.62</b>	1-6 months	12.99
Customer 5	Payment for goods	<b>940,698.23</b>	1-6 months	5.11
<b>Total</b>		<b>11,449,039.51</b>		62.19
				20,612.38

The sum of five largest accounts receivable by debtor at the end of the year amounted to RMB11,449,039.51, representing 62.41% of the total balance of trade receivables at the end of the year, and the balance of provision for bad and doubtful debts made accordingly as at the end of the year amounted to RMB20,612.38.

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

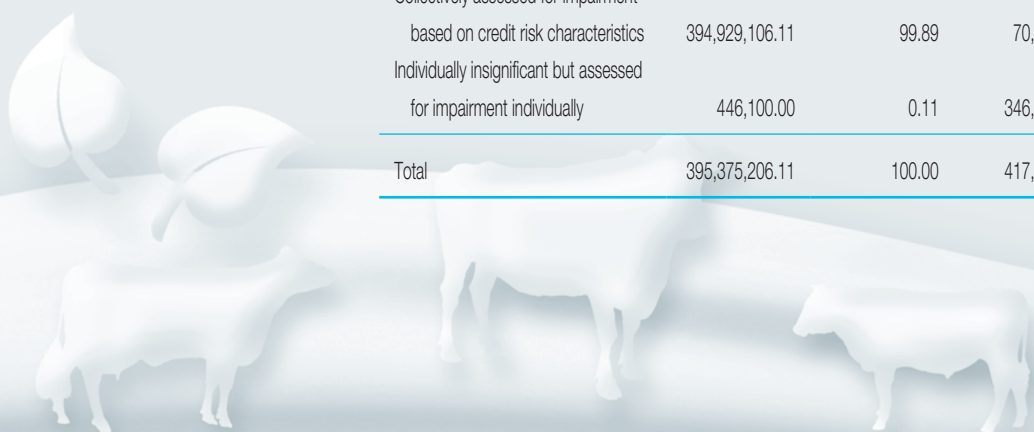
**XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)****2. Other receivables**

Item	30 June 2018	31 December 2017
Other receivables	<b>427,691,594.45</b>	394,958,085.86
Total	<b>427,691,594.45</b>	394,958,085.86

**(1) Other receivables***① Other receivables by category*

Category	30 June 2018				
	Book value		Provision for bad and doubtful debts		Carrying amount
	Amount	Percentage (%)	Amount	Provision percentage (%)	
Individually significant and assessed for impairment individually					
Collectively assessed for impairment based on credit risk characteristics	427,797,128.62	99.91	105,534.17	0.02	427,691,594.45
Individually insignificant but assessed for impairment individually	380,000.00	0.09	380,000.00	100.00	
Total	428,177,128.62	100.00	485,534.17	0.11	427,691,594.45

Category	31 December 2017				
	Book value		Provision for bad and doubtful debts		Carrying amount
	Amount	Percentage (%)	Amount	Provision percentage (%)	
Individually significant and assessed for impairment individually					
Collectively assessed for impairment based on credit risk characteristics	394,929,106.11	99.89	70,325.25	0.02	394,858,780.86
Individually insignificant but assessed for impairment individually	446,100.00	0.11	346,795.00	77.74	99,305.00
Total	395,375,206.11	100.00	417,120.25	0.11	394,958,085.86





**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)****2. Other receivables (Continued)****(1) Other receivables (Continued)**

- ② Other receivables for which the credit risks is assessed by ageing group and provision for bad and doubtful debts is made in the portfolio

Ageing	30 June 2018		
	Trade receivables	Provision for bad and doubtful debts	Provision percentage (%)
Within 1 year			
Including: Within 6 months	<b>1,969,312.63</b>		
7-12 months			
Subtotal of within 1 year	<b>1,969,312.63</b>		
1 to 2 years	<b>65,235.51</b>	<b>13,047.10</b>	<b>20.00</b>
2 to 3 years	<b>81,074.14</b>	<b>40,537.07</b>	<b>50.00</b>
Over 3 years	<b>51,950.00</b>	<b>51,950.00</b>	<b>100.00</b>
Total	<b>2,167,572.28</b>	<b>105,534.17</b>	

- ③ Additions, recoveries or reversals of provision for bad and doubtful debts for other receivables during the year:

The provision for bad and doubtful debts made in the year amounted to RMB68,413.93.

- ④ Other receivables categorised by nature

Nature of receivables	Book value at the end of the year	Book value at the beginning of the year
Other receivables due from subsidiaries	425,629,556.34	391,809,816.88
Advances to staff	1,064,830.76	794,835.99
Deposits receivable due from third parties	958,452.00	732,235.00
Others	524,289.52	2,038,318.23
Less: Provision for bad and doubtful debts	485,534.17	417,120.24
Total	427,691,594.45	394,958,085.86

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)****2. Other receivables (Continued)****(1) Other receivables (Continued)**

⑤ Five largest other receivables by debtor at the year end:

Debtor	Nature of receivables	30 June 2018	Ageing	Percentage of total other receivables (%)	Provision for bad and doubtful debts at year-end
Ruiyuan Pasture	Advance to subsidiary	93,006,140.18	Within 2 years	21.72	
Qinghai Shengya Pasture	Advance to subsidiary	82,802,757.96	Within 3 years	19.34	
Ruixing Pasture	Advance to subsidiary	77,640,986.69	Within 2 years	18.13	
Ruifeng Pasture	Advance to subsidiary	64,084,961.65	Within 2 years	14.97	
Qinghai Shengyuan Pasture	Advance to subsidiary	37,335,149.61	Within 2 years	8.72	
Total		354,869,996.09		82.88	

**3. Long-term equity investment****(1) Long-term equity investment by category**

Item	30 June 2018			31 December 2017		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Investments in subsidiaries	234,013,711.60		234,013,711.60	233,013,711.60		233,013,711.60
Total	234,013,711.60		234,013,711.60	233,013,711.60		233,013,711.60



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)****3. Long-term equity investment (Continued)****(2) Investments in subsidiaries**

Subsidiary	31 December 2017	Increase in the year	Decrease in the year	30 June 2018	Provision for impairment in the year	Balance of provision for impairment at the end of the year
Qinghai Qinghaihu Dairy Co., Ltd.	53,013,711.60			53,013,711.60		
Qinghai Shengya Plateau Pasture Co., Ltd.	30,000,000.00			30,000,000.00		
Qinghai Shengyuan Plateau Pasture Co., Ltd.	30,000,000.00			30,000,000.00		
Linxia County Ruiyuan Pasture Co., Ltd.	30,000,000.00			30,000,000.00		
Yuzhong Ruifeng Pasture Co., Ltd.	20,000,000.00			20,000,000.00		
Linxia County Ruian Pasture Co., Ltd.	20,000,000.00			20,000,000.00		
Wuwei Ruida Pasture Co., Ltd.	20,000,000.00			20,000,000.00		
Ningxia Zhuangyuan Pasture Co., Ltd.	20,000,000.00			20,000,000.00		
Lanzhou Ruixing Farming Co., Ltd.	10,000,000.00			10,000,000.00		
Gansu Ruijia Farming Co., Ltd.		1,000,000.00		1,000,000.00		
<b>Total</b>	<b>233,013,711.60</b>	<b>1,000,000.00</b>		<b>234,013,711.60</b>		

**4. Operating revenue and operating cost****(1) Operating revenue and operating cost**

Item	January to June 2018		January to June 2017	
	Income	Costs	Income	Costs
Principal activities	<b>236,733,989.73</b>	<b>157,494,191.58</b>	211,871,629.82	147,338,101.31
Other activities	<b>1,048,173.70</b>	<b>666,313.51</b>	1,516,266.00	313,040.08
<b>Total</b>	<b>237,782,163.43</b>	<b>158,160,505.09</b>	213,387,895.82	147,651,141.39

**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)****4. Operating revenue and Operating cost (Continued)****(2) Breakdown of operating income from principal activities***Breakdown by major operating regions*

By products	Amount		Percentage in operating revenue, cost (%)	
	Income	Costs	Income	Costs
Principal activities:				
UHT milk	42,056,603.33	33,956,265.04	17.69	21.47
Pasteurised milk	10,763,171.45	6,659,396.92	4.53	4.21
Modified milk	111,225,928.56	65,302,621.28	46.78	41.29
Yogurt	71,140,569.73	49,293,894.61	29.92	31.17
Milk beverages	270,485.09	212,230.13	0.11	0.13
Milk powder	1,251,630.44	2,039,655.96	0.52	1.29
Milk tea	25,601.13	30,127.64	0.01	0.02
Subtotal	236,733,989.73	157,494,191.58	99.56	99.58
Other activities:				
Materials and others	1,048,173.70	666,313.51	0.44	0.42
Subtotal	1,048,173.70	666,313.51	0.44	0.42
Total	237,782,163.43	158,160,505.09	100.00	100.00



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XV. SUPPLEMENTARY INFORMATION****1. Extraordinary Gains and Losses for the Year**

Item	Amount	Explanation
Gains or losses from the disposal of non-current assets	-3,326.75	
Ultra vires or without official approval documents, or incidental tax rebate or relief		
Government grants included in the profit or loss for the period, save for those government grants closely associated to the normal operation of the Group, complying with the policies and regulations of China, being entitled at a certain standard amount or certain level	4,954,043.57	Mainly government grants obtained by the Company
Funds utilisation fees collected from non-financial enterprises included in the profit or loss for the period		
The gain from the excess of the fair value of identifiable net assets attributable to the investee at acquisition over the investment costs of the Group for its subsidiaries, associates and joint ventures		
Gains or losses from the exchange of non-monetary assets		
Gains or losses from investments on trust or asset management		
Provision for impairment as a result of force majeure factors, such as natural disasters		
Gains or losses from debt restructuring		
Corporate reorganisation expenses, such as expenditures for staff dormitory, and business combination expenses		
Gains or losses from transaction with transaction price not at fair value over the part at fair value		
Net gains or losses of subsidiaries for the period arising from business combination under common control from the beginning of the year to the date of combination		
Gains or losses arising from contingent matters not related to the normal operation of the Company		
Investment income derived from the holding of financial assets held for trading, gains or losses arising from changes in fair value of financial liabilities held for trading and disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets (excluding the hedging activities of the normal operation of the Company)		
Reversal of provision for impairment of receivables that are individually tested for impairment		
Gains or losses from external entrusted loans		
Gains or losses from changes in fair value of investment properties subsequently measured under the fair value model		
Effect of one-off adjustment made according to the laws and regulations regarding taxation and accounting to profit or loss for the period		
Custodian fee income from entrusted operation		
Other non-operating income and expenditures apart from the above	-1,326,449.79	Mainly gains or losses arising from disposal of wastes or donations by the Company
Items of gains or losses meeting the definition of extraordinary gains or losses		
Sub-total	3,624,267.03	
Effect of income tax	159,390.03	
Effect of non-controlling interests (after tax)		
<b>Total</b>	<b>3,464,877.00</b>	

Note: Figure with “+” in the items of extraordinary gains or losses represents revenue and income, while figure with “-” represents loss or expense.

Items of extraordinary gains or losses are recognized by the Company in accordance with “Notice on Explanation of Information Disclosure of Companies Publicly Issuing Securities No. 1 – Extraordinary Gains or Losses” (CSRC Notice [2008] No. 43).



**Notes to the Financial Statements (continued)**

(Expressed in Renminbi Yuan unless otherwise indicated)

**XV. SUPPLEMENTARY INFORMATION** *(Continued)***2. Return on Net Assets and Earnings per Share**

Profit for the reporting period	Reporting period	Weighted average return on net assets (%)	Earnings per share (RMB/share)	
			Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	January to June 2018	2.31	0.14	0.14
	January to June 2017	4.85	0.27	0.27
Net profit excluding extraordinary gain and loss attributable to the Company's ordinary equity shareholders	January to June 2018	2.00	0.12	0.12
	January to June 2017	3.06	0.17	0.17

