中地乳业
ZhongDi Dairy

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

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

Stock code: 1492

2018
ANNUAL REPORT

Corporate Profile

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

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

SENIOR MANAGEMENT

Mr. Song Naishe
Ms. He Shan
Ms. Zhang Xin

STOCK CODE

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

INVESTOR RELATIONS CONTACT

Ms. Zhang Xin
20/F, 238 Des Voeux Road Central,
Hong Kong
Email: ir@zhongdidairy.hk
Website: www.zhongdidairy.hk

PLACE OF BUSINESS IN HONG KONG

20/F, 238 Des Voeux Road Central,
Hong Kong

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

10th Floor
Block A, Times Fortune Compound
No. A6, Shuguang Xili
Chaoyang District
Beijing
the PRC

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall, Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISER

Paul Hastings
21-22/F, Bank of China Tower
1 Garden Road
Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jianshe
Ms. Zhang Xin

AUDITORS

Ernst & Young
22/F, CITIC Tower, 1 Tim Mei Avenue
Central
Hong Kong

COMPANY SECRETARY

Ms. Zhang Xin

COMPANY'S WEBSITE

www.zhongdidairy.hk

ANNUAL RESULTS HIGHLIGHTS

Annual Results Highlights

FINANCIAL HIGHLIGHTS

Results

	For the year ended 31 December									
	2018		2017		2016		2015		2014	
	Results before biological fair value adjustments RMB'000	**Results after biological fair value adjustments RMB'000**	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000
Revenue	**1,424,986**	**1,424,986**	1,134,282	1,134,282	961,934	961,934	483,058	483,058	721,555	721,555
Gross profit margin	**35%**	**4%**	35%	4%	34%	2%	39%	3%	26%	2%
Profit for the year attributable to owners of the parent	**256,312**	**63,190**	193,569	13,377	227,982	112,800	79,289	98,139	101,470	148,348
Basic and diluted earnings per share (RMB cents)	**–**	**2.9**	–	0.6	–	5.2	–	5.4	–	10.5

	For the year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	**4,833,304**	4,413,850	4,167,366	3,211,145	2,258,504
Total liabilities	**2,731,341**	2,375,077	2,141,970	1,300,020	804,891
Total equity	**2,101,963**	2,038,773	2,025,396	1,911,125	1,453,613
Of which: Total equity attributable to owners of the parent	**2,101,963**	2,038,773	2,025,396	1,911,125	1,448,713

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear Shareholders,

On behalf of the Board (the "Board") of Directors (the "Directors" and, each a "Director") of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (the "Group" or "ZhongDi"), I am pleased to present the audited consolidated annual results of the Group for the year ended 31 December 2018 (the "Reporting Period") to all shareholders of the Company (the "Shareholders").

BUSINESS REVIEW

Dairy farming business and import trading business are the two major business lines of the Group. Dairy farming business includes the production and sales of premium raw milk and the feeding, breeding and sales of dairy cows, etc. Import trading business mainly includes the import and sales of quality dairy cows and stud livestock as well as import trading business in alfalfa hay and other animal husbandry related products.

All farms operated by the Group are located at a latitude of about 40 degrees north within the temperate zone of China. The Group's dairy cows are of the Holstein breed, known for their highest milk yield. The ideal geographical locations, climate and environment of the farms, the excellent genetic characteristics of dairy herds and outstanding breeding technology, the modern farming method and milking system, and the comprehensive and strict disease control system have all contributed to the production of stable premium raw milk. The proximity of our farms to the raw milk processing plants of leading dairy companies in China helps reduce the risks of the dairy farm operation business and facilitates the stable development of the Group.

In view of the complicated and changing macroeconomic landscape in 2018, the raw milk production industry was adversely impacted by factors including continuous low sales price of fresh milk, the increasing cost of feeds for dairy cows resulting from the trade war and tightened environmental protection requirements. Aiming to "establishing sustainable ecological dairy farms", the Group refined its management to improve quality and efficiency, and worked very hard while focusing efforts on management. Under the leadership of the management team and through the joint efforts of our staff, the Company achieved satisfactory results for the year ended 31 December 2018, recording a total income of RMB1,425.0 million and a profit of RMB63.2 million, representing a year-on-year increase of 25.6% and 371.6% respectively. The Company successively obtained the titles of "Advanced Enterprise of Animal Husbandry in China" awarded by the Animal Husbandry Association of China and "Backbone Enterprise in the Dairy Industry" awarded by the Dairy Association of China, and became the sole raw milk producer selected as a member of the second D20 Enterprise Alliance of China's Dairy Industry.

Dairy farming remained as the pillar business of the Group. As at 31 December 2018, the Group owned eight modern dairy farms in operation in seven provinces, cities, and autonomous regions within the golden belt of milk sources in China, feeding a total of 64,708 Holstein calves, heifers and milkable dairy cows, representing a year-on-year increase of 0.8%. Total sales of raw milk in 2018 reached 354,141 tonnes, representing an increase of 27.2% as compared to 278,406 tonnes in 2017. In 2018, income generated from the dairy farming business amounted to RMB1,335.8 million, accounting for 93.7% of the Group's total revenue and representing an increase of 29.3% as compared to RMB1,033.3 million in 2017, the soaring increase of which was mainly due to an increase in the sales

Chairman's Statement

volume of raw milk brought by increasing yield of dairy cows and strengthened marketing efforts. In 2018, revenue generated from our import and export trading business, being one of the Group's major business lines, amounted to RMB89.1 million and accounted for approximately 6.3% of the Group's total revenue, representing a slight decrease of 11.8% as compared to RMB101.0 million in 2017, mainly attributable to a decrease in the business of imported cows.

PROSPECTS

After in-depth adjustments in the past few years, the raw milk market in China sees a gradual rebalancing of supply and demand, leading to a potential recovery of the upstream dairy farming industry.

In 2018, the government issued a number of policies and guiding opinions to strengthen policy support and promote the invigoration of the dairy industry. As China's leading dairy farming enterprise in terms of premium raw milk production, the Group will continue to strengthen farm management and improve the efficiency of our farms through "higher standards, stricter requirements, stronger enforcement and higher productivity". Meanwhile, taking into account of its own business characteristics and riding on the trends of policy, industrial and market changes, the Group will extend its industry chain by tapping into downstream dairy product processing business to explore diversified business development and improve the value of our industry chain, while fully leveraging its unique competitive advantages to consolidate its strength in its traditional industry, thus enhancing the efficiency of the Group and fortifying its competitive edge in the market.

SUSTAINABLE DEVELOPMENT

Sustainable development is key to an enterprise with the aim of growing and strengthening its business as well as improving its core competitiveness. Sustainable development is a key driver of continuous business growth in the future. By incorporating sustainable development into its business model, the Group will strive to create long-term value for Shareholders and other stakeholders and contribute to the community through multi-win cooperation with various parties. The environment, talents and society are the focuses of our sustainable development. We will make every effort to promote environment-friendly development and reinforce our cooperation with communities around the farms to achieve the harmonious development of humans, animals and the environment.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to Shareholders, all our colleagues and business partners for your support to and trust in the Company during the past year. Adhering to the corporate values of "pragmatic, innovative, precise and efficient", I hope we will achieve sustainable strong performance with joint efforts and concerted action and scale new heights in the Company's business.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

MARKET REVIEW

The political and economic landscapes across the globe have been complex and volatile since 2018. Although the world economy has generally continued recovering, the economic growth rate of major European and North American countries has reached a peak while the growth of the global economy and trade has slowed down, facing downside risks. The difficulties that China has encountered in domestic economic growth are also rising. Despite the positive outcome of recent Sino-US trade talks, the trade war starting from the second half of 2018 has made an immediate impact on China's economy. In the long term, it is uncertain whether China's current economic operation model will be sustainable and whether its economy will be able to maintain stable growth after the trade war.

Despite under such a difficult environment, the development of the Chinese dairy industry was relatively stable in 2018, seeing an overall trend of starting low and subsequently climbing high. In the first half of 2018, the average purchase price of fresh milk in major dairy production areas in China remained low and began to recover gradually after hitting rock bottom in July. With the combined effects of a tightening raw material supply resulting from a decline in milk production in cold weather and the fourth quarter being the peak selling season in the traditional market, the purchase price of raw milk had hit a high for the year in the fourth quarter.

Nonetheless, the number of dairy imports of China remained to increase in 2018, and low-priced dairy products from the international market have continued to impact the domestic raw milk production industry. Meanwhile, the problem of imbalanced development of farming and processing in the dairy industry chain remained to be serious, the upstream dairy farming enterprises continued to bear pressure and the development of the industry chain was obviously out of balance. These factors posed enormous challenges to the survival and development of raw milk production enterprises.

The dairy industry is indispensable for a healthy nation and strong people. The state attaches great importance to the development of the dairy industry, in particular, the General Office of the State Council issued the Opinions on Promoting the Invigoration of the Dairy Industry and Ensuring the Quality and Safety of Dairy Products ("Opinions on Invigoration of the Dairy Industry") in June 2018, providing guidance on the future development of the dairy industry. The Opinions on Invigoration of the Dairy Industry proposed that the comprehensive production capacity of the national dairy industry would be significantly improved, with large-scale cattle farming (over a hundred head of cattle) reaching over 65%, and the self-sufficiency rate of milk sources would remain over 70% by 2020; the dairy industry would be fully invigorated, and the overall standard of milk source bases, product processing, quality of dairy products and the competitiveness of the industry would gain a leading global ranking by 2025. In September 2018, the National Dairy Industry Invigoration Conference was convened, at which Hu Chunhua, Vice Premier of the State Council, stressed that it is necessary to step up efforts to establish the fundamental role of large-scale farming by dairy farmers in the development of the dairy industry, improve the production structure of the dairy industry, innovate the means of development of the dairy industry, establish and complete a mechanism for aligning upstream and downstream interests of the industry, and continue enhancing the quality, efficiency and competitiveness of the dairy industry. In December 2018, nine ministries, including the Ministry of Agriculture and Rural Affairs and the National Development and Reform Commission, jointly issued the Several Opinions on Further Promoting the Invigoration of the Dairy Industry, setting the development goal of "establishing and refining a production and operation system based on large-scale farming by dairy farmers, closely aligning the interests of various links in the industry chain, boosting consumer confidence in dairy products and striving to attain 45 million tonnes of dairy production nationwide by 2025".

Management Discussion and Analysis

The government has promulgated a series of policies and regulations to support the development of China's dairy industry, effectively improving the quality of development, efficiency and competitiveness of the dairy industry and creating a constructive environment for industrial development. In terms of market demand, following urbanization developments and consumption upgrade, both milk consumers and milk per capita consumption have increased significantly. In the National Dairy Industry Invigoration Conference 2018, Han Changfu, Minister of the Ministry of Agriculture and Rural Affairs, proposed that the ministry would, while promoting dairy nutrition knowledge and demonstrating the good quality of domestic dairy products, strongly implement the National Milk Scheme for Students, encourage dairy enterprises to innovate in the forms of consumer experience, accelerate the development of the rural consumption market, and strive to expand the consumption base. The ultimate goal for the development of the dairy industry is to satisfy dairy consumption, as consumption propels the development of the dairy industry and generates new development needs. In the future, with growing population, increasing economic gains and improved dietary concepts, the demand for high-end raw milk in the consumption market will maintain steady growth and there will be huge potential and broad prospects for the development of the dairy industry.

BUSINESS REVIEW

The Group mainly operates two business lines, namely the dairy farming business and the import trading business. The dairy farming business includes the production and sale of premium raw milk as well as the feeding, breeding and sale of dairy cows. The import trading business mainly includes the import and sale of quality dairy cows and breeding livestock as well as the import trading of alfalfa hay and other animal husbandry-related products. In particular, the production and sale of raw milk are the main sources of income of the Group.

In 2018, adhering to the ultimate goal of "establishing sustainable ecological dairy farms", the corporate values of "pragmatic, innovative, precise and efficient" and the guidelines of "precise management, quality enhancement and efficiency improvement", the Group has carried out numerous arduous and meticulous tasks in propagation and breeding, scientific feeding, environmental improvement, epidemic prevention, quality safety, cost control and market development, thereby facilitating operations management in an orderly manner and enhancing operational effectiveness steadily.

The enhancement of the Company's comprehensive strengths has also gained recognition from the industry. Riding on advanced management standards and excellent product quality, the Company successively obtained the titles of "Advanced Enterprise of Animal Husbandry in China" awarded by the Animal Husbandry Association of China and "Backbone Enterprise in the Dairy Industry" awarded by the Dairy Association of China for being an outstanding dairy product processing enterprise, and became the sole raw milk production enterprise selected as a member of the second term of the D20 Enterprise Alliance of China's Dairy Industry. Mr. Zhang Jianshe, our Chairman, was titled a "Meritorious Executive" and Mr. Zhang Kaizhan, our executive director, was titled a "Talent with Exceptional Contribution" in 2018. These honorary titles were granted by the Dairy Association of China in recognition of their remarkable commitment to the dairy industry.

Management Discussion and Analysis

Dairy Farming Business

In 2018, the Group comprehensively strengthened the Company's dairy farm management. By introducing scientific breeding and precise feeding, the Group strived to improve operational efficiency and lower operating costs of our dairy farms with an aim to create environmentally friendly and green ecological dairy farms which are safe and comfortable, able to make waste profitable, and fully utilizing resources in order to enhance the sustainability of the industry.

In 2018, the average unit selling price of the Group's raw milk was approximately RMB3,772 per tonne, which was higher than the national average level. In 2018, the Group's sales of raw milk amounted to 354,141 tonnes while revenue generated from the dairy farming business, being the core business of the Group, reached RMB1,335.8 million, representing 93.7% of the Group's total revenue. Premium raw milk produced by the Group was mainly sold to China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) and Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司) for processing into high-end liquid milk. The Group believes that with the premium and stable quality of our raw milk products, the Group will maintain its strong competitiveness in the supply of premium raw milk.

1. Scale of dairy farms

Focusing on the dairy industry's status of development and the market demand in various regions of China, the Group strategically situated the bases of its dairy farms in major provinces or regions across the golden milk source belt in Northern China. As at 31 December 2018, the Group operated the following eight modern dairy farms in seven provinces and autonomous regions: Beijing ZhongDi Farm, Inner Mongolia ZhongDi Diary, Helan ZhongDi Farm, Ningxia ZhongDi Farm, Kuandian ZhongDi Farm, Langfang ZhongDi Farm, Tianzhen ZhongDi Farm and Tianjin ZhongDi Farm.

2. Herd size

	31 December 2018 Heads	31 December 2017 Heads
Milkable dairy cows	**36,068**	33,797
Heifers and calves	**28,640**	30,403
	64,708	64,200

As at 31 December 2018, the Group's herd size was 64,708 heads, which increased by 508 heads as compared with that of the previous year.

3. Milk yield and sales

The average annual milk yield of each lactation cow of the Group for 2018 amounted to 11.7 tonnes, which decreased by 1.7% compared with that of the corresponding period of last year.

In 2018, the sales of domestic raw milk and related products faced a grim situation. The Company stepped up in its marketing efforts and extended its sales channels to strive for advantageous selling prices. Our raw milk sales volume amounted to 354,141 tonnes in 2018, representing a year-on-year increase of 27.2%.

4. Raw milk quality

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

Standard	**Protein content** (Unit: %)	**Fat content** (Unit: %)	**Aerobic plate count** (Unit:/ml)	**Somatic cell count** (Unit:/ml)
The Company[1]	3.40	3.97	28,200	173,900
EU Standard[2]	N/A	N/A	<100,000	<400,000
US Standard[3]	≥3.2	≥3.5	<100,000	<750,000
PRC Standard[4]	≥2.8	≥3.1	<2,000,000	N/A

Notes:

1. Calculated according to the statistical data of the Group's raw milk quality in 2018.

2. Please refer to the Council Directive 92/46/EEC adopted by the EU.

3. Please refer to Grade "A" Pasteurized Milk Ordinance promulgated by the US Public Health Service.

4. Please refer to the National Food Safety Standard (GB19301-2010) of the PRC.

Import Trading Business

The Group's import trading business mainly involves the import of dairy cows, alfalfa hay and other animal husbandry-related products. The import trading business is divided into the import principal trading business and the import agency business. In 2018, revenue generated from the Group's import trading business amounted to RMB89.1 million, accounting for 6.3% of the Group's total revenue and representing a decrease of 11.8% as compared to the corresponding period of last year. In particular, revenue from the import principal trading business amounted to RMB86.2 million, accounting for 96.7% of the revenue from the import trading business. Revenue from the import agency business amounted to RMB2.9 million, accounting for 3.3% of the revenue from the import trading business.

PROSPECTS

Greater uncertainty is looming over the macro-economic environment in 2019. However, benefitting from the national policies aimed at boosting domestic demand, steady demand in the food industry, growing awareness of dairy products consumption among domestic households and changing consumption patterns, it is anticipated that the dairy industry will maintain stable growth in the future and the demand for premium raw milk will continue increasing. With profound adjustments to the Chinese dairy industry in the recent years and more access barriers for the industry being set, a large amount of small and medium-sized dairy farms have withdrawn from the market, and the number of dairy cows has experienced a continuous drop across the nation. Large-scale standardized dairy farms that can provide a constant supply of premium raw milk are scarce, and the market demand continues increasing.

Management Discussion and Analysis

Nevertheless, the raw milk production costs of China is far higher than that of other major milk producing countries due to relatively high farming costs, local dairy products will continue facing protracted pressure from low-priced dairy imports in the future. Meanwhile, the Sino-US trade war, Renminbi exchange rate movements, environmental protection pressure and other factors will also bring uncertainty to the changes of operating costs of dairy farms in the future.

Amid the complex market environment, the Group is determined to make every effort to enhance dairy farm management with a focus on "higher standards, stricter requirements, stronger enforcement and higher productivity". The Group will take advantage of the first-mover position in securing a favorable market position and enhance the efficiency of the dairy farms by scaling up its business and improving product quality.

In addition, the Group will grasp the opportunities arising from policies to develop dairy product processing business and add value to the Company's supply chain on an ongoing basis. The Opinions on Invigoration of the Dairy Industry issued by the State Council support dairy farmers to develop dairy product processing, thereby pushing forward the integrated development of the primary, secondary and tertiary industries. In response to policy-oriented support, the Group will establish a research and development platform for yogurt products, actively undertake new product research and development as well as carrying on the processing business, and kick-start the development project of formula milk powder for infants and young children. Gaining access to the downstream processing sector enables the Group to reinforce its market presence and development, and obtain new corporate development opportunities.

Looking forward, the Group will strive to become a leader in the Chinese raw milk production industry by facilitating the synergistic business development of upstream and downstream supply chains of the dairy industry, continuously enhancing the Company's assets and operational efficiency, improving the Company's overall profitability, and creating long-term value for shareholders.

FINANCIAL OVERVIEW

Revenue

The table below sets forth the revenue of each business segment of the Group for the years ended 31 December 2018 and 2017, respectively:

	For the year ended 31 December					
	2018			2017		
	External Sales RMB'000	**Internal Sales RMB'000**	**Total RMB'000**	External Sales RMB'000	Internal Sales RMB'000	Total RMB'000
Dairy farming business	**1,335,839**	**—**	**1,335,839**	1,033,286	—	1,033,286
Import trading business	**89,147**	**27,035**	**116,182**	100,996	46,308	147,304
Total	**1,424,986**	**27,035**	**1,452,021**	1,134,282	46,308	1,180,590

The Group's revenue for the year ended 31 December 2018 amounted to RMB1,425.0 million as compared to RMB1,134.3 million for the year ended 31 December 2017, representing a year-on-year increase of 25.6%. The increase was mainly attributed to an increase in both the sales volume and selling price of raw milk.

Management Discussion and Analysis

Dairy Farming Business

The revenue from the Group's dairy farming business for the year ended 31 December 2018 amounted to RMB1,335.8 million as compared to RMB1,033.3 million for the year ended 31 December 2017, representing a year-on-year increase of 29.3%. The increase in revenue from the dairy farming business was attributed to the expansion of the scale of milkable cows and an increase in the selling price of raw milk of the Group.

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

	For the year ended 31 December					
	2018			2017		
	Revenue RMB'000	**Sales Volume tonne**	**Unit Selling Price RMB/tonne**	Revenue RMB'000	Sales Volume tonne	Unit Selling Price RMB/tonne
Raw milk	**1,335,839**	**354,141**	**3,772**	1,033,286	278,406	3,711

In 2018, the sales volume of raw milk increased by 29.3% as compared to that of 2017. Meanwhile, as affected by the market, the unit selling price of raw milk increased by 1.6% as compared to that of 2017.

Import Trading Business

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

	For the year ended 31 December			
	2018		2017	
	Revenue RMB'000	**Percentage**	Revenue RMB'000	Percentage
Import principal trading business	**86,238**	**96.7%**	99,755	98.8%
Import agency business	**2,909**	**3.3%**	1,241	1.2%
Total	**89,147**	**100.0%**	100,996	100.0%

The revenue from the Group's import trading business for the year ended 31 December 2018 amounted to RMB89.1 million as compared to RMB101.0 million for the year ended 31 December 2017, representing a year-on-year decrease of 11.8%. The decrease was mainly attributed to a decrease in the business of imported cows.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

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

	For the year ended 31 December			
	2018		2017	
	Gross Profit RMB'000	**Gross Profit Margin**	Gross Profit RMB'000	Gross Profit Margin
Dairy farming business	**470,114**	**35.2%**	387,910	37.5%
Import trading business	**22,340**	**25.1%**	5,249	5.2%
Total	**492,454**	**34.6%**	393,159	34.7%

Gross profit of the dairy farming business for the year ended 31 December 2018 was RMB470.1 million, representing an increase of 21.2% as compared to the corresponding period of the year ended 31 December 2017, which was mainly attributed to the expanded scale of dairy farms of the Group. The gross profit of the Group's import trading business for the year ended 31 December 2018 was RMB22.3 million, representing an increase of 325.6% as compared to the corresponding period of the year ended 31 December 2017, which was mainly attributed to the increased unit selling price of imported dairy cows.

Gross profit margin of the Group's dairy farming business for the year ended 31 December 2018 was 35.2%, representing a decrease of 2.3% as compared to the gross profit margin of 37.5% for the year ended 31 December 2017, which was mainly attributed to increased cost of raw milk in 2018. The gross profit margin of the import trading business for the year ended 31 December 2018 was 25.1%, representing an increase of 19.9% as compared to the gross profit margin of 5.2% for the year ended 31 December 2017.

Cost of Sales

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

	For the year ended 31 December			
	2018		2017	
	RMB'000	**Percentage**	RMB'000	Percentage
Feed	**677,453**	**78.3%**	500,181	77.5%
Labour costs	**49,655**	**5.7%**	36,142	5.6%
Others	**138,617**	**16.0%**	109,053	16.9%
Total	**865,725**	**100.0%**	645,376	100.0%

During the year ended 31 December 2018, feed costs accounted for approximately 78.3% of the cost of sales of the dairy farming business (before fair value adjustments).

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

Net losses from changes in the fair value of biological assets less costs of sales for the year ended 31 December 2018 amounted to RMB173.7 million, representing a year-on-year decrease of RMB2.3 million as compared to net losses of RMB176.0 million for the year ended 31 December 2017, which was mainly attributed to the regular and systematic culling of lactating cows which were less economically efficient in terms of milk yields on feeding costs, as well as fluctuations in average selling price of raw milk resulting from market volatility.

Gains Arising from Initial Recognition of Agricultural Products at Fair Value Less Costs of Sales upon Harvest

The gains arising from initial recognition of agricultural products at fair value less costs of sales upon harvest of the Group increased by approximately 20.2% from RMB346.1 million for the year ended 31 December 2017 to RMB415.9 million for the year ended 31 December 2018, primarily reflecting an increase in the sales volume of the Group's raw milk.

Other Income

Other income includes government subsidies, bank interest income and others. The income from recognized government subsidies for the year ended 31 December 2018 amounted to RMB29.1 million as compared to RMB27.4 million for the year ended 31 December 2017, representing a year-on-year increase of 6.2%. The recognized bank interest income for the year ended 31 December 2018 amounted to RMB4.6 million as compared to RMB6.4 million for the year ended 31 December 2017, representing a year-on-year decrease of 28.1%.

Operating Expenses

	For the year ended 31 December		
	2018 RMB'000	2017 RMB'000	Rate of Change
Distribution costs	**59,716**	46,916	27.3%
Administration expenses	**93,953**	71,473	31.5%
Other expenses	**1,110**	394	175.0%
Total	**154,779**	118,783	30.3%

Operating expenses increased by 30.3% from RMB118.8 million for the year ended 31 December 2017 to RMB154.8 million for the year ended 31 December 2018, which was mainly attributable to the expansion of the scale of the Group.

Finance Costs

Finance costs increased by 10.6% from RMB103.5 million for the year ended 31 December 2017 to RMB114.5 million for the year ended 31 December 2018, which was mainly attributable to the increase in borrowings as a result of the expansion of the scale of dairy farms.

Management Discussion and Analysis

Capital Expenditure

Capital expenditure of the Group for the year ended 31 December 2018 amounted to RMB627.7 million as compared to RMB691.8 million for the year ended 31 December 2017, representing a year-on-year decrease of 9.3%. During the Reporting Period, the capital expenditure of the Group mainly consisted of the addition of non-current assets including property, plant and equipment, an increase in prepaid land lease payments and the addition of non-current biological assets.

Liquidity and Sources of Funds

The working capital of the Group mainly derived from cash inflow generated from daily operating activities and borrowings from financial institutions. As at 31 December 2018, the gearing ratio of the Group was approximately 56.5% (as at 31 December 2017: 53.8%). The gearing ratio was calculated by dividing total liabilities by total assets. The bank balances and cash balance were RMB615.1 million (as at 31 December 2017: RMB391.5 million).

Indebtedness

Borrowings of the Group were denominated in RMB and USD. As at 31 December 2018, the balance of short-term borrowings including long-term borrowings due within one year was RMB1,015.5 million. As at 31 December 2018, the balance of long-term borrowings and long-term payables after deducting the portion due within one year was RMB1,166.2 million, of which borrowings with fixed interest rates amounted to approximately RMB1,093.8 million.

Contingent Liabilities

As at 31 December 2018, there were no material contingent liabilities (as at 31 December 2017: Nil).

Foreign Exchange Risk

As at 31 December 2018, save for the pledged bank deposits and cash and bank balances of RMB191.2 million which were USD-denominated assets and RMB0.4 million which were HKD-denominated assets, and borrowings of RMB69.5 million which were USD-denominated borrowings, the other assets and liabilities of the Group were settled in RMB. For the year ended 31 December 2018, the Group did not use any financial instruments such as forward foreign exchange settlement contracts to hedge such risks.

Significant Investments, Acquisitions and Disposals of Assets

The Group did not have any significant investments during the Reporting Period. During the Reporting Period, the Group also did not carry out any significant acquisitions and disposals regarding subsidiaries, associates and joint ventures.

Pledge of Assets

Save for the amounts disclosed in note 22 to the consolidated financial statements and the amounts recorded in the pledged bank deposits project in the consolidated statement of financial position, there was no other pledge of assets of the Group.

Management Discussion and Analysis

Use of Proceeds from Global Offering

The Company issued 391,056,000 new shares at the offer price of HK$1.2 per share. The net proceeds of the public offering received by the Company were RMB371 million after deducting the listing-related expenses.

Such net proceeds were utilized in accordance with the proposed allocation as set out in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated 20 November 2015 (the "Prospectus"). The net proceeds were fully used in line with the proposed allocation as set forth in the Prospectus.

Human Resources

The Group had 1,256 full-time employees in Mainland China and Hong Kong as at 31 December 2018 (as at 31 December 2017: 1,310). During the Reporting Period, total staff costs (excluding the fees of independent non-executive Directors) of the Group were approximately RMB120.2 million (for the corresponding period in 2017: approximately RMB105.7 million).

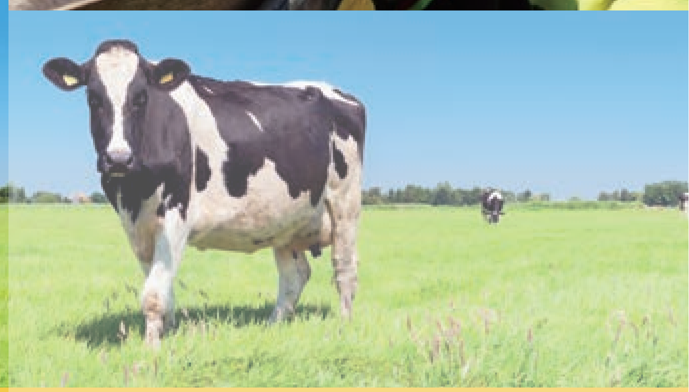
The Group puts emphasis on performance evaluation. The Group determined the employees' emoluments based on their respective duties, performance, work experience, and the market and industry rates, with an aim to attract, retain and motivate outstanding talent. Through the recruitment of professional management personnel through various channels as well as internal placement and promotion of outstanding staff within the Group, the Group has built a high quality, efficient and young team to improve the Group's management standards and efficiency, so as to ensure that the Group's business goals can be achieved.

The Group attaches great importance to the occupational health, safety and capacity building of employees. By conducting safety education training and organizing employee exchange programs and other activities to increase employees' occupational health awareness and safety management capabilities, the Group continuously improved its employees' professional capabilities, skills and overall quality in order to meet increasing business needs.

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

On 28 October 2015, the Company adopted a share option scheme (the "Post-IPO Share Option Scheme") as a means of motivation and incentive, details of which are set out in the section headed "Statutory and General Information - Post-IPO Share Option Scheme" in Appendix IV to the prospectus of the Company dated 20 November 2015. As at the date of this report, the Company has not granted any share options pursuant to the Post-IPO Share Option Scheme.

DIRECTORS AND SENIOR MANAGEMENT



Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhang Jianshe (張建設), aged 58, Chairman, executive Director and Chief Executive Officer. He is also the Chairman of the Nomination Committee of our Company. Mr. Zhang Jianshe was appointed as an executive Director in April 2014 and is primarily responsible for the overall management of our Company's strategic planning and supervision of its implementation. He joined our Group in October 2002. He has subsequently assumed various roles in our subsidiaries. He took up the position as a deputy manager of Kuandian ZhongDi Farming Co., Ltd. ("**ZhongDi Kuandian**") from October 2002 to February 2003. Mr. Zhang Jianshe is currently a director of all our subsidiaries. Mr. Zhang Jianshe is a director of YeGu Investment Company Limited ("**YeGu Investment**") and Green Farmlands Group, controlling shareholders of our Company.

Prior to joining our Group, Mr. Zhang Jianshe had served as a staff of the Department of Management on Rural Cooperative Economy of the Ministry of Agriculture of the People's Republic of China (the "**MOA**", now the Ministry of Agriculture and Rural Affairs) (中華人民共和國農業部農村合作經濟經營管理總站) from July 1984 to December 1988. He had also served as a department director of China Agricultural Supplies Trading Company Limited (中國農業物資供銷總公司) from January 1989 to May 1996 and the general manager of Beijing Construction and Agriculture Wealth Supplies Trading Company (北京建農順物資商貿公司) from May 1996 to December 1999. He had then been committed to the pursuit of development of his personal business from January 2000 to October 2002 through which he accumulated both financial and industrial foundation for founding our Gorup.

Mr. Zhang Jianshe graduated from Northwest Agriculture College (currently known as Northwest Agriculture and Forestry University (西北農林科技大學)) located in Shaanxi Province with a bachelor's degree of science in management of agricultural economics in July 1984. He has been the vice president of China Animal Agriculture Association (中國畜牧業協會) since December 2011 and the vice president of Dairy Association of China (中國奶業協會) since July 2018. He is a senior economist in agricultural economics credentialed by the MOA.

Mr. Zhang Kaizhan (張開展), aged 54, was appointed as an executive Director in July 2014 and is primarily responsible for assisting the Chairman in the overall management of strategic planning of our Company and overseeing human resources related matters and operation of the import trading business of our Company. He joined our Group in May 2006 and served as a director of ZhongDi Beijing from October 2011 to August 2014. Mr. Zhang Kaizhan is the sole director of SiYuan Investment Company Limited ("**SiYuan Investment**"), controlling shareholder of our Company.

Prior to joining our Group, Mr. Zhang Kaizhan had been engaged with China Stud Livestock Import and Export Company Limited (中國種畜進出口有限公司) from July 1988 to May 2006, working at various times as staff, deputy department manager, department manager and deputy general manager. He had also served as the deputy general manager of SinoFarm Genetics & Seeds (Group) Co., Ltd. ("**SinoFarm Group**") from November 2006 to December 2009.

Mr. Zhang Kaizhan graduated from Northwest Agriculture College (currently known as Northwest Agriculture and Forestry University (西北農林科技大學)) located in Shaanxi Province with a bachelor's degree in animal husbandry in July 1988. He has been an executive member of China Dairy Association (中國奶業協會) since November 2010 and an executive member of China Animal Agriculture Association (中國畜牧業協會) since December 2011. He has also served as a vice president of Beijing Dairy Association (北京奶業協會) since April 2016. He is a senior husbandry engineer credentialed by the MOA.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Liu Dai (劉岱), aged 66, was appointed as a non-executive Director in July 2014 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. He had assumed various roles in our subsidiaries since joining our Group in January 2003, including being the executive director and director of Shangdu ZhongDi Farming Co., Ltd. ("**ZhongDi Shangdu**") from January 2003 to November 2005 and from November 2005 to November 2007, respectively; the manager of Beijing ZhongDi Livestock Technology Co., Ltd. ("**ZhongDi Technology**") from December 2003 to September 2012; the executive director and manager of ZhongDi Beijing from June 2004 to August 2007, and its director from April 2010 to August 2014; and the director of ZhongDi Kuandian from September 2005 to November 2007. Mr. Liu Dai is the sole director of Tai Shing Company Limited ("**Tai Shing**"), controlling shareholder of our Company.

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

Mr. Du Yuchen (杜雨辰), aged 42, was appointed as a non-executive Director in March 2015 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. He is also a member of the Remuneration Committee of our Company.

Prior to joining our Group, Mr. Du Yuchen had been engaged with Beijing Capital Assets Management Co., Ltd. (北京首創資產管理有限公司), an asset management company, from April 2001 to November 2008, working at various times as a project manager, deputy general manager and general manager of the investment management department. He has also been a director of Nanchang Rotary Cultivator Co., Ltd. (南昌旋耕機有限公司), a company principally engaged in the manufacturing of rotary cultivators and combined cultivators, since March 2007 and ceased as such in November 2016. From July 2015 to November 2018, he has also been the legal representative and chairman of the board of Beijing Longtou Agriculture Commune Co., Ltd. (北京龍頭農業互助公社股份有限公司), an entity engaged in investment activities. Mr. Du Yuchen has also been engaged with Beijing Agricultural Investment Co., Ltd. (北京市農業投資有限公司), a company principally engaged in the investment activities in the agricultural industry, since December 2008, working at various times as the head of fund preparatory committee, supervisor and deputy general manager. He has been the executive vice president,general manager and appointed representative of executive affairs partner of Beijing Agriculture Investment Fund (Limited Partnership) (北京農業產業投資基金(有限合夥)) since September 2009. Mr. Du Yuchen has also assumed various positions in several entities principally engaged in investment activities, including the legal representative and chairman of the board of Zhuhai Agriculture Industrial Investment Fund Management Corporation (珠海農業產業投資基金管理公司) since January 2014, and the legal representative and chairman of the board of Beijing Nong Jin Fu Investment Center (Limited Partnership) (北京農金服投資中心(有限合夥)) since September 2014. Mr. Du Yuchen is a director of Hubei Yinfeng Cotton Co., Ltd. (湖北銀豐棉花股份有限公司), a company listed on Small and Medium Enterprise Share Transfer System (commonly known as New Over the Counter Market (新三板)) (stock code: 831029) since February 2015 and the legal representative and executive director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司) since May 2015.

Directors and Senior Management

Mr. Du Yuchen graduated from Jilin University (吉林大學) located in Changchun, Jilin Province with a master's degree in technology economics in March 2001 and Cheung Kong Graduate School of Business (長江商學院) with an executive master degree in business administration in July 2013.

Mr. Li Jian (李儉), aged 56, joined our Group as a non-executive Director in September 2014 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company.

Mr. Li Jian has been the deputy general manager of CDB-CITIC Capital Investment Management (Beijing) Co., Ltd. (開信創業投資管理(北京)有限公司), a private equity investment company, since April 2010 and was appointed as director in March 2017. Mr. Li Jian has also been the vice chairman of CDB-CITIC Capital Investment Co., Ltd. (開信創業投資有限公司) since February 2017. He is currently the managing director of CITIC Capital Investment Fund (中信資本創業投資基金), a company which is also principally engaged in private equity investment.

Mr. Li Jian graduated from Massachusetts Institute of Technology with a bachelor's degree of science in electrical engineering and a master's degree of science in electrical engineering and computer science.

Ms. Yu Tianhua (于天華), aged 42, was appointed as a non-executive Director in February 2015 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. She is also a member of the Audit Committee of our Company.

Prior to joining our Group, Ms. Yu Tianhua has been engaged with Yangzhou Yalian Steel Pipe Co., Ltd. (揚州亞聯鋼管有限公司) since January 2009 and is currently its vice president and representative of its Beijing Branch. She had also been engaged with the Balloch Group (貝祥投資集團) (now known as Canaccord Genuity Asia) until September 2008.

Ms. Yu Tianhua graduated from the University of British Columbia located in Vancouver, Canada with a bachelor's degree in commerce in May 2001.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Li Shengli (李勝利), aged 53, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also the Chairman of the Remuneration Committee and member of the Audit Committee of our Company. Prof. Li Shengli joined our Group in September 2012 and had since then served as an independent director of ZhongDi Beijing until August 2014.

Prior to joining our Group, Prof. Li Shengli has been, since September 1996, engaged with the College of Animal Science and Technology in China Agricultural University (中國農業大學), working at various times as an assistant professor, a professor, a doctor tutor and a vice-dean of Animal Nutrition and Feed Science Department of College of Animal Science and Technology (動物科學技術學院).

Prof. Li Shengli graduated from Shihezi Agricultural College (石河子農學院) (currently known as Shihezi University (石河子大學)) located in Xinjiang Uyghur Autonomous Region with a bachelor's degree in animal husbandry and veterinary science in July 1987 and China Agricultural University located in Beijing with a doctorate's degree in animal nutrition science in July 1996. Over the years, Prof. Li Shengli has received various awards and accolades acknowledging his accomplishments. For example, he was awarded the Second Prize and the Third Prize of the Beijing Science and Technology Award (北京市科學技術獎) in 2000 and 2011, respectively. He was also awarded the Second Prize of National Science and Technology Progress Award (國家科學技術進步獎二等獎) in 2012 and 2014, the First Prize of Science and Technology Progress Award awarded by the Ministry of Education of the PRC (教育部科技進步獎) in 2013 and the First Prize of China Agricultural Science and Technology Progress Award (中華農業科技進步一等獎) awarded by the MOA in 2013. Prof. Li Shengli has assumed various positions in many intra-industry associations, such as an executive member of China Dairy Association (中國奶業協會) since January 2004, the executive member of the Cattle Division of China Animal Agriculture Association (中國畜牧業協會牛業分會) since July 2007, an executive member of China Society of Forestry, Animal Husbandry and Fishery Economics (中國林牧漁業經濟學會) since October 2005, and the president of the Cattle Breeding Division of Chinese Association of Animal Science and Veterinary Medicine (中國畜牧獸醫學會養牛分會) since January 2009.

Prof. Li Shengli has been an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司), a company listed on China Venture Exchange (stock code: 300106), since July 2009 and an independent non-executive director of China Modern Dairy Holdings Ltd., a company listed on the Stock Exchange (stock code: 1117), since October 2010.

Dr. Zan Linsen (昝林森), aged 55, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also a member of the Remuneration Committee and the Nomination Committee of our Company. Dr. Zan Linsen joined our Group in September 2012 and had since then served as an independent director of ZhongDi Beijing until August 2014.

Prior to joining our Group, Dr. Zan Linsen has been, since 1986, engaged with Northwest Agriculture and Forestry University (西北農林科技大學) (formerly known as Northwest Agriculture College), working at various times as an assistant researcher, a deputy researcher, a researcher and a professor. He is currently a professor at the College of Animal Science and Technology of Northwest Agriculture and Forestry University.

Dr. Zan Linsen graduated from Northwest Agriculture College located in Shaanxi Province with a bachelor's degree in agriculture in July 1986, a master's degree in agricultural science in December 1992 and a doctorate's degree in agricultural science in July 1997. Over the years, Dr. Zan Linsen has received various awards and accolades acknowledging his accomplishments. For example, he was granted with the special governmental allowance by the State Council in February 2007 in recognition of his contribution to national educational business and was awarded the prize of National Outstanding Scientists (全國優秀科技工作者) by China Association for Science and Technology (中國科學技術協會) in February 2012 and the prize of National Outstanding Research Talents (全國農業科研傑出人才) by the MOA in October 2012. Dr. Zan Linsen was also awarded the prize of Advanced Worker of Animal Husbandry Industry in China (中國畜牧行業先進工作者) by China Animal Agriculture Association in May 2014. He has also been a member of Cattle, Horse and Camel Professional Committee of the Second State Animal Genetic Resources Committee (第二屆國家家畜禽遺傳資源委員會牛馬駝專業委員會) since March 2012 and a member of the expert consultants' team of the Breeding Committee of China Dairy Association since June 2013.

Mr. Joseph Chow, aged 55, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also the Chairman of the Audit Committee and a member of the Nomination Committee of our Company.

Prior to joining our Group, Mr. Joseph Chow has accumulated ample experience and knowledge in formulating and monitoring investment strategies through his roles as chief financial officer of various companies and his senior managerial roles in various financial institutions' investment related functions. Mr. Chow has served as an independent director of China Biologic Products, Inc., a company listed on NASDAQ (stock code: CBPO) since December 2014. From January 2016 to February 2018, he was an independent non-executive director of CAR Inc., a car rental service provider company listed on the Stock Exchange (stock code: 0699). He had also been a director of China Lodging Group Limited, a multi-brand hotel company listed on NASDAQ (stock code: HTHT), since 2010 and ceased as such in March 2016, a chief financial officer of Synutra International, Inc, an infant milk formula company listed on NASDAQ (stock code: SYUT) from 2009 to October 2015 and an independent non-executive director of Intime Retail (Group) Company Limited, a company listed on the Stock Exchange (stock code: 1833), since February 2007, he has also been the chairman of the audit committee of Intime Retail (Group) Company Limited since June 2009, and he ceased as the independent non-executive director and the chairman of the audit committee with effect from 23 June 2017, the listing of the shares of which on the Stock Exchange was withdrawn on 19 May 2017.

Prior to the above, Mr. Joseph Chow had successively served as a managing general partner of CJC Partners, a consulting firm, a managing director of Moelis & Company, a global investment bank, a managing director of Goldman Sachs & Co., the chief financial officer of China Netcom (Holdings) Company Limited, a vice president of Citi Capital (now part of Citigroup) and a director of the strategic planning division of Bombardier Capital, a financial services company. Before that, Mr. Joseph Chow had also worked in GE Capital.

Mr. Joseph Chow graduated from the University of Maryland, College Park with a master's degree in business administration in May 1993.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Song Naishe (宋乃社), aged 53, was appointed as the deputy general manager of our Company in September 2014 and is primarily responsible for the management of the operation of our dairy farms. He has assumed various roles in our subsidiaries since joining our Group in August 2007, including those set out below:

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

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

Ms. He Shan (何珊), aged 37, was appointed as the chief financial officer of our Company in November 2015 and is primarily responsible for overseeing the overall financial and accounting related matters of our Group. Ms. He Shan joined our Group in January 2010 as the chief accountant responsible for accounting and audit, preparation of financial statements, tax filings and assisting in the preparation of loan facilities. She had worked as the deputy manager of the financial department of ZhongDi Stud Livestock since March 2010 and the manager of the financial department since July 2013 responsible for financial audit, bank financing, financial analysis, budgeting, communication with external accountants and preparation of financial statements. Ms. He Shan had worked as the manager of the finance management center of ZhongDi Stud Livestock responsible for overall management of daily financials, budgeting, financial personnel, debt financing of ZhongDi Stud Livestock and its subsidiaries. Prior to joining our Group, Ms. He Shan had been engaged with SinoFarm Group from August 2005 to December 2009, working at various times as a staff of the import and export department, staff of the trade management department and treasurer and accountant of the financial department. Ms. He Shan graduated from Central University of Finance and Economics (中央財經大學) with a bachelor's degree in finance in July 2004. Ms. He Shan was awarded the certificate of accounting professional by Beijing Finance Bureau (北京市財政局) in June 2008.

Directors and Senior Management

Ms. Zhang Xin (張昕), aged 44, is our company secretary. She joined our Group in June 2017, was appointed as the joint company secretary on 28 July 2017, and was appointed as our company secretary on 27 October 2017. Ms. Zhang Xin is a member of both the Hong Kong Institute of Certified Public Accountants and the Chinese Institute of Certified Public Accountants. Ms. Zhang obtained her Master degree in Business Administration and Bachelor's degree in Economics from Renmin University of China and has over 20 years' experience in accounting, corporate finance and investment.

CORPORATE GOVERNANCE REPORT

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules and has applied the principles in the CG Code throughout the year ended 31 December 2018.

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

The Directors consider that, throughout the year ended 31 December 2018, the Company has complied with all code provisions as set out in the CG Code, except for code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, details of which are set out in the section headed "Chairman and Chief Executive Officer".

DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company's Securities Dealings Code throughout the year ended 31 December 2018.

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

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises nine members as follows:

Executive Directors:

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

Non-executive Directors:

Mr. Liu Dai
Mr. Du Yuchen *(Member of the Remuneration Committee)*
Mr. Li Jian
Ms. Yu Tianhua *(Member of the Audit Committee)*

Independent Non-executive Directors:

Prof. Li Shengli *(Chairman of the Remuneration Committee and Member of the Audit Committee)*
Dr. Zan Linsen *(Member of the Remuneration Committee and the Nomination Committee)*
Mr. Joseph Chow *(Chairman of the Audit Committee and Member of the Nomination Committee)*

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 20 to 27 of this annual report. None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

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

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

Independent Non-executive Directors

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

Each of the executive Directors is appointed under a services contract and each of the non-executive Directors (including independent non-executive Directors) is appointed under a letter of appointment for a term of three years, subject to renewal after the expiry of the current term.

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

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

Responsibilities of the Board

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

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

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

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

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

Corporate Governance Report

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

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

The Company has received confirmation letters from all Directors that they have given sufficient time and attention to the affairs of the Company during the year ended 31 December 2018. Directors have also disclosed to the Company the number and nature of offices they held in public companies or organisations and other significant commitments, as well as the names of relevant public companies and an indication of time involvement in them.

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

Board Diversity Policy

Diversity of the Board is one of the crucial elements of the Company's sustainable development and in maintaining its competitive advantages. The Company has formulated a board diversity policy and is dedicated to ensuring that Board members possess the skills, experience and diversity of perspectives appropriate to the requirements of the Company's operation and management. In identifying suitable candidates, we will consider candidates on their merits and against objective criteria, having due regard to the benefits of diversity on the Board. Selection of candidates will be based on a number of factors, including but not limited to, gender, age, skills, cultural background, knowledge and professional experience. The final decision will be based on the merits of the candidates and the contribution the candidates will bring to the Board.

During the year and as at the date of this annual report, the Board comprises nine Directors, one of which is a female. The following table further illustrate the diversity of the Board members as at the date of this annual report:

	Age Group			Professional Area		
Name of Director	**40-49**	**50-59**	**60 or above**	**Operation and management of dairy farms**	**Animal farming**	**Finance and investment**
Zhang Jianshe		√		√		
Zhang Kaizhan		√		√		
Liu Dai			√	√		
Du Yuchen	√					√
Li Jian		√				√
Yu Tianhua	√					√
Li Shengli		√			√	
Zan Linsen		√			√	
Joseph Chow		√				√

Continuous Professional Development of Directors

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

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

Corporate Governance Report

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. The following table sets out the details of all Directors attending continuous professional development training sessions for the year ended 31 December 2018:

Name of director	Training type
Zhang Jianshe	A, B
Zhang Kaizhan	A, B
Liu Dai	A, B
Du Yuchen	A, B
Li Jian	A, B
Yu Tianhua	A, B
Li Shengli	A, B
Zan Linsen	A, B
JOSEPH CHOW	A, B

A: attending training sessions, including but not limited to, seminars, briefings, conferences, forums and workshops

B: reading newspapers, journals and updates relating to the economy, general business, corporate governance and Directors' duties and responsibilities

BOARD COMMITTEES

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

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

Audit Committee

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties and a summary of the work of the Audit Committee include:

– reviewing the financial information and reporting process of the Company and reviewing significant judgments for financial statements;

– reviewing the internal control and risk management systems and effectiveness of the internal audit function of the Company;

– reviewing and monitoring the audit plan, relationship with and appointment of external auditor;

– reviewing continuing connected transactions; and

– reviewing the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings to review, in respect of the year ended 31 December 2018, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, scope of works and appointment of external auditors and engagement of non-audit services and connected transactions.

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

Remuneration Committee

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The Company has adopted model (ii) as set out in the code provision B.1.2(c) of the CG Code, under which the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive directors and senior management.

The primary functions and a summary of the work of the Remuneration Committee include:

– reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

– reviewing and making recommendations to the Board on the remuneration policy and structure for all Directors and senior management;

– establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration; and

– approving the terms of executive directors' service contracts.

Corporate Governance Report

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy of the Directors and senior management. Details of remuneration paid to members of senior management by band are set out in the section headed "REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT" in the Directors' Report of this annual report.

Nomination Committee

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

The principal duties and a summary of the work of the Nomination Committee include:

– reviewing the structure, size, composition and diversity (including, but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board;

– formulating and reviewing nomination policy for directorship, determining procedures and criteria for directorship nomination;

– identifying individuals qualified to become Directors, selecting and making recommendations to the Board on the selection of individuals nominated for directorships. Criteria for selecting Directors include, but not limited to, taking into account the contributions the respective nominee can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

– making recommendations to the Board on the appointment and succession planning of Directors; and

– assessing the independence of independent non-executive Directors.

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

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character and integrity, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, and ensure that Board members possess the skills, experience and diversity of perspectives applicable to the requirements of the Company's operation and management before making recommendations to the Board. All new appointments of Directors and nomination of retiring Directors proposed for re-election at the annual general meeting are first considered by the Nomination Committee and are then recommended by the Nomination Committee to the Board for decision.

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

Corporate Governance Report

Corporate Governance Functions

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

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

ATTENDANCE RECORD OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2018 is set out in the table below:

	Board		Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Extraordinary General Meeting
Name of Director	Attendance in Person/Number of Meetings	Attendance by Alternate/ Number of Meetings	Attendance/ Number of Meetings	Attendance/ Number of Meetings	Attendance/ Number of Meetings	Attendance/ Number of Meetings	Attendance/ Number of Meetings
Executive Director:							
Mr. Zhang Jianshe	4/4	N/A	N/A	N/A	1/1	1/1	1/1
Mr. Zhang Kaizhan	4/4	N/A	N/A	N/A	N/A	1/1	1/1
Non-executive Director:							
Mr. Liu Dai	4/4	N/A	N/A	N/A	N/A	1/1	1/1
Mr. Du Yuchen	3/4	-/4	N/A	1/1	N/A	-/1	1/1
Mr. Li Jian	4/4	N/A	N/A	N/A	N/A	1/1	-/1
Ms. Yu Tianhua	4/4	N/A	2/2	N/A	N/A	1/1	1/1
Independent Non-executive Director:							
Prof. Li Shengli	3/4	1/4	1/2	-/1	N/A	1/1	-/1
Dr. Zan Linsen	4/4	N/A	N/A	1/1	1/1	1/1	1/1
Mr. Joseph Chow	4/4	N/A	2/2	N/A	1/1	-/1	1/1

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

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018. Although no material weaknesses in control or significant concerns were identified during the year, the Company will continue to review the risk management and internal control systems on a regular basis to ensure ongoing effectiveness.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems of the Company, including the financial, operational and listing compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources to ensure the resources allocated for accounting, internal audit and financial reporting meet the Company's needs and are sufficient.

The Company places great emphasis on the professional management and training of finance personnel with an aim to improve their professional skills and comprehensive quality. The Company planned and arranged for finance personnel to receive relevant professional training in accounting standards with sufficient budget support for training costs in strict accordance with the requirements of the Accounting Law and in line with the changes in the national fiscal and tax policies and work requirements.

Corporate Governance Report

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

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

The Company has established a stringent system to handle and release inside information in accordance with the relevant requirements of the Listing Rules and the Securities and Futures Ordinance and prohibit any unauthorized use or release of confidential or inside information. The Directors and senior management of the Company have adopted all reasonable measures to ensure proper precautionary measures are in place to prevent the Company from violating disclosure requirements.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 60 to 64 of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services (circular related service) for the year ended 31 December 2018 amounted to RMB2,350,000 and RMB120,000, respectively.

COMPANY SECRETARY

The company secretary is Ms. Zhang Xin. The company secretary, who is directly responsible to the Board, is in charge for keeping Directors updated on all relevant regulatory changes of which she is aware, including arranging appropriate continuous development programmes for Directors. All Directors can reach out to the company secretary and have access to the advice and services of the company secretary on corporate governance and board practices and matters. The company secretary is responsible for ensuring good information flow within the Board, and that Board policies and procedures are completely followed.

During the year ended 31 December 2018, the company secretary has duly complied with the relevant training requirements as set out in Rule 3.29 of the Listing Rules.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

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

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

Convening an Extraordinary General Meeting

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: China ZhongDi Dairy Holdings Company Limited
20/F, 238 Des Voeux Road Central
No. 238 Des Voeux Road Central
Hong Kong
PRC
(For the attention of Ms. Zhang Xin, company secretary)

Fax: +852-23418988

Email: ir@zhongdidairy.hk

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

DIRECTORS' REPORT

Directors' Report

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

PRINCIPAL OPERATIONS

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

GROUP RESULTS

The results of the Group for the Reporting Period and the financial position of the Company and the Group as at 31 December 2018 are set out on pages 65 to 154 of the consolidated financial statements.

ISSUED SHARES

As at 31 December 2018, the Company had an aggregate of 2,174,078,000 shares in issue.

BUSINESS REVIEW

The business review of the Group for the Reporting Period and the discussion on and the analysis of the important factors relating to the performance and results and financial position of the Group are set out in the Chairman's Statement on pages 6 to 8 of this annual report and the Management Discussion and Analysis on pages 9 to 19 of this annual report. The discussion on the future business development of the Group is set out in the section headed "PROSPECTS" in the Chairman's Statement and the section headed "PROSPECTS" in the Management Discussion and Analysis of this annual report. The explanations of the relationship of the Company with its employees, customers, suppliers and parties who have a significant influence on the Group are set out in the section headed "HUMAN RESOURCES" in the Management Discussion and Analysis and the section headed "MAJOR CUSTOMERS AND SUPPLIERS" in the Directors' Report of this annual report, respectively.

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

Directors' Report

MAJOR RISKS AND UNCERTAINTIES

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

1. Product Safety and Quality Risk

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

2. Disease Risk

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

3. Customer Reliance Risk

We rely heavily on a limited number of customers, such as Mengniu and Yili, for sales of our raw milk and our business, results of operations and financial condition could be materially and adversely affected in the event of breach or early termination of our raw milk purchase and sale agreements or if we do not enforce the minimum purchase obligations of Mengniu or Yili. As such, we rely heavily on Mengniu and Yili for sales of our raw milk. In the future, we will review the content of the relevant agreements from time to time according to the market and the business situation of the Company, and decide the target and quantity of raw milk sales.

4. Foreign Competition Risk

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

5. Feed Price Risk

Our dairy farming operations require a substantial amount of feeds. Our feed costs represented approximately 78.3% of the cost of sales for raw milk before the fair value adjustments of biological assets. Therefore, fluctuations in feed prices and disruptions of our feed supply could materially and adversely affect our business and results of operations.

6. Industry Risk

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

7. Other Risks

1) During the transition period in which we expand our operating dairy farms, or in the event of any failure in our quality control system, we may not be able to guarantee the production volume and quality of our raw milk, which could materially and adversely affect our business;

2) The market prices of raw milk are driven by external supply and demand factors. In the event that the applicable price is lower than our expected level, our business, results of operations and financial position could be materially and adversely affected;

3) Our results of operations are subject to fair value adjustments in relation to biological assets and agricultural produce at the point of harvest, which can be volatile and are subject to a number of assumptions;

4) Disruptions of operations at our facilities could materially and adversely affect our business;

5) Natural disasters, acts of war and other factors beyond control may materially and adversely affect our business, results of operations and financial position;

6) We may not have full control over third-party contractors or service providers;

7) We may face challenges and incur additional costs if we expand into the downstream dairy products market in the future; and

8) Other risks relating to the industry and conducting business in the PRC.

Directors' Report

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

To the best knowledge of the Board, for the year ended 31 December 2018, the Group has not been involved in any litigation or arbitration of material importance and there is no legal proceeding or claim of material importance pending or threatened by or against the Group.

DIVIDEND POLICY

The Company has adopted a dividend policy ("**Dividend Policy**"), pursuant to which the Company may consider to declare and pay dividends to the shareholders of the Company (the "**Shareholders**"), provided that the Company records a profit and that the declaration and payment of dividends do not affect the normal operations of the Group.

The recommendation of the payment of any dividend and the amount of the dividend are subject to the discretion of the Board, and the payment of any dividends of a financial year will be subject to the approval of the Shareholders. In proposing the payment of dividend, the Board shall take into account, among other things: (i) the general financial condition of the Group; (ii) capital and debt level; (iii) future cash requirements and availability for business operations, business strategies and future development needs; (iv) any restrictions on payment of dividends that may be imposed by the Group's lenders; (v) market conditions; (vi) any other factors that the Board deems appropriate. The payment of any dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands, and the articles of association of the Company ("**Articles of Association**").

Based on the funding requirement of the Group's business expansion, the Board did not recommend the payment of any final dividend for the year ended 31 December 2018.

SHARE CAPITAL

As of 31 December 2018, the issued share capital of the Company was US$21,740.78, divided into 2,174,078,000 shares of US$0.00001 each. Details of the movements in the share capital of the Company during the Reporting Period are set out in note 24 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2018, none of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

Directors' Report

RESERVES

Details of the movements in the reserves of the Company and the Group during the Reporting Period are set out in note 25 to the consolidated financial statements and consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders, comprising retained profits, if any, and share premium, amounted to approximately RMB936.4 million (31 December 2017: RMB947.4 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the changes in the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the largest customer and supplier of the Group accounted for approximately 46.9% and approximately 26.4% of the Group's total revenue and total purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for approximately 96.2% and approximately 57.5% of the Group's total revenue and total purchases, respectively. None of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the issued shares) had a material interest in our five largest suppliers or customers. For further details, please refer to the section headed "3. Customer Reliance Risk" of this report.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

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

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of this Directors' Report and set out in note 29 to the consolidated financial statements, no transaction, arrangement or contract of significance in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during the Reporting Period or at the end of the Reporting Period.

Save as disclosed in the section headed "Connected Transactions" of this Directors' Report and set out in note 29 to the consolidated financial statements, during the Reporting Period, no contract of significance had been entered into between the Company or any of its subsidiaries, and the controlling Shareholders or any of its subsidiaries, nor had any contract of significance been entered into for the provision of service by the controlling Shareholders or any of its subsidiaries to the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

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

Directors' Report

DIRECTORS' INTERESTS IN SUBSCRIPTION OF SHARES AND DEBENTURES

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

During the years ended 31 December 2017 and 2018, no remuneration was paid by the Group to any directors, and the chief executive as an inducement to join or upon joining the Group or as compensation for loss of office. During the years ended 31 December 2017 and 2018, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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

	2018 (Person)	2017 (Person)
RMB0.8 million and below	**–**	–
RMB0.8 million to RMB1 million	**1**	3
RMB1 million to RMB1.2 million	**2**	–
Total	**3**	3

SERVICE CONTRACTS OF DIRECTORS

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

PERMITTED INDEMNITY PROVISIONS

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

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

SHARE OPTION SCHEME

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

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

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

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

In respect of the Share Option Scheme, share options may be granted to any companies wholly-owned by any parties falling within any of the above categories of participants.

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

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

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

Directors' Report

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

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

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

For the year ended 31 December 2018, no share options were granted by the Company or remained outstanding under the Share Option Scheme and no relevant expenses were recognised for 2018.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "**SFO**") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules were as follows:

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

Name of Director	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2018
Mr. Zhang Jianshe [(1)]	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%
Mr. Zhang Kaizhan [(1)]	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%
Mr. Liu Dai [(1)]	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%

Notes:

(1) As at 31 December 2018, Mr. Zhang Jianshe was the sole shareholder of YeGu Investment which directly held 350,778,000 shares and indirectly held, through its shareholding in Green Farmlands Group, 315,790,000 shares. Accordingly, under the SFO, Mr. Zhang Jianshe was deemed to be interested in the 666,568,000 shares held directly and indirectly by YeGu Investment. In addition, as at 31 December 2018, Mr. Zhang Kaizhan and Mr. Liu Dai, through their respective holding companies (namely SiYuan Investment Company Limited ("**SiYuan Investment**") and Tai Shing Company Limited ("**Tai Shing**")), indirectly held 61,460,000 shares and 147,040,000 shares, respectively.

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

Directors' Report

As such, as at 31 December 2018, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai would, through their respective holding companies, together hold 875,068,000 shares, representing approximately 40.25% of the issued share capital of the Company as at 31 December 2018. Under the SFO, because of the Concert Parties Arrangement, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai were each deemed to be interested in 40.25% of the issued share capital of the Company as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, so far as was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (as defined in Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code.

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

As at 31 December 2018, so far as was known to the Directors or chief executive of the Company and as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under section 336 of the SFO, the interests or short positions of persons other than the Directors and chief executive of the Company in the shares and underlying shares were as follows:

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

Name of Substantial Shareholder	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2018
Li Jingtao [(1)]	Interest of spouse	875,068,000(L)	40.25%
YeGu Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Zhang Fanghong [(2)]	Interest of spouse	875,068,000(L)	40.25%
SiYuan Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Yang Shulan [(3)]	Interest of spouse	875,068,000(L)	40.25%
Tai Shing	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Green Farmlands Group	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%

Name of Substantial Shareholder	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2018
New Energy Investment GP Ltd [(4)]	Beneficial owner	315,790,000(L)	14.53%
New Energy Investment Limited Partnership [(4)]	Interest of controlled corporation	315,790,000(L)	14.53%
VTD705HL Hong Kong Ltd. [(4)]	Interest of controlled corporation	315,790,000(L)	14.53%
PACIFIC EMINENT LIMITED	Interest of controlled corporation	315,790,000(L)	14.53%
Agriculture Investment Company Limited [(5)] ("**Agriculture Investment**")	Interest of controlled corporation	172,500,000(L)	7.93%
Shanghai Jingmu Investment Center ("**Shanghai Jingmu**") [(5)]	Interest of controlled corporation	277,760,000(L)	12.78%
Goldstone Agri-Investment Funds Management Center (Limited Partnership) [(5)]	Interest of controlled corporation	277,760,000(L)	12.78%
Beijing Agriculture Investment Fund (Limited Partnership) ("**Agriculture Investment Fund**") [(5)]	Beneficial owner	277,760,000(L)	12.78%
Beijing Jianye Fengde Investment Consulting Co., Ltd. [(5)]	Interest of controlled corporation	277,760,000(L)	12.78%
CITIC Capital Holdings Limited [(6)]	Interest of controlled corporation	174,100,000(L)	8.01%

Notes:

(1) Ms. Li Jingtao is the spouse of Mr. Zhang Jianshe and is therefore deemed to be interested in the shares in which Mr. Zhang Jianshe is interested under the SFO.

(2) Ms. Zhang Fanghong is the spouse of Mr. Zhang Kaizhan and is therefore deemed to be interested in the shares in which Mr. Zhang Kaizhan is interested under the SFO.

(3) Ms. Yang Shulan is the spouse of Mr. Liu Dai and is therefore deemed to be interested in the shares in which Mr. Liu Dai is interested under the SFO.

Directors' Report

(4) PACIFIC EMINENT LIMITED is wholly owned by VTD705HL Hong Kong Ltd. and VTD705HL Hong Kong Ltd. is wholly owned by New Energy Investment Limited Partnership. New Energy Investment Limited Partnership is wholly owned by New Energy Investment GP Ltd. Each of New Energy Investment Limited Partnership and New Energy Investment GP Ltd. is deemed to be interested in the same number of shares in which PACIFIC EMINENT LIMITED is interested under the SFO.

(5) Shanghai Jingmu is the sole shareholder of both Agriculture Investment and Jingmu Investment Company Limited and is therefore deemed to be interested in the same number of shares held by them (being 277,760,000 shares in total). Agriculture Investment Fund is the limited partner of Shanghai Jingmu holding approximately 99.85% of its registered capital, while Goldstone Agri-Investment Funds Management Center (Limited Partnership) is the general partner of Shanghai Jingmu holding approximately 0.15% of its registered capital. Accordingly, each of Agriculture Investment Fund and Goldstone Agri-Investment Funds Management Center (Limited Partnership) is deemed to be interested in the 277,760,000 shares held by Agriculture Investment and Jingmu Investment Company Limited under the SFO. Furthermore, Beijing Jianye Fengde Investment Consulting Co., Ltd., the general partner of Goldstone Agri-Investment Funds Management Center (Limited Partnership), is also deemed to be interested in the 277,760,000 shares referenced above under the SFO.

(6) CITIC Capital Holdings Limited held 174,100,000 shares through a number of wholly-owned subsidiaries.

Save as disclosed above, as at 31 December 2018, the Directors had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

The details of the related party transactions conducted by the Group in the usual course of business during the Reporting Period are set out in note 29 to the consolidated financial statements.

CONNECTED PERSONS

SinoFarm Genetics & Seeds (Group) Co., Ltd. ("**SinoFarm Genetics & Seeds**") is beneficially owned by Beijing YeGu Agriculture Technology Development Company Limited ("**YeGu Agriculture**") as to 51% and Beijing Qin Long Da Bio Technology Co., Ltd. ("**Qin Long Da**") as to 49% respectively. YeGu Agriculture is wholly owned by Mr. Zhang Jianshe, Director as well as controlling shareholder of the Company. Furthermore, Qin Long Da is owned as to 1% by Ms. Chang Na, an independent third party, and 99% by Mr. Li Jingbo, the brother-in-law of Mr. Zhang Jianshe. Accordingly, SinoFarm Genetics & Seeds is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions between the Group and SinoFarm Genetics & Seeds and/or its associates constitute continuing connected transactions under Chapter 14A of the Listing Rules.

(I) Property lease agreement with ZhongDi Dairy Group Co., Ltd.

On 21 June 2018 after trading hours, SinoFarm Genetics & Seeds entered into a property lease agreement with ZhongDi Dairy Group Co., Ltd. ("**ZhongDi Dairy**"), pursuant to which, SinoFarm Genetics & Seeds' premises will be used as an office for the Group's business operation in Beijing and provide a stable place of business for the Group.

Pursuant to the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Dairy, annual rental for relevant leased premises was RMB2,514,148.47, including management fees, air-conditioning and heat charges, which was payable quarterly and determined with reference to a daily rental of RMB8.10/m^2.

The term of the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Dairy is three years, commencing from 22 June 2018 and expiring on 21 June 2021 (both days inclusive).

As ZhongDi Dairy is a wholly-owned subsidiary of the Company and SinoFarm Genetics & Seeds is a connected person of the Company, accordingly, the transactions under the above property lease agreement constitute continuing connected transactions required to be disclosed under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company on 21 June 2018 for the details of the above transaction.

(II) Property lease agreement with ZhongDi Farm Technology Corporation

On 21 June 2018 after trading hours, SinoFarm Genetics & Seeds entered into a property lease agreement with ZhongDi Farm Technology Corporation ("**ZhongDi Farm**"), pursuant to which, SinoFarm Genetics & Seeds' premises will be used as an office for the Group's business operation in Beijing and provide a stable place of business for the Group.

Pursuant to the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Farm, annual rental for relevant leased premises was RMB4,084,936.92, including management fees, air-conditioning and heat charges, which was payable quarterly and determined with reference to a daily rental of RMB8.10/m^2.

The term of the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Farm is three years, commencing from 22 June 2018 and expiring on 21 June 2021 (both days inclusive).

As ZhongDi Farm is a wholly-owned subsidiary of the Company and SinoFarm Genetics & Seeds is a connected person of the Company, accordingly, the transactions under the above property lease agreement constitute continuing connected transactions required to be disclosed under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company on 21 June 2018 for the details of the above transaction.

Directors' Report

The total consideration under the above property lease agreements ("**Property Lease Agreements**") entered into between SinoFarm Genetics & Seeds and ZhongDi Dairy and ZhongDi Farm respectively will be paid in cash with internal resources, with the expected maximum rental amounts (including management fees, air-conditioning and heat charges) payable under the Property Lease Agreements for the financial years ending 31 December 2018, 2019, 2020 and 2021 amounting to RMB3,489,379.40, RMB6,599,085.40, RMB6,599,085.40 and RMB3,109,706.00 respectively. As the largest Annual Cap payable by the Group to SinoFarm Genetics & Seeds under the Property Lease Agreements for each of the financial years ending 31 December 2018, 2019, 2020 and 2021 is more than HK$3,000,000 but all the applicable percentage ratios calculated on an annual basis pursuant to Rule 14.07 of the Listing Rules are less than 5%, the entering into of the Property Lease Agreements is subject to the reporting, announcement and annual review requirements but is exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

Save for the aforesaid, none of the related party transactions as set out in note 29 to the consolidated financial statements are connected transactions or continuing connected transactions that are required to be disclosed under the Listing Rules. The Company confirms that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

Opinion from the independent non-executive directors on the continuing connected transactions

Pursuant to Rule 14A.55 of the Listing Rules, Prof. Li Shengli, Dr. Zan Linsen and Mr. Joseph Chow, independent non-executive directors of the Company, have reviewed the above continuing connected transactions and opined that the transactions under the Property Lease Agreements were:

– entered into in the ordinary and usual course of the Group's business;

– entered into on normal commercial terms or terms no less favourable to the Group than terms available from/to independent third parties; and

– entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders of the Company as a whole.

Report from the auditors on the continuing connected transactions

For the purposes of Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to report on the above continuing connected transactions that are subject to annual review for the year ended 31 December 2018 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing the findings and conclusions in respect of the above continuing connected transactions, in accordance with Rule 14A.56 of Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

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

DONATIONS

During the Reporting Period, the Group made charitable and other donations amounting to RMB141,004 (31 December 2017: RMB241,004).

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Ernst & Young, the auditors of the Company. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

The auditors of the Company have not changed in the past three years.

On behalf of the Board
Zhang Jianshe
Chairman

29 March 2019

Independent Auditor's Report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel電話：+852 2846 9888
Fax傳真：+852 2868 4432
ey.com

To the shareholders of China ZhongDi Dairy Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 154, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Valuation of biological assets	
Biological assets of the Group, which represented dairy cows, amounted to RMB1,614,690,000 as at 31 December 2018 and are measured at fair value less costs to sell. Dairy cows include cows held for sale, milkable cows and heifers and calves, which are for the purpose of selling and producing raw milk respectively. Management's assessment on the fair value of biological assets is important to our audit since (i) the carrying values of biological assets accounted for approximately 33% of the total assets of the Group; and (ii) significant estimates were involved in the assessment. The accounting policies, significant estimation and fair value disclosures of biological assets are included in notes 2.5 Summary of significant accounting policies, 3 Significant accounting judgements and estimates and 16 Biological assets to the consolidated financial statements.	Management has engaged an external valuer to perform valuation of the biological assets as at 31 December 2018. We assessed the objectivity, independence and competence of the external valuer, and benchmarked the parameters used in the valuation model to the external data. We involved our internal valuation specialists to assist in evaluating the valuation technique and the underlying assumptions of estimated local selling price of 14 months old heifers, local market price of heifers held for sale and discount rates. We also evaluated other key assumptions, such as feed costs per kilogram of raw milk, daily milk yield at each lactation cycle, and local future market prices for raw milk. In addition, we reviewed the adequacy and appropriateness of the disclosures relating to the fair value measurement of biological assets.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

		2018			2017		
	Notes	**Results before biological fair value adjustments RMB'000**	**Biological fair value adjustments RMB'000**	**Total RMB'000**	Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
REVENUE	5	**1,424,986**	**—**	**1,424,986**	1,134,282	—	1,134,282
Cost of sales	6	**(932,532)**	**(435,400)**	**(1,367,932)**	(741,123)	(350,303)	(1,091,426)
Gross profit		**492,454**	**(435,400)**	**57,054**	393,159	(350,303)	42,856
Losses arising from changes in fair value less costs to sell of biological assets		**—**	**(173,691)**	**(173,691)**	—	(176,016)	(176,016)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		**—**	**415,969**	**415,969**	—	346,127	346,127
Other income	5	**34,661**	**—**	**34,661**	34,975	—	34,975
Other gains and losses	5	**(1,495)**	**—**	**(1,495)**	(12,300)	—	(12,300)
Distribution costs		**(59,716)**	**—**	**(59,716)**	(46,916)	—	(46,916)
Administrative expenses		**(93,953)**	**—**	**(93,953)**	(71,473)	—	(71,473)
Other expenses	7	**(1,110)**	**—**	**(1,110)**	(394)	—	(394)
Finance costs	8	**(114,543)**	**—**	**(114,543)**	(103,482)	—	(103,482)
Share of profits and losses of:							
Associates		**14**	**—**	**14**	—	—	—
PROFIT BEFORE TAX	6	**256,312**	**(193,122)**	**63,190**	193,569	(180,192)	13,377
Income tax expenses	11	**—**	**—**	**—**	—	—	—
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**256,312**	**(193,122)**	**63,190**	193,569	(180,192)	13,377
Profit and total comprehensive income attributable to owners of the parent		**256,312**	**(193,122)**	**63,190**	193,569	(180,192)	13,377
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:							
– Basic and diluted (RMB cents)	13			**2.9**			0.6

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 Restated
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,814,500**	1,810,887
Prepayments		**108,937**	26,048
Pledged deposits		**31,160**	14,646
Prepaid land lease payments	15	**116,765**	87,600
Biological assets	16	**1,613,910**	1,601,330
Investments in an associate		**10,283**	—
Total non-current assets		**3,695,555**	3,540,511
CURRENT ASSETS			
Inventories	17	**332,752**	320,299
Trade and other receivables	18	**177,149**	148,413
Prepaid land lease payments	15	**4,127**	3,787
Biological assets	16	**780**	780
Pledged bank deposits	19	**7,859**	8,552
Cash and bank balances	19	**615,082**	391,508
Total current assets		**1,137,749**	873,339
CURRENT LIABILITIES			
Trade and other payables	20	**496,965**	613,230
Contract liabilities	21	**25,425**	9,229
Interest-bearing bank and other borrowings	22	**1,015,545**	1,087,158
Total current liabilities		**1,537,935**	1,709,617
NET CURRENT LIABILITIES		**(400,186)**	(836,278)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,295,369**	2,704,233
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	22	**1,166,210**	634,084
Deferred income	23	**27,196**	31,376
Total non-current liabilities		**1,193,406**	665,460
Net assets		**2,101,963**	2,038,773

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 Restated
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	**135**	135
Share premium and reserves	25	**2,101,828**	2,038,638
Total equity		**2,101,963**	2,038,773

Zhang Jianshe
Director

Zhang Kaizhan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent					
	Share capital RMB'000 note 24	Share premium RMB'000	Capital reserve RMB'000 note 25	Statutory surplus reserve RMB'000 note 25	Retained profits RMB'000	Total equity RMB'000
At 1 January 2017	135	1,019,152*	398,541*	42,800*	564,768*	2,025,396
Profit and total comprehensive income for the year	—	—	—	—	13,377	13,377
Transfer from retained profits	—	—	—	10,840	(10,840)	—
At 31 December 2017 and at 1 January 2018	135	1,019,152*	398,541*	53,640*	567,305*	2,038,773
Profit and total comprehensive income for the year	—	—	—	—	63,190	63,190
Transfer from retained profits	—	—	—	27,275	(27,275)	—
At 31 December 2018	**135**	**1,019,152***	**398,541***	**80,915***	**603,220***	**2,101,963**

* These reserve accounts comprise the consolidated reserves of RMB2,101,828,000 (2017: RMB2,038,638,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**63,190**	13,377
Adjustments for:			
Losses arising from changes in fair value less costs to sell of biological assets		**192,639**	189,669
Share of profits and losses of associates		**(14)**	—
Depreciation of items of property, plant and equipment	6	**55,205**	47,542
Recognition of prepaid land lease payments	6	**14,752**	19,026
Government grants for assets	5	**(6,980)**	(2,674)
Finance costs	8	**114,543**	103,482
Interest income	5	**(4,551)**	(6,371)
Loss on disposal of items of property, plant and equipment	5	**11,007**	48
Foreign exchange differences, net	5	**(9,292)**	11,385
		430,499	375,484
Decrease in inventories		**29,702**	3,208
Increase in trade and other receivables		**(22,026)**	(18,894)
Decrease in cows held for sale		**—**	44,700
Increase/(decrease) in trade and other payables and contract liabilities		**32,486**	(6,419)
Cash generated from operations		**470,661**	398,079
Interest received		**4,528**	3,571
Net cash flows from operating activities		**475,189**	401,650

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Net cash flows from operating activities	**475,189**	401,650
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(360,600)**	(300,490)
Additions to biological assets	**(360,079)**	(407,269)
Additions to prepaid land lease payments	**(85,881)**	(67,370)
Proceeds from disposal of items of property, plant and equipment	**4,249**	—
Proceeds from disposal of biological assets	**203,802**	88,997
Placement of pledged bank deposits	**(38,175)**	(28,089)
Withdrawals of pledged bank deposits	**38,868**	39,567
Net proceeds from acquisition of subsidiaries	**—**	388
Disposal of a subsidiary	**(42)**	—
Prepayment for acquisition of non-current assets	**—**	(10,000)
Receipt of government grants for assets	**2,800**	4,661
Net cash flows used in investing activities	**(595,058)**	(679,605)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings raised	**1,927,693**	1,343,127
Repayment of borrowings	**(1,467,180)**	(1,012,160)
Interest and guarantee fees paid	**(106,362)**	(61,916)
Pledged deposits placed for other borrowings	**(20,000)**	(16,400)
Net cash flows from financing activities	**334,151**	252,651
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**214,282**	(25,304)
Cash and cash equivalents at beginning of year	**240,568**	267,953
Effect of foreign exchange rate changes, net	**1,692**	(2,081)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**456,542**	240,568
Represented by cash and bank balances:		
Cash and bank balances as stated in the consolidated statement of financial position	**615,082**	391,508
Less: Time deposits with original maturity of more than three months	**(158,540)**	(150,940)
	456,542	240,568

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

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

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

Notes to Consolidated Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Notes:

The type of legal entity registered of the above subsidiaries is limited liability company.

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

2.1 BASIS OF PRESENTATION

The Group had net current liabilities of RMB400,186,000 as at 31 December 2018. In view of the net current liabilities position, the board of directors (the "Directors") have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities available as at 31 December 2018 and cash flow projections for the year ended 31 December 2019, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

2.2 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.2 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and there is no material impact on the statement of profit or loss and other comprehensive income for the year ended 31 December 2017, statement of financial position as at 31 December 2017, statement of changes in equity, statement of cash flows or basic and diluted earnings per share for the year ended 31 December 2017.

The impacts relate to the classification and measurement, the impairment requirements and hedge accounting are summarised as follows:

(a) Classification and measurement

The adoption of IFRS 9 does not have a significant impact on the classification and measurement of financial instruments of the Group.

Notes to Consolidated Financial Statements

31 December 2018

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

IFRS 9 Financial Instruments *(continued)*

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss (FVPL).

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets if any, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of the ECL requirements of IFRS 9 does not have any material impact on impairment allowances of the Group's debt financial assets.

(c) Hedge accounting

Since the Group has not involved in hedging activities, there has been no significant impact in this regard upon adoption of IFRS 9.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the full retrospective method of adoption. The effect of adopting IFRS 15 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2017:

	Adjustments	RMB'000
Liabilities		
Trade and other payables	(b)	(9,229)
Contract liabilities (current)	(b)	9,229
Total current liabilities		—

There is no material impact on the statement of profit or loss and other comprehensive income, statement of changes in equity and basic and diluted EPS for the year ended 31 December 2017.

The nature of the above adjustment and the impact of IFRS 15 are described below:

(a) Sale of goods

The Group's principal activities consist of operations of dairy farms to produce and sell raw milk and importing and selling cows and other related goods. The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the goods is transferred to the customer, generally on receipt of the goods by customers. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Notes to Consolidated Financial Statements

31 December 2018

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

IFRS 15 Revenue from Contracts with Customers (continued)

(b) Advances received from customers and agency customers

Generally, the Group receives advances from its customers. Prior to the adoption of IFRS 15, the Group presented these advances as trade and other payables in the statement of financial position. The statement of financial position as at 31 December 2017 was restated resulting in recognition of contract liabilities amounting to RMB9,229,000 and decreases in trade and other payables amounting to RMB9,229,000, respectively.

(c) Presentation and disclosure requirements

The Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 5 for the disclosure on disaggregated revenue.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

IFRIC interpretation 22 Foreign Currency Transactions and Advance Considerations

IFRIC-Int 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12, and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

IFRS 16, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019.

Notes to Consolidated Financial Statements

31 December 2018

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB417,732,000, of which RMB22,469,000 will be reclassified from prepaid land lease payments, and lease liabilities of RMB395,263,000 will be recognised at 1 January 2019.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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

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

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

Interests in joint operations

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

Fair value measurement

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Biological assets

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

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

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

Agricultural produce

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

Non-current assets and disposal groups held for sale

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

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

Notes to Consolidated Financial Statements

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

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

Research and development costs

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

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

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

Leases

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (continued)

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

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

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

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section *Revenue recognition*.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Notes to Consolidated Financial Statements

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – initial recognition and subsequent measurement *(continued)*

i) Financial assets *(continued)*

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, and pledged deposits.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets *(continued)*

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group does not have any debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group does not have any financial assets under this category.

Notes to Consolidated Financial Statements

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – initial recognition and subsequent measurement *(continued)*

i) Financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Derecognition

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

- The rights to receive cash flows from the asset have expired

Or

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

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

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

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions — Note 3
- Trade and other receivables — Note 18

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Notes to Consolidated Financial Statements

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – initial recognition and subsequent measurement *(continued)*

i) Financial assets *(continued)*

Impairment of financial assets (continued)

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – initial recognition and subsequent measurement *(continued)*

ii) Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Notes to Consolidated Financial Statements

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

This category generally applies to interest-bearing bank and other borrowings. For more information, refer to Note 22.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

Notes to Consolidated Financial Statements

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

Government grants

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

Grants relating to biological assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants *(continued)*

Other grants

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

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

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

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on receipt of the goods by customers.

Rendering of services

Revenue from rendering of services is recognised upon completion of agency services and customer acceptance.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments (continued)

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

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

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

Other employee benefits

Pension scheme

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

Borrowing costs

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

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

Dividends

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Recognition of deferred tax liability for withholding taxes

As 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding tax of the Group's subsidiaries established in Mainland China. The detail information is disclosed in Note 11.

Estimation uncertainty

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

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 18.

Notes to Consolidated Financial Statements

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Valuation of biological assets

The Group's biological assets are valued at fair value less costs to sell at the end of each reporting period. The determination of the fair value involves the use of assumptions and estimates. Any changes in the estimates may affect the fair value of the Group's biological assets significantly. The independent qualified professional valuer and management of the Group review the assumptions and estimates periodically to identify any significant change in fair value of the Group's biological assets. The carrying amount of the Group's biological assets as at 31 December 2018 was RMB1,614,690,000 (2017: RMB1,602,110,000). Further details are given in note 16 to the financial statements.

4. SEGMENT INFORMATION

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

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

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

Segment results exclude fair value adjustments of biological assets and agricultural produce, finance costs and head office and corporate expenses.

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

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

4. SEGMENT INFORMATION *(continued)*

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

Year ended 31 December 2018	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Segment revenue (note 5)			
Sales to external customers	1,335,839	89,147	1,424,986
Intersegment sales	—	27,035	27,035
	1,335,839	116,182	1,452,021
Reconciliation:			
Elimination of intersegment sales	—	(27,035)	(27,035)
Revenue	1,335,839	89,147	1,424,986
Segment results	165,765	26,364	192,129
Reconciliation:			
Fair value adjustments of biological assets			23,279
Elimination of intersegment results			(428)
Finance costs			(114,543)
Corporate and other unallocated expenses			(37,247)
Profit before tax			63,190
Segment assets	4,481,432	409,507	4,890,939
Reconciliation:			
Elimination of intersegment receivables	(359,044)	(148,608)	(507,652)
	4,122,388	260,899	4,383,287
Fair value adjustments of biological assets			243,406
Corporate and other unallocated assets			206,611
Total assets			4,833,304

Notes to Consolidated Financial Statements

31 December 2018

4. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Segment liabilities	**659,437**	**388,587**	**1,048,024**
Reconciliation:			
Elimination of intersegment payables	**(148,162)**	**(359,044)**	**(507,206)**
	511,275	**29,543**	**540,818**
Borrowings			**2,181,755**
Corporate and other unallocated liabilities			**8,768**
Total liabilities			**2,731,341**
Other segment information			
Amounts included in the measure of segment profit or segment assets:			
Loss on disposal of items of property, plant and equipment	**10,954**	**53**	**11,007**
Depreciation	**105,329**	**2,652**	**107,981**
Other unallocated depreciation	**—**	**—**	**15**
			107,996
Recognition of land lease prepayments	**56,968**	**122**	**57,090**
Other unallocated recognition of land lease prepayments	**—**	**—**	**506**
			57,596
Bank interest income	**327**	**3,883**	**4,210**
Other unallocated bank interest income	**—**	**—**	**341**
			4,551
Capital expenditure*	**627,604**	**86**	**627,690**

4. SEGMENT INFORMATION *(continued)*

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

Notes to Consolidated Financial Statements

31 December 2018

4. SEGMENT INFORMATION *(continued)*

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

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

4. SEGMENT INFORMATION *(continued)*

Geographical information

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

Information about major customers

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

	2018 **RMB'000**	2017 RMB'000
Revenue from dairy farming business		
Customer A	**668,827**	439,618
Customer B	**584,219**	562,936
	1,253,046	1,002,554

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 **RMB'000**	2017 RMB'000
Revenue from contracts with customers		
Sale of goods		
– Raw milk	**1,335,839**	1,033,286
– Cows held for sale	**86,238**	99,755
Rendering of agency services		
– Import agency services	**2,909**	1,241
	1,424,986	1,134,282

Notes to Consolidated Financial Statements

31 December 2018

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Type of goods and services			
Sale of goods	**1,335,839**	**86,238**	**1,422,077**
Rendering of agency services	**—**	**2,909**	**2,909**
Total revenue from contracts with customers	**1,335,839**	**89,147**	**1,424,986**
Geographical markets			
Mainland China	**1,335,839**	**89,147**	**1,424,986**
Total revenue from contracts with customers	**1,335,839**	**89,147**	**1,424,986**
Timing of revenue recognition			
Goods transferred at a point in time	**1,335,839**	**89,147**	**1,424,986**
Total revenue from contracts with customers	**1,335,839**	**89,147**	**1,424,986**

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	**1,335,839**	**89,147**	**1,424,986**
Intersegment sales	**—**	**27,035**	**27,035**
	1,335,839	**116,182**	**1,452,021**
Intersegment adjustments and eliminations	**—**	**(27,035)**	**(27,035)**
Total revenue from contracts with customers	**1,335,839**	**89,147**	**1,424,986**

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information *(continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 **RMB'000**
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	21

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon when control of the goods is transferred to the customer, generally on receipt of the goods by customers, and payment is generally due within 30 to 90 days from delivery.

Rendering of agency services

Generally, the Group receives advances from its customers. The performance obligation is satisfied upon completion of agency services and customer acceptance.

Notes to Consolidated Financial Statements

31 December 2018

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

	Notes	**2018** **RMB'000**	2017 RMB'000
Other income			
Government grants related to			
– Other assets	i	**6,980**	2,674
– Income	ii	**22,070**	24,688
		29,050	27,362
Interest income		**4,551**	6,371
Others		**1,060**	1,242
		34,661	34,975
Other gains/(losses)			
– Gains/(losses) on disposal of items of property, plant and equipment		**(11,007)**	(48)
– Exchange gain/(loss), net		**9,292**	(11,385)
– Others		**220**	(867)
		(1,495)	(12,300)

Notes:

i. These government grants are released from deferred income.

ii. These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

6. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	RMB'000
Cost of sales		
Feeds and other related costs for raw milk production	**865,725**	645,376
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**415,969**	346,127
Cost of sales of raw milk	**1,281,694**	991,503
Purchase, feeds and other related costs for cows held for sale	**66,807**	95,579
Gains arising from changes in fair value less costs to sell of biological assets	**19,431**	4,176
Cost of sales of cows held for sale	**86,238**	99,755
Costs related to the trading of alfalfa and others	**—**	168
	1,367,932	1,091,426
Staff costs (including the directors' emoluments)		
Salaries, bonuses and allowances	**109,075**	97,653
Contributions to a retirement benefit scheme	**11,932**	8,874
Total employee benefits	**121,007**	106,527
Less: Capitalised in biological assets	**(31,478)**	(40,236)
Employee benefits charged in profit	**89,529**	66,291
Depreciation and recognition of lease expenses		
Depreciation of items of property, plant and equipment	**107,996**	104,552
Less: Capitalised in biological assets	**(52,791)**	(57,010)
Depreciation charged to profit	**55,205**	47,542
Recognition of prepaid land lease payments	**57,596**	57,809
Less: Capitalised in inventories	**(42,844)**	(38,783)
Prepaid land lease payments charged to profit	**14,752**	19,026
Office rental expenses	**3,489**	3,391
Other items		
Auditors' remuneration	**2,350**	2,350

Notes to Consolidated Financial Statements

31 December 2018

7. OTHER EXPENSES

	2018	2017
	RMB'000	RMB'000
Bank transaction fees	**602**	380
Others	**508**	14
	1,110	394

8. FINANCE COSTS

	2018	2017
	RMB'000	RMB'000
Interest on borrowings	**119,716**	104,472
Less: Interest capitalised	**(5,173)**	(990)
	114,543	103,482

Borrowing costs capitalised during the year arose from the special borrowing and are calculated by applying the capitalisation rate of 5.39% per annum during the year ended 31 December 2018 (2017: 5.39%), to expenditures on construction in progress.

9. DIRECTORS' REMUNERATION

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

	2018	2017
	RMB'000	RMB'000
Fees	**1,455**	1,472
Other emoluments:		
Salaries, allowances and benefits in kind	**3,108**	3,204
Performance related bonus	**387**	387
Pension scheme contributions	**64**	30
	5,014	5,093

(a) Independent non-executive directors

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

	2018	2017
	RMB'000	RMB'000
Prof. Li Shenli	**257**	260
Dr. Zan Linsen	**257**	260
Mr. Joseph Chow	**257**	260
	771	780

Notes to Consolidated Financial Statements

31 December 2018

9. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonus RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Executive directors:					
Mr. Zhang Jianshe	**—**	**1,650**	**207**	**23**	**1,880**
Mr. Zhang Kaizhan	**—**	**1,458**	**180**	**41**	**1,679**
	—	**3,108**	**387**	**64**	**3,559**
Non-executive directors:					
Mr. Liu Dai	**171**	**—**	**—**	**—**	**171**
Mr. Du Yuchen	**171**	**—**	**—**	**—**	**171**
Mr. Li Jian	**171**	**—**	**—**	**—**	**171**
Ms. Yu Tianhua	**171**	**—**	**—**	**—**	**171**
	684	**—**	**—**	**—**	**684**
	684	**3,108**	**387**	**64**	**4,243**
2017					
Executive directors:					
Mr. Zhang Jianshe	—	1,751	207	15	1,973
Mr. Zhang Kaizhan	—	1,453	180	15	1,648
	—	3,204	387	30	3,621
Non-executive directors:					
Mr. Liu Dai	173	—	—	—	173
Mr. Du Yuchen	173	—	—	—	173
Mr. Li Jian	173	—	—	—	173
Ms. Yu Tianhua	173	—	—	—	173
	692	—	—	—	692
	692	3,204	387	30	4,313

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

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2017: two), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are not a director of the Company are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,221**	2,550
Performance related bonus	**249**	326
Pension scheme contributions	**110**	40
	3,580	2,916

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

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**—**	1
HK$1,000,001 to HK$1,500,000	**3**	2
	3	3

Notes to Consolidated Financial Statements

31 December 2018

11. INCOME TAX

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

	2018		2017	
	RMB'000	**%**	RMB'000	%
Profit before tax	**63,190**		13,377	
Tax at corporate income tax rate of 25%	**15,798**	**25.0**	3,344	25.0
Effect of items that are not deductible in determining taxable profit	**48,960**	**77.5**	45,679	341.5
Effect of losses incurred for agricultural business	**9,650**	**15.3**	10,067	75.3
Tax losses not recognised	**10,322**	**16.3**	3,129	23.4
Effect of tax exemption granted to agricultural operations	**(84,730)**	**(134.1)**	(62,219)	(465.2)
Income tax expenses	**—**	**—**	—	—

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

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

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

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

11. INCOME TAX *(continued)*

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

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB683,962,000 at 31 December 2018 (2017: RMB635,786,000).

12. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 31 December 2018 (2017: Nil).

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

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

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

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

	2018	2017
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**63,190**	13,377

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year	**2,174,078,000**	2,174,078,000

Notes to Consolidated Financial Statements

31 December 2018

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018					
At 31 December 2017 and at 1 January 2018					
Cost	1,558,377	34,428	300,970	184,130	2,077,905
Accumulated depreciation	(174,986)	(10,155)	(81,877)	—	(267,018)
Net carrying amount	1,383,391	24,273	219,093	184,130	1,810,887
At 1 January 2018, net of accumulated depreciation	1,383,391	24,273	219,093	184,130	1,810,887
Additions	1,732	166	14,032	111,102	127,032
Transfers	272,471	1,500	13,449	(287,420)	—
Disposals	(13,884)	—	(1,372)	—	(15,256)
Disposal of a subsidiary	—	(167)	—	—	(167)
Depreciation provided during the year	(74,502)	(1,208)	(32,286)	—	(107,996)
At 31 December 2018, net of accumulated depreciation	1,569,208	24,564	212,916	7,812	1,814,500
At 31 December 2018					
Cost	1,809,406	35,804	323,399	7,812	2,176,421
Accumulated depreciation	(240,198)	(11,240)	(110,483)	—	(361,921)
Net carrying amount	1,569,208	24,564	212,916	7,812	1,814,500

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

As at 31 December 2018, certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB318,533,000 (2017: RMB347,151,000) were pledged to secure interest-bearing bank and other borrowings to the Group (note 22).

Notes to Consolidated Financial Statements

31 December 2018

15. PREPAID LAND LEASE PAYMENTS

	2018	2017
	RMB'000	RMB'000
Carrying amount at 1 January	**91,387**	95,357
Additions	**87,101**	53,839
Recognised during the year	**(57,596)**	(57,809)
Carrying amount at 31 December	**120,892**	91,387
Current portion	**(4,127)**	(3,787)
Non-current portion	**116,765**	87,600

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

	2018	2017
	RMB'000	RMB'000
Carrying amount at end of the year:		
Remaining lease terms of less than 10 years	**5,251**	654
Remaining lease terms between 10 and 50 years	**115,641**	90,733
	120,892	91,387

At 31 December 2018, certain of the Group's prepaid land lease payments with an aggregate carrying amount of RMB7,260,000 (2017: RMB7,622,000) have been pledged as security for interest-bearing bank and other borrowings of the Group (note 22).

16. BIOLOGICAL ASSETS

A - Nature of activities

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

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

	2018	2017
	Heads	Heads
Cows held for sale	**71**	52
Milkable cows	**36,068**	33,797
Heifers and calves	**28,640**	30,403
	64,779	64,252

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

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

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

Notes to Consolidated Financial Statements

31 December 2018

16. BIOLOGICAL ASSETS *(continued)*

A - Nature of activities *(continued)*

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

i. Regulatory and environmental risks

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

ii. Climate, disease and other natural risks

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

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

	2018	2017
	Tonnes	Tonnes
Raw milk	**354,141**	278,406

16. BIOLOGICAL ASSETS *(continued)*

C - Value of biological assets

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

	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Total RMB'000
At 1 January 2018	**526,890**	**1,074,440**	**780**	**1,602,110**
Purchase cost	**2,563**	**—**	**54,367**	**56,930**
Feeding cost	**410,996**	**—**	**12,923**	**423,919**
Transfer	**(361,402)**	**361,402**	**—**	**—**
Decrease due to disposal/death	**(117,728)**	**(90,612)**	**—**	**(208,340)**
Gains/(losses) arising from changes in fair value less costs to sell of biological assets	**7,301**	**(199,940)**	**18,948**	**(173,691)**
Transfer out upon selling	**—**	**—**	**(86,238)**	**(86,238)**
At 31 December 2018	**468,620**	**1,145,290**	**780**	**1,614,690**
Represented by:				
Current portion	**—**	**—**	**780**	**780**
Non-current portion	**468,620**	**1,145,290**	**—**	**1,613,910**
Total	**468,620**	**1,145,290**	**780**	**1,614,690**

16. BIOLOGICAL ASSETS *(continued)*

C - Value of biological assets *(continued)*

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

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

As at 31 December 2018, the Group pledged its dairy cows of approximately RMB73,500,000 (2017: RMB73,500,000) to a bank and approximately RMB941,203,000 (2017: RMB586,989,000) to third parties to secure certain of the Group's borrowings (note 22).

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

	2018 RMB'000	2017 RMB'000
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**415,969**	346,127

16. BIOLOGICAL ASSETS *(continued)*

D - Fair value hierarchy

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

	As at 31 December 2018			
Recurring fair value measurement for:	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Cows held for sale	**—**	**—**	**780**	**780**
Heifers and calves	**—**	**—**	**468,620**	**468,620**
Milkable cows	**—**	**—**	**1,145,290**	**1,145,290**
Total biological assets	**—**	**—**	**1,614,690**	**1,614,690**

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

Notes to Consolidated Financial Statements

31 December 2018

16. BIOLOGICAL ASSETS *(continued)*

E - Valuation techniques used in fair value measurements

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

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Heifers and calves	The fair value of 14 months old heifers is determined by reference to the local market selling price.	Average local market selling prices of the heifers of 14 months old were estimated at RMB18,500 per head at 31 December 2018 (2017: RMB19,500 per head).	An increase in the estimated local market selling price used would result in an increase in the fair value measurement of the heifers and calves, and vice versa.
	The fair values of heifers and calves at age group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.	Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old were RMB14,503 at 31 December 2018 (2017: RMB14,777). Average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old were RMB12,170 at 31 December 2018 (2017: RMB13,280).	An increase in the estimated feeding costs plus the margin that would normally be required by a raiser would result in an increase in the fair value measurement of the heifers and calves older than 14 months old and a decrease in the fair value measurement of the heifers and calves younger than 14 months old, and vice versa.

16. BIOLOGICAL ASSETS *(continued)*

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

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is a method of estimating the economic benefits of such milkable cows over multiple time periods by identifying the cash flows associated with such milkable cows and deducting a periodic charge reflecting a fair return for such milkable cows.	The estimated feed costs per kilogram of raw milk used in the valuation process were RMB2.04 for the year ended 31 December 2018 (2017: RMB1.91), based on the historical average feed costs per kilogram of raw milk after taking into consideration of inflation. A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle ranged from 26.80kg to 28.40kg for the year ended 31 December 2018 (2017: from 27.50kg to 29.00kg), depending on the number of the lactation cycles and the individual physical condition. The estimated local future market price for raw milk was RMB3,940 per tonne at 31 December 2018 (2017: RMB3,900). The discount rate for estimated future cash flows used was 14.0% at 31 December 2018 (2017: 14.0%).	An increase in the estimated feed costs per kilogram of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa. An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of the milkable cows, and vice versa. An increase in the estimated average selling price of raw milk used would result in an increase in the fair value measurement of the milkable cows, and vice versa. An increase in the estimated discount rate used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.

Notes to Consolidated Financial Statements

31 December 2018

16. BIOLOGICAL ASSETS *(continued)*

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

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Cows held for sale	The fair value for cows held for sale is mainly determined based on the estimated local market selling prices.	The estimated local market selling price per head of the heifers was RMB11,400 at 31 December 2018 (2017: RMB17,927).	An increase in the estimated local market selling price used would result in an increase in the fair value measurement of the cows held for sale, and vice versa.

17. INVENTORIES

	2018 RMB'000	2017 RMB'000
Feeds	**316,057**	303,494
Others	**16,695**	16,805
	332,752	320,299

18. TRADE AND OTHER RECEIVABLES

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

	2018 RMB'000	2017 RMB'000
Trade receivables:		
– 0 to 30 days	**124,094**	18,093
– 31 to 90 days	**854**	89,297
– 91 to 180 days	**—**	—
	124,948	107,390
Other receivables:		
– Advances to suppliers	**41,624**	20,277
– Others	**10,577**	20,746
	52,201	41,023
	177,149	148,413

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses of trade receivables. The provision rates are based on ageing groups for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. No impairment has been provided for the Group's trade and other receivables as at 31 December 2018 and 2017.

Notes to Consolidated Financial Statements

31 December 2018

18. TRADE AND OTHER RECEIVABLES *(continued)*

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

As at 31 December 2018, the Group pledged nil of its trade receivables (2017: RMB8,387,000) to certain customers to secure certain of the Group's borrowings (note 22).

As at 31 December 2018, the Group had entered into several factoring agreements with certain financial institutions. Since the Group had retained the substantial risks and rewards relating to those factored trade receivables, it continued to recognise the full carrying amounts of trade receivables and accounted for the proceeds as bank and other borrowings as disclosed in note 22. Trade receivables under such factoring agreements amounted to RMB12,419,000 as at 31 December 2018 (31 December 2017: Nil).

19. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**456,542**	240,568
Time deposits with original maturity of more than three months	**158,540**	150,940
Cash and bank balances	**615,082**	391,508
Pledged bank deposits	**7,859**	8,552
	622,941	400,060

Pledged bank deposits of the Group represent deposits pledged for letters of credit and bills payable. The Group's pledged bank deposits carried interest at a prevailing interest rate of 0.35% (2017: 0.35%) per annum at 31 December 2018.

Cash and bank balances of the Group comprise cash, short-term bank deposits with an original maturity of three months or less and time deposits with original maturity of more than three months. The Group's bank balances carried interest at prevailing interest rates ranging from 0.01% to 2.6% (2017: 0.05% to 2.1%) per annum at 31 December 2018.

Pledged bank deposits and cash and bank balances were denominated in RMB, United States dollars ("USD") and Hong Kong dollars ("HKD") as at 31 December 2018. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

	2018	2017
	RMB'000	RMB'000
RMB	**431,384**	210,616
USD	**191,183**	187,024
HKD	**374**	2,420
	622,941	400,060

20. TRADE AND OTHER PAYABLES

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

	2018	2017
	RMB'000	RMB'000
Trade and bills payables:		
– 0 to 90 days	**306,939**	328,845
– 91 to 180 days	**77,116**	69,126
– Over 181 days	**43,890**	21,015
	427,945	418,986
Payable for acquisition of items of property, plant and equipment and office rental	**9,974**	160,208
Accrued staff costs	**15,513**	15,611
Land lease payables	**4,543**	3,324
Interest payables	**10,604**	2,754
Deposits	**12,356**	7,812
Others	**16,030**	4,535
	69,020	194,244
	496,965	613,230

21. CONTRACT LIABILITIES

	2018	2017
	RMB'000	RMB'000
		Restated
Short-term advances received from customers:		
Sale of goods	**25,425**	9,229
Total contract liabilities	**25,425**	9,229

Contract liabilities include short-term advances received to deliver goods and render agency services. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the provision of sale of goods at the end of the year.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

		2018		2017	
	Notes	**Maturity**	**RMB'000**	Maturity	RMB'000
Current					
Unsecured bank borrowings		**2019**	**450,600**	2018	881,469
Guaranteed and unsecured bank borrowings	(i) (a)	**2019**	**290,000**	2018	—
Secured bank borrowings	(i) (b)	**2019**	**50,000**	2018	47,000
Secured other borrowings	(i) (c)	**2019**	**95,215**	2018	140,821
Guaranteed and secured bank borrowings	(i) (d)	**2019**	**28,372**	2018	496
Guaranteed and secured other borrowings	(i) (e)	**2019**	**101,358**	2018	17,372
			1,015,545		1,087,158
Non-current					
Unsecured bank borrowings		**2020-2021**	**217,000**	2019-2021	90,000
Secured bank borrowings	(i) (b)		**—**	2019	15,000
Secured other borrowings	(i) (c)	**2020**	**99,560**	2019	292,628
Guaranteed and secured bank borrowings	(i) (d)	**2020-2025**	**171,628**	2019-2025	199,504
Guaranteed and secured other borrowings	(i) (e)	**2020-2023**	**678,022**	2019-2020	36,952
			1,166,210		634,084
			2,181,755		1,721,242
Analysed into:					
Bank and other borrowings repayable:					
Within one year			**1,015,545**		1,087,158
In the second year			**389,193**		295,182
In the third to fifth years, inclusive			**747,358**		252,924
Over five years			**29,659**		85,978
			2,181,755		1,721,242
Bank and other borrowings comprise:					
Fixed-rate bank and other borrowings			**1,093,755**		571,470
Variable-rate bank borrowings			**1,088,000**		1,149,772
			2,181,755		1,721,242

Notes to Consolidated Financial Statements

31 December 2018

22. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes:

(i) (a) As at 31 December 2018, bank borrowings of RMB290,000,000 (2017:Nil) were guaranteed by Mr.Zhang Jianshe and Mrs. Li Jingtao.

(b) As at 31 December 2018, bank borrowings of RMB50,000,000 (2017: RMB62,000,000) were secured by prepaid land lease payments of RMB7,260,000 (2017: RMB7,622,000) and dairy cows of RMB73,500,000 (2017: RMB73,500,000).

(c) As at 31 December 2018, other borrowings of RMB194,775,000 (2017: RMB433,449,000) were secured by dairy cows of RMB630,860,000 (2017: RMB586,989,000), nil of trade receivables of the Group (2017: RMB8,387,000) and the Group's deposits amounting to approximately RMB9,000,000 (2017: RMB11,000,000), with present value of RMB8,585,000 (2017: RMB9,942,000).

(d) As at 31 December 2018, bank borrowings of RMB200,000,000 (2017: RMB200,000,000) were guaranteed by Mr. Zhang Jianshe and China United SME Guarantee Corporation Company, an independent third party and secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB174,367,000 (2017: RMB199,882,000).

(e) As at 31 December 2018, other borrowings of RMB500,000,000 (2017: Nil) were secured by trade receivables of RMB12,419,000 (2017: Nil) under factoring agreements and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 31 December 2018, other borrowings of RMB198,748,000 (2017: Nil) were secured by dairy cows with a carrying amount of RMB310,343,000 (2017: Nil) and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 31 December 2018, other borrowings of RMB80,632,000 (2017: RMB54,324,000) were secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB144,166,000 (2017: RMB147,269,000), prepayment for non-current assets of the Group of RMB2,603,000 (2017: RMB2,603,000), the Group's deposits amounting to approximately RMB25,400,000 (2017: RMB5,400,000) with present value of RMB22,575,000 (2017: RMB4,704,000), and guaranteed by Mr. Zhang Jianshe.

(ii) As at 31 December 2018, the contracted interest rates of the above bank and other borrowings ranged from 3.45% to 6.84%. (2017: 4.05% to 8.50%)

(iii) The Group's bank and other borrowings were denominated in the following currencies:

	2018	2017
	RMB'000	RMB'000
EUR	**—**	11,470
USD	**69,540**	—
RMB	**2,112,215**	1,709,772
	2,181,755	1,721,242

23. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Balance at beginning of the year:	**31,376**	29,389
– Additions	**2,800**	4,661
– Released to income	**(6,980)**	(2,674)
Balance at end of the year	**27,196**	31,376

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

24. SHARE CAPITAL

Shares

	2018 RMB'000	2017 RMB'000
Authorised:		
5,000,000,000 ordinary shares of USD0.00001 each	**306**	306
Issued and fully paid:		
2,174,078,000 (2017: 2,174,078,000) ordinary shares of USD0.00001 each	**135**	135

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2017	2,174,078,000	135
At 31 December 2017, 1 January 2018 and 31 December 2018	2,174,078,000	135

24. SHARE CAPITAL *(continued)*

Share option scheme

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

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

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

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

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

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

No share options were granted under the Scheme during the year ended 31 December 2018(2017: Nil).

25. RESERVES

(i) Movements in components of equity

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

(ii) Capital reserve

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

(iii) Statutory surplus reserve

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

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other borrowings RMB'000
At 1 January 2018	**1,721,242**
Changes from financing cash flows	**460,513**
At 31 December 2018	**2,181,755**

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

27. OPERATING LEASE ARRANGEMENTS

As lessee

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

	2018	2017
	RMB'000	RMB'000
Within one year	**60,973**	70,941
In second to fifth years, inclusive	**223,873**	238,975
Over five years	**230,250**	290,071
	515,096	599,987

Operating lease payments primarily represent rentals payable by the Group for the leasing of office and farm land which are negotiated for terms ranging from 1 year to 40 years and rentals are fixed or with a fixed rate/amount of periodic rent adjustments.

The minimum lease payments under operating leases recognised as expenses during the year ended 31 December 2018 were approximately RMB61,085,000 (2017: RMB61,200,000).

28. COMMITMENTS

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

	2018	2017
	RMB'000	RMB'000
Contracted but not provided for:		
Plant and machinery	**206,480**	1,446

As at 31 December 2018, the Group had no commitments to make future capital payments to a related party (2017: Nil) in respect of construction services rendered by the related party.

29. RELATED PARTY TRANSACTIONS

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

	Note	**2018** **RMB'000**	2017 RMB'000
Purchases of goods from:			
– ZhongDi Genetics & Seeds Co., Ltd. ("ZhongDi Seeds")	(i)	**88**	—
Lease prepayments made to:			
– Ulanqab ZhongDi Farming Co., Ltd. ("Ulanqab ZhongDi")	(i)	**—**	450
Rental charges by:			
– ZhongDi Seeds	(i)	**3,489**	3,278

Notes:

(i) The transactions were carried out in accordance with the terms and conditions mutually agreed by the contracting parties.

(b) Guarantees provided by related parties

	Note	**2018** **RMB'000**	2017 RMB'000
Mr. Zhang Jianshe	(i)	**1,269,380**	54,324

Note:

(i) As at 31 December 2018, bank and other borrowings of RMB1,269,380,000 (31 December 2017: RMB54,324,000) were guaranteed by Mr. Zhang Jianshe and secured by certain property, plant and equipment, dairy cows, and trade receivables under factoring agreements of the Group as stated in note 22.

Included in the above bank and other borrowings of RMB1,269,380,000, Mrs. Li Jingtao, spouse of Mr. Zhang Jianshe, also provided guarantee to bank and other borrowings of RMB988,748,000 (31 December 2017: Nil).

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

29. RELATED PARTY TRANSACTIONS *(continued)*

(c) Operating lease commitments

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

	2018	2017
	RMB'000	RMB'000
Within one year	**6,599**	3,278
In the second to fifth years, inclusive	**9,709**	—
	16,308	3,278

(d) Compensation to key management personnel

	2018	2017
	RMB'000	RMB'000
Salaries, bonuses and other benefits	**6,965**	6,467
Retirement benefit scheme contributions	**174**	70
	7,139	6,537

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

30. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets	**2018** **RMB'000**	2017 RMB'000
Financial assets at amortised cost:		
Pledged deposits	**31,160**	14,646
Trade receivables	**124,948**	107,390
Financial assets included in other receivables and other assets	**10,577**	20,746
Pledged bank deposits	**7,859**	8,552
Cash and bank balances	**615,082**	391,508
	789,626	542,842

Financial liabilities	**2018** **RMB'000**	2017 RMB'000
Financial liabilities at amortised cost:		
Trade and bills payables	**427,945**	418,986
Financial liabilities included in other payables	**52,595**	177,986
Interest-bearing bank and other borrowings	**2,181,755**	1,721,242
	2,662,295	2,318,214

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	**2,181,755**	1,721,242	**2,251,250**	1,775,640

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

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

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

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

The Group did not have any financial assets or liabilities measured at fair value for the year ended 31 December 2018 (2017: Nil).

Fair value hierarchy

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

Liabilities for which fair values are disclosed:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2018	2017
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**2,251,250**	1,775,640

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax RMB'000	Increase/ (decrease) in equity RMB'000
2018			
RMB	**50**	**(2,465)**	**(2,465)**
RMB	**(50)**	**2,465**	**2,465**
2017			
RMB	50	(1,563)	(1,563)
RMB	(50)	1,563	1,563

Notes to Consolidated Financial Statements

31 December 2018

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

Foreign currency risk

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

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

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit after tax RMB'000	Increase/ (decrease) in equity RMB'000
2018			
If RMB strengthens against USD	**5**	**(6,034)**	**(6,034)**
If RMB weakens against USD	**(5)**	**6,034**	**6,034**
If RMB strengthens against HKD	**5**	**(23)**	**(23)**
If RMB weakens against HKD	**(5)**	**23**	**23**
If RMB strengthens against EUR	**5**	**—**	**—**
If RMB weakens against EUR	**(5)**	**—**	**—**
2017			
If RMB strengthens against USD	5	(9,342)	(9,342)
If RMB weakens against USD	(5)	9,342	9,342
If RMB strengthens against HKD	5	(128)	(128)
If RMB weakens against HKD	(5)	128	128
If RMB strengthens against EUR	5	568	568
If RMB weakens against EUR	(5)	(568)	(568)

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

Credit risk

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

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

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of the reporting period.

As at 31 December 2018

	12-months ECLs	Life-time ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade receivables	—	—	—	**124,948**	**124,948**
Financial assets included in prepayments, other receivables and other assets					
– Normal	**10,577**	—	—	—	**10,577**
Pledged deposits					
– Not yet past due	**31,160**	—	—	—	**31,160**
Pledged bank deposits					
– Not yet past due	**7,859**	—	—	—	**7,859**
Cash and cash equivalents					
– Not yet past due	**615,082**	—	—	—	**615,082**
	664,678	—	—	**124,948**	**789,626**

Notes to Consolidated Financial Statements

31 December 2018

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

Credit risk (continued)

As at 31 December 2017

	12-months ECLs		Life-time ECLs		
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	—	—	—	107,390	107,390
Financial assets included in prepayments, other receivables and other assets					
– Normal	20,746	—	—	—	20,746
Pledged deposits					
– Not yet past due	14,646	—	—	—	14,646
Pledged bank deposits					
– Not yet past due	8,552	—	—	—	8,552
Cash and cash equivalents					
– Not yet past due	391,508	—	—	—	391,508
	435,452	—	—	107,390	542,842

As at 31 December 2018, 99.74% (2017: 99.75%) of the Group's trade receivables were from the sales of raw milk. The Group only transacted with a limited number of customers for sales of raw milk. Therefore, there is concentration of credit risk arising from the Group's trade receivables from raw milk customers. The management of the Group considers the risk is low because the Group only transacts with creditworthy customers and there is no history of default of these customers.

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

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

Liquidity risk

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

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

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2018					
Trade and bills payables and financial liabilities included in other payables	—	**480,540**	**—**	**—**	**480,540**
Interest-bearing bank and other borrowings	**—**	**1,053,551**	**1,416,966**	**40,161**	**2,510,678**
	—	**1,534,091**	**1,416,966**	**40,161**	**2,991,218**
2017					
Trade payables and financial liabilities included in other payables	—	596,972	—	—	596,972
Interest-bearing bank and other borrowings	—	1,115,551	676,183	132,839	1,924,573
	—	1,712,523	676,183	132,839	2,521,545

Notes to Consolidated Financial Statements

31 December 2018

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

Capital management

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

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2018.

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

	2018 **RMB'000**	2017 RMB'000
Total liabilities	**2,731,341**	2,375,077
Total assets	**4,833,304**	4,413,850
Gearing ratio	**56.5%**	53.8%

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**70**	—
Investment in a subsidiary	**914,440**	914,440
Total non-current assets	**914,510**	914,440
CURRENT ASSETS		
Other receivables and other assets	**1,547**	221
Cash and bank balances	**24,794**	35,800
Total current assets	**26,341**	36,021
CURRENT LIABILITIES		
Other payables	**3,665**	2,284
Amounts due to subsidiaries	**608**	608
Total current liabilities	**4,273**	2,892
NET CURRENT ASSETS	**22,068**	33,129
TOTAL ASSETS LESS CURRENT LIABILITIES	**936,578**	947,569
Net assets	**936,578**	947,569
EQUITY		
Share capital	**135**	135
Share premium and reserves (note)	**936,443**	947,434
	936,578	947,569

Notes to Consolidated Financial Statements

31 December 2018

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Note	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017		1,019,152	(69)	(57,018)	962,065
Loss and total comprehensive loss for the year		—	—	(14,631)	(14,631)
Balance at 31 December 2017		1,019,152	(69)	(71,649)	947,434
Balance at 1 January 2018		1,019,152	(69)	(71,649)	947,434
Loss and total comprehensive loss for the year		—	—	(10,991)	(10,991)
Balance at 31 December 2018		1,019,152	(69)	(82,640)	936,443

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.