



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

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

Stock code : 1533



** For identification purposes only*

**Annual
Report
2018**

About Us

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





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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Yap Kean Chong
Mr. Song Xiaopeng

Independent Non-Executive Directors

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

Supervisors

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

AUDIT COMMITTEE

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

REMUNERATION AND APPRAISAL COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGY COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Ma Hongfu
Ms. Ho Wing Yan

JOINT COMPANY SECRETARIES

Ms. Zhang Qianyu (*Executive Director*)
Ms. Ho Wing Yan

STOCK CODE

1533

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 3306-12, 33/F
Shui On Centre
Nos. 6-8 Harbour Road
Wanchai, Hong Kong

REGISTERED OFFICE

Sanjiaocheng Village
Sanjiaocheng Town
Yuzhong County
Lanzhou, Gansu
PRC

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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

Corporate Information

H SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

LEGAL ADVISOR (AS TO HONG KONG LAW)

P. C. Woo & Co.

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

PRINCIPAL BANK

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

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

AUDITORS

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

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

COMPANY WEBSITE

<http://www.lzzhuangyuan.com>

Annual Results Highlights

FINANCIAL HIGHLIGHTS

Results

	Years ended 31 December	
	2018 RMB'000	2017 RMB'000
Operating income	657,732	628,374
Gross profit	212,337	192,966
Profit for the year attributable to equity shareholders of the Company	63,533	68,352
Earnings per share (RMB)(1)	0.34	0.46
Proposed dividend per share (RMB)	6.80 cents	7.30 cents

- Operating income increased by 4.67% as compared to the year ended 31 December 2017.
 - Gross profit increased by 10.04% as compared to the year ended 31 December 2017.
 - Profit for the year attributable to equity shareholders of the Company decreased by 7.05% as compared to the year ended 31 December 2017.
- (1) The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue during the year.



Chairman's Statement

REPORT TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the audited annual report of 蘭州莊園牧場股份有限公司 Lanzhou Zhuangyuan Pasture Co., Ltd.* (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Reporting Year").

Our operating income increased by 4.67% from RMB628.4 million for the year ended 31 December 2017 to RMB657.73 million for the year ended 31 December 2018, primarily due to acquisition of Xi'an Dongfang Dairy Company Limited 西安東方乳業有限公司 ("Xi'an Dongfang" or "Dongfang Dairy") and increase of revenue in the consolidated financial statements.

Our total gross profit margin of our dairy products was 30.8% for 2017 and 32% for 2018, representing an increase of 1.2 percentage points in overall gross profit margin. The increase in the overall gross profit margin was primarily due to (1) the acquisition of Dongfang Dairy; and (2) the optimization of product structure.

As one of the leading enterprises in dairy products market in northwestern China, the Group's distribution network covers most local markets in Gansu, Qinghai and Shaanxi. As at 31 December 2018, there were 1,039 distributors and sales agents for our products due to the acquisition of Dongfang Dairy, representing a significant increase as compared to 587 in 2017.

Ma Hongfu

Chairman



* For identification purpose only

With the vigorous development of China's economy and the continuous improvement of people's quality of life, consumers' demand for quality life, health and keeping healthy is increasing rapidly. In particular, the implementation of the Healthy China Strategy proposed by the 19th National People's Congress has raised the food safety and development of the health industry to an unprecedented new level. The dairy industry will still be in a stable growth period in the future for a long period of time. The Company was based in the Gansu and Qinghai markets and developed the Shaanxi market with the newly acquired Dongfang Dairy. As the national consumption upgrade continues to promote brand upgrades, quality upgrades and differentiation of dairy enterprise, market competition will gradually enter into the the all-round competition stage such as brand, team, technology and capital. The market position of each enterprise will change in line with the change of the competitive landscape. In the long run, the market will develop in the direction of coordinated development, common growth, and rational distribution of various enterprises. Whether it has a stable and reliable milk source base, whether it can achieve pipeline extension, and whether it can realize differentiated product structure, will become the most important factors affecting the healthy and stable development of dairy companies.

We continue to strengthen the construction of milk sources, ensure the quality is safety and controllable, increase investment in product research and development, and optimize the product mix, deepen sales channels and increase market share, fully use the capital market platform and establish good image as a listed company, and continue to consolidate the Company's leading position in the market of northwestern China. Therefore, a stable dividend policy would be implemented to thank for the continuous support on the Group. In response to the changes in the market situation, the Group has formulated a number of major development strategies for the future development of the Company, such as actively expanding production scale, expanding self-built pastures, and accelerating adjustment in product mix. The implementation of these strategies will effectively adapt to market changes, ensure the supply of raw milk for the Company, promote the continuous and steady improvement of the Company's performance, and benefit all the shareholders.

Management Discussion and Analysis

INDUSTRY REVIEW

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

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

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



BUSINESS REVIEW

We are one of the leading dairy companies in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. We owned and operated six dairy farms and collectively operated three dairy farms through cooperation with local dairy farmers as at 31 December 2018. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so as to maintain approximately 60% of our raw milk requirement that could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.



Management Discussion and Analysis



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

We are a major player in the sales of “Cold Chain Liquid Milk Products” (i.e. liquid milk product(s) that has a short shelf life between 3 days to 21 days and need to be stored at low temperature of 2°C – 6°C, which include pasteurised milk and yogurt products) in the Gansu, Qinghai and Shaanxi regional market. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market

in Gansu and Qinghai due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu, Qinghai and Shaanxi regional market and then further expand into other provinces in the northwestern China market.

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



Management Discussion and Analysis

Key Financial Ratios

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

	2018	2017
Current ratio ⁽¹⁾	0.72	1.44
Quick ratio ⁽²⁾	0.60	1.32
Return on equity ⁽³⁾	5.48%	7.2%
Return on assets ⁽⁴⁾	3.29%	4.3%
Gearing ratio ⁽⁵⁾	42.17%	37.48%

Notes:

- (1) Current assets/current liabilities.
- (2) (Current assets — inventory)/current liabilities.
- (3) Net profit for the year/(total equity attributable to equity shareholders of the Company as at the beginning of the year + total equity attributable to equity shareholders of the Company as at the end of the year)/2 x 100%.
- (4) Net profit for the year/(total assets as at the beginning of the year + total assets as at the end of the year)/2 x 100%.
- (5) Total liabilities/total assets.

Biological Assets

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

	At 31 December	
	2018 RMB'000	2017 RMB'000
Dairy cows		
Milkable cows	180,621	89,722
Heifers	68,662	78,904
Calves	21,021	7,190
Total	270,304	175,816

Management Discussion and Analysis

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

	2018 (Heads)	2017 (Heads)
Dairy cows		
Milkable cows	5,196	2,803
Heifers	2,839	3,446
Calves	2,069	723
Total	10,104	6,972

Dairy Farming

- **Milk yield**

The increase in milk production was mainly attributable to the increase in number as well as average milk yield per annum of milkable cows. We produced approximately 27,927 tonnes of raw milk for the year ended 31 December 2018, representing an increase of approximately 12.76% from about 24,766 tonnes in 2017.

During the Reporting Year, the average milk yield per milkable cow per annum increased from 6.3~9.1 tonnes during 2017 to 5.6~10.9 tonnes during 2018, which was mainly due to the higher percentage of number of imported cow over the total number of cows.

Dairy Products Production

In 2018, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased. In response to these market conditions, we continuously optimized our product mix using our advantages of milk sources produced by our own dairy farms and quality dairy products with high protein and fresh dairy milk products, thus strengthening our differentiated competitiveness, and focused on developing the northwestern China market.

- **Optimizing Liquid Milk Product Mix**

Product mix has affected our revenue, gross profit and gross profit margin in the past. We continued to place effort to increase the sales of Cold Chain Liquid Milk Products, which we believe that will represent the consumer preferences in the near future and will provide higher selling price and higher gross profit margin to us compared to other dairy products. Our yogurt products decreased from RMB223.9 million in 2017 to RMB199.7 million in 2018. Attributable to the research and development of new products, the gross profit margin of our yogurt products increased from 33.6% in 2017 to 34.5% in 2018.

Management Discussion and Analysis

Revenue from modified milk products increased from RMB117.8 million in 2017 to RMB170.1 million in 2018 due to the increase of the selling price of modified milk by the Group.

Our gross profit margin of the principal activities increased to 32.16% in 2018 from 30.8% in 2017 due to (1) the acquisition of Dongfang Dairy; and (2) the optimization of product structure.

- **Expansion of our Distribution Network**

We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu and Qinghai. As at 31 December 2018, we had entered into distribution agreements with 1,039 distributors and sales agents, as compared to 587 distributors and sales agents as at 31 December 2017. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network and solidify our established position in our primary markets. Furthermore, we have also expanded our distribution network into the China national market through the merger and acquisition of Dongfang Dairy, especially in the northwestern China region.

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

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition. The average selling price of our liquid milk products increased from RMB9,093 per tonne in 2017 to RMB9,206 per tonne in 2018.

Quality Control

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

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

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

Management Discussion and Analysis

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

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

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

Brand Building

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

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

Management Discussion and Analysis

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

FINANCIAL OVERVIEW

Operating Income

Principal Activities

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the years ended 31 December 2018 and 2017:

	Years ended 31 December					
	2018			2017		
	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne
Liquid Milk Products						
Pasteurised Milk	27,459	3,922	7,001	19,847	2,299	8,633
Yogurt	199,739	16,551	12,068	222,237	30,314	7,331
UHT Milk	229,944	32,052	7,174	117,845	13,665	8,624
Modified Milk	170,149	19,488	8,731	223,904	17,931	12,487
Subtotal	627,291	72,013	8,711	583,833	64,209	9,093
Milk Beverage	1,347	410	3,285	3,116	791	3,939
Other Dairy Products	3,106	137	22,670	5,214	189	27,587
Total	631,744	72,560	8,707	592,163	65,189	9,084

Our revenue increased by 11.72% from RMB592.2 million for the year ended 31 December 2017 to RMB631.7 million for year ended 31 December 2018, primarily due to the acquisition of Dongfang Dairy by the Company and the increase in the amount of revenue in the combined statement.

Management Discussion and Analysis

Gross profit and gross profit margin

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

Products	Years ended 31 December	
	2018 Gross Profit Margin %	2017 Gross Profit Margin %
Liquid Milk Products		
Pasteurised Milk	36.14%	43.3%
UHT Milk	25.66%	27.6%
Modified Milk	37.48%	31.7%
Yogurt	34.55%	33.6%
Subtotal	32.15%	31.3%
Milk Beverage	18.66%	19.7%
Other Dairy Products	39.39%	-11.2%
Total	32.16%	30.8%

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was 30.8% for the year ended 31 December 2017 and 32.16% for year ended 31 December 2018. The increase in the overall gross profit margin during the Reporting Year was primarily due to (1) the acquisition of Dongfang Dairy; (2) the optimization of product structure.

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased from RMB8.9 million for the year ended 31 December 2017 to RMB9.04 million for the year ended 31 December 2018. The increase during the Reporting Year was primarily due to the increase in raw milk yield.

Management Discussion and Analysis

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

We recorded loss arising from changes in fair value less costs to sell of biological assets amounted to RMB9.0 million for the year ended 31 December 2018, which increased by 955% from RMB0.9 million for the year ended 31 December 2017, primarily due to the increase in the number of dairy cows.

Qualification and independence of the valuers

Beijing Yatai Lianhua Assets Appraisal Co. Ltd. (“Beijing Yatai Lianhua”) was established in 1993 certified with the Licensed Certification for Appraisals in relation to Securities and Futures (《證券期貨相關業務評估資格》) jointly issued by the MOF and the CSRC. It possesses qualifications in the valuation of properties and land. Given the need of the Company for the preparation of financial statements for the year ended 31 December 2018, the Company engaged Beijing Yatai Lianhua to perform a valuation on the biological assets intended to be carried at fair value that are reported by five wholly-owned subsidiaries and a wholly-owned sub-subsidiary under 蘭州莊園牧場股份有限公司 Lanzhou Zhuangyuan Pasture Co., Ltd.*, being 青海聖亞高原牧場有限公司 Qinghai Shengya Plateau Pasture Co., Ltd.*, 青海聖源牧場有限公司 Qinghai Shengyuan Pasture Co., Ltd.*, 臨夏縣瑞園牧場有限公司 Linxia County Ruiyuan Pasture Co., Ltd.*, 蘭州瑞興牧業有限公司 Lanzhou Ruixing Farming Co., Ltd.*, 武威瑞達牧場有限公司 Wuwei Ruida Pasture Co., Ltd.* and 陝西多鮮牧業有限公司 Shaanxi Duoxian Farming Co., Ltd.

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

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

Management Discussion and Analysis

Operating expenses

	Years ended 31 December	
	2018 RMB'000	2017 RMB'000
Selling and distribution expenses	83,983	71,556
General and administrative expenses	48,711	54,293
Total operating expenses	132,694	125,849

Our operating expenses increased from RMB125.8 million for the year ended 31 December 2017 to RMB132.7 million for the year ended 31 December 2018. During the Reporting Year, as we further explored the northwestern China market for our Cold Chain Liquid Milk Products in other major cities and maintained our geographical spread in regional key markets nationwide which preliminarily required more (1) freight and miscellaneous charges and (2) low cost and short-hired consumable items generated from promotion events for securing higher sales growth and gaining larger market shares in the future, coupled with the increase in number of distributors and sales agents which led to the increase in the above items correspondingly.

The decrease in administrative expenses was primarily due to the professional service fee and the control on the administrative expense during the Reporting Year.

Financial expenses

Our net finance costs increased by 92.79% from RMB11.1 million for the year ended 31 December 2017 to RMB21.4 million for the year ended 31 December 2018, primarily because we have not received the interest subsidies for policy related preferential loans.

Current ratio

As at 31 December 2018, our current ratio (current assets/current liabilities) was approximately 0.72 compared to 1.44 as at 31 December 2017.

Liquidity and capital resources

During the Reporting Year, we financed our operations primarily through net cash inflows from our daily operations. As at 31 December 2018 and 2017, we had RMB388.8 million and RMB736.9 million in cash and cash equivalents, respectively, which were mainly denominated in RMB and primarily consisted of cash on hand and bank deposits.

Management Discussion and Analysis

Indebtedness

During the Reporting Year, our borrowings were denominated in RMB. As at 31 December 2018, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB46.1 million at interest rates ranging from 4.35% to 6.84% per annum. As at 31 December 2018, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB39.6 million at interest rates ranging from 4.9% to 5.49% per annum.

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

Asset-liability ratio

As at 31 December 2018, our asset-liability ratio was 42.17% (the ratio of total liability to asset) compared to 37.48% as at 31 December 2017.

Foreign exchange risk and Pledge of assets

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 31 December 2018 were denominated in the respective Group companies' functional currencies.

For the year ended 31 December 2018, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed. The management will continue to monitor foreign currency risk and adopt prudent measures as and when appropriate.

The book value of our fixed assets and intangible assets that were used as guarantees was RMB325.1 million as at 31 December 2018 (31 December 2017: RMB349.5 million). The net book value of the pledge of assets are as follow: (1) Fixed assets: RMB319.5 million (31 December 2017: RMB344.6 million); and (2) Intangible assets: RMB5.7 million (31 December 2017: RMB4.9 million).

Contingent liabilities

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

Capital Structure

There has been no change in the capital structure of the Group during the Reporting Year. The capital of the Group only comprises ordinary shares.

Significant investments

The Group had no significant investments held during the year ended 31 December 2018.

Management Discussion and Analysis

Material acquisitions and disposals of subsidiaries, associates and joint ventures

Save as disclosed herein, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2018.

Major transaction in relation to acquisition of 82% equity interest in Dongfang Dairy

On 26 July 2018, the Company held the sixth meeting of the third session of the Board and the fourth meeting of the third session of the Supervisory Committee to consider and approve the Resolution on the Acquisition of Equity Interests in an Affiliated Company Xi'an Dongfang Dairy Company Limited.* (西安東方乳業有限公司). Independent directors have expressed their opinions on the above resolution that they unanimously agreed on the resolution. Under Chapter 14 of the Rules Governing of the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), as one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the acquisition exceeds 25% but is less than 100%, the acquisition is subject to the consideration and approval by the shareholders' meeting of the Company. The resolution has been considered and approved at the 2018 second extraordinary general meeting of the Company on 26 September 2018.

On 27 July 2018, the Company disclosed the "Announcement on the Acquisition of the 82% Equity Interests in an Affiliated Company Xi'an Dongfang Dairy Company Limited.* (西安東方乳業有限公司) (Announcement No.: 2018-055)", pursuant to which the Company acquired, in cash, a total of 82% equity interest held by five original shareholders, being Hu Keliang, Li Yanan, Ding Jianping, Zhang Chenbin and Beijing Ruili Caifu Investment Partnership Enterprise (Limited Partnership)* (北京睿理財富投資合夥企業(有限合夥)), in Dongfang Dairy for a total consideration of RMB249.0 million. The Company has paid in cash for the acquisition of the 82% equity interest held by five original shareholders, being Hu Keliang, Li Yanan, Ding Jianping, Beijing Ruili Caifu Investment Partnership Enterprise (Limited Partnership)* (北京睿理財富投資合夥企業(有限合夥)) and Zhang Chenbin, in Dongfang Dairy. According to the Agreement on Profit Estimation Compensation in relation to Xi'an Dongfang Dairy Company Limited.* (西安東方乳業有限公司) between Lanzhou Zhuangyuan Pasture Co., Ltd.* (蘭州莊園牧場股份有限公司) and Hu Keliang and Ding Jianping (《蘭州莊園牧場股份有限公司與胡克良、丁建平關於西安東方乳業有限公司之盈利預測補償協議》) entered into between the Company and Hu Keliang and Ding Jianping (each being a performance covenantor), Hu Keliang and Ding Jianping undertook that the net profits (net of non-incurring gain or loss) of Dongfang Dairy in 2018, 2019 and 2020 would not be less than RMB18,000,000, RMB22,000,000 and RMB25,000,000, respectively. Upon the expiry of every accounting year during the profit undertaking period, the Company will appoint a qualified accounting firm who is recognized by the Company and the performance covenantors and is licensed to carry out securities and futures activities to prepare an audit report. The difference between the estimated net profits of the target assets and the actual net profits shall be determined according to the standard disqualified audit report issued by such accounting firm.

Management Discussion and Analysis

As at 31 October 2018, when the Company was completing the asset settlement, the considerations payable to all the transaction counterparties (other than Hu Keliang and Ding Jianping) were fully paid, while 90% of the consideration payable to Hu Keliang and Ding Jianping was paid respectively, and the remaining 10% of the consideration would be fully paid upon the expiry of the profit undertaking period and within 15 days from the date on which a qualified accounting firm who is recognized by both parties and is licensed to carry out securities and futures activities issued an audit report (2020) in respect of the completion of the performance commitment by Dongfang Dairy. Where the target assets failed to meet the performance commitment, the actual sum to be paid by the Company will be the balance of 10% of the consideration of the transactions payable to Hu Keliang and Ding Jianping less the compensation for performance commitment. If the accumulated actual net profits of Dongfang Dairy at the end of that period are less than the accumulated actual net profits so committed at the end of that period during the profit undertaking period, the performance covenantors shall compensate the Company for the difference. As agreed between both parties, if there are circumstances that a compensation for performance commitment is required, the performance covenantors shall assume their compensation obligations based on the percentage the number of shares under the transaction in the aggregate number of its shares under the transaction in accordance with this agreement, and compensate the Company in cash for. Upon expiry of the profit undertaking period, the Company will appoint a qualified accounting firm who is recognized by the Company and the performance covenantors and is licensed to carry out audit securities and futures activities to conduct the value decrease test against the target assets and prepare the value decrease test report. If the amount of the value decrease of the target assets at the end of the profit undertaking period as shown in the value decrease test report is greater than the aggregated amount of the profit estimation compensation, the performance covenantors shall compensate the Company in cash.

Details of the acquisition of 82% equity interest in Dongfang Dairy are set out in the announcement of the Company dated 26 July 2018 and the circular of the Company dated 11 September 2018.

Use of proceeds from the A Share Listing and the H Share Listing

Basic information on the proceeds raised from the H Share Listing

As approved by the “Approval for the Issue of Overseas-listed Foreign Shares of Lanzhou Zhuangyuan Pasture Co., Ltd.* (蘭州莊園牧場股份有限公司) 2015 No. 1142” issued by the CSRC on 4 June 2015, the Company carried out the initial public offering of 35,130,000 overseas-listed foreign shares (“H Shares”) at a price of HK\$5.30 per share on 15 October 2015 (the “H Shares Listing”), which were paid up in cash in Hong Kong dollars. The total sum amounted to HK\$186,189,000. After deducting underwriting expenses and sponsor’s fee, various intermediaries’ fees and other issuance expenses, the actual net proceeds raised amounted to HK\$141,832,158 (equivalent to RMB116,031,470 based on the middle point of the prevailing exchange rates of Hong Kong dollars against RMB on the date on which the Company received the prices) (the “Raised Fund”).

Management Discussion and Analysis

The Raised Fund utilized in 2018 were RMB3,991,898, and the total funds utilized in the previous years were RMB103,695,643. As of 31 December 2018, the Company had utilized RMB107,687,541 out of the funds raised from the last H Share Listing. The net interest income from the Raised Fund after deduction of handling charges was RMB153,378.00. The balance of the Raised Fund deposited in the special account was RMB8,497,307, and the balance of the Raised Fund unutilized was RMB8,497,307.

We set out below the status of the application of the net proceeds from the H Share Listing to 31 December 2018:

(RMB)

Total raised fund	116,031,470	Total raised fund invested during this year	3,991,898
Total raised fund which changed purpose during the reporting period	—	Total raised fund invested accumulatively	107,687,541
Total accumulatively raised fund which changed purpose	46,412,588	—	
The proportion of total accumulatively raised fund which changed purpose	40%	—	

Committed investment projects and investment direction of extra fund raised	Whether the project has been changed (including some changes)	Total committed investment of raised fund	Total investment after adjustment ⁽¹⁾	The amount invested during this year	Accumulated amount invested as of the end of the period ⁽²⁾	Investment progress as of the end of the period (%) ⁽²⁾⁽¹⁾	The date when the project reaches a predetermined usable state	The benefit realized during this year	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project
Committed investment projects										
1. The construction of 3,000 raw milk kiosks of communities	Yes	37,130,070	—	—	—	—	N/A	N/A	N/A	N/A
2. Some source of fund for the project of importing approximately 5,000 dairy cows from Australia or New Zealand	Yes	34,809,441	81,222,029	—	81,222,029	100%	Note 1 and Note 2	—	—	—
3. The promotion of brands	No	23,206,294	23,206,294	3,991,898	14,862,365	64%	Note 3	N/A	N/A	No
4. The construction of a new technical centre	Yes	9,282,518	—	—	—	—	N/A	N/A	N/A	N/A
5. Operating capital and others	No	11,603,147	11,603,147	—	11,603,147	100%	N/A	N/A	N/A	N/A
Total		116,031,470	116,031,470	3,991,898	107,687,541	—	—	—	—	—

Management Discussion and Analysis

Note 1: The actual investment amount is aggregated under the premise that all the expenses related to the committed investment projects are incurred till the proceeds are fully utilized assuming that such proceeds are transferred to the relevant bank account.

Note 2: As the Company did not make any undertaking as to the estimated benefits of the investment of the funds raised in the prospectus for the initial public offering of H Shares of the Company, no information on the benefits of the investment of the funds raised is disclosed.

Note 3: It is expected to be used up during 2019 to 2020.

Basic information on the proceeds raised from the A Share Listing

As approved by the “Approval for the Issue of Shares of Lanzhou Zhuangyuan Pasture Co., Ltd.* (蘭州莊園牧場股份有限公司) 2017 No. 1779” issued by the CSRC on 29 September 2017, the Company carried out the public offering of 46,840,000 A Shares of RMB1 each via offline placing through price consultations to qualified investors and online issuance at an issue price of RMB7.46 per share to public investors who hold the market value of non-restricted A Shares circulated in the Shenzhen market (“A Shares”) on 31 October 2017 (the “A Shares Listing”). The total sum of funds raised was RMB349,426,400 and the total net proceeds after deduction of the related issuance expenses of RMB39,922,700 (exclusive of value-added taxes) amounted to RMB309,503,700.

The funds utilized in 2018 were RMB203,400,000, the temporary supplemental liquidities were RMB100,000,000 and the interest income of the special account for funds raised after deducting handling charges for the current year was RMB806,947. As of 31 December 2018, the Company had utilized RMB203,400,000 out of the funds raised from the A Share Listing. The net interest income from the Raised Fund after deduction of handling charges was RMB916,202.00. The balance of the Raised Fund deposited in the special account was RMB7,019,902, and the balance of the Raised Fund unutilized was RMB107,019,902.

Management Discussion and Analysis

We set out below the status of the application of the net proceeds from the A Share Listing to 31 December 2018:

(RMB)

Total raised fund	309,503,700	Total raised fund invested during this year	203,400,000
Total raised fund which changed purpose during the reporting period	150,000,000	Total raised fund invested accumulatively	203,400,000
Total accumulatively raised fund which changed purpose	150,000,000	—	—
The proportion of total accumulatively raised fund which changed purpose	48%	—	—

Committed investment projects and investment direction of extra fund raised	Whether the project has been changed (including some changes)	Total committed investment of fund raised	Total investment after adjustment ⁽¹⁾	The amount invested during this year	Accumulated amount invested as of the end of the period ⁽²⁾	Investment progress as of the end of the period (%) ⁽³⁾⁽⁴⁾	The date when the project reaches a predetermined usable state	The benefit realized during this year	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project
Committed investment projects										
1. The project of cultivation and construction of 10,000 imported good dairy cows	Yes	260,193,300	159,503,700	53,400,000	53,400,000	33%	Note 1	N/A	N/A	No
2. The construction project of self-service milk selling machines and ancillary facility	Yes	49,310,400	—	—	—	—	N/A	N/A	N/A	Yes
3. The acquisition of 82% equity interest of Dongfang Dairy	Yes	—	150,000,000	150,000,000	150,000,000	100%	N/A	N/A	N/A	Yes
Total		309,503,700	309,503,700	203,400,000	203,400,000	—	—	—	—	—

Note 1: It is expected to be fully used from 2019 to 2020.

Management Discussion and Analysis

Human Resources

We had 907 employees in PRC and Hong Kong as at 31 December 2018 (31 December 2017: 724 employees).

During the Reporting Year, total staff costs were RMB49.6 million (the corresponding period in 2017: RMB50.6 million).

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

For its employees in the PRC, the Group has participated in defined contribution benefit plans and social insurance plans organised by the relevant local governmental authorities.

Corporate Social Responsibility

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

OUTLOOK

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

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

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ma Hongfu (馬紅富), aged 53, the founder of our Group, is the executive Director, chairman of the Board and a member of each of the strategy committee and the nomination committee of the Company. Mr. Ma Hongfu also served as the general manager of our Company from April 2011 to 21 December 2017. He was appointed to the Board on 6 April 2011. He is responsible for the overall management of our Company. Mr. Ma worked as the chairman of the board and the general manager of Gansu Minqinxian Hongchang Agriculture and Trading Company* (甘肅省民勤縣宏昌農貿公司) from 1988 to 1999. Mr. Ma obtained a degree of Executive Master of Business Administration (EMBA) from Tsinghua University (清華大學) in July 2005. He is the legal representative of Qinghaihu Dairy Co., Ltd.* (青海青海湖乳業有限責任公司) (“Qinghaihu Dairy”), Lanzhou Ruixing Farming Co., Ltd.* (蘭州瑞興牧業有限公司) (“Lanzhou Ruixing”), Wuwei Ruida Pasture Co., Ltd.* (武威瑞達牧場有限公司) (“Wuwei Ruida”), Qinghai Shengya Plateau Pasture Co., Ltd.* (青海聖亞高原牧場有限公司) (“Qinghai Shengya”) and Qinghai Shengyuan Pasture Co., Ltd.* (青海聖源牧場有限公司) (“Qinghai Shengyuan”).

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

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

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

Directors, Supervisors and Senior Management

Executive Directors *(Continued)*

Mr. Wang Guofu (王國福), aged 50, is the executive Director, deputy chairman and financial controller of the Company. He was appointed to the Board on 6 April 2011 and was appointed as the financial controller of the Company on the same day. Mr. Wang has more than 20 years of experience in the food industry. Mr. Wang completed his master courses majoring in Business Management in Lanzhou University (蘭州大學) in August 2005 and has accountant qualification (會計師). He was an accountant in Gansu Import and Export of Agricultural By-products Company (甘肅省農副產品進出口公司) from 1990 to 1992, and he was the financial manager and subsequently the financial controller of Lanzhou Yongtai Food Co., Ltd. (蘭州永泰食品有限責任公司) from 1992 to 2001. He is primarily responsible for the overall financial management of our Company. He is the legal representative of Yuzhong Ruifeng Pasture Co., Ltd.* (榆中瑞豐牧場有限公司) (“Yuzhong Ruifeng”) and Linxia County Ruian Pasture Co., Ltd.* (臨夏縣瑞安牧場有限公司) (“Linxia Ruian”) and the supervisor of Qinghaihu Dairy Co., Ltd.* (青海青海湖乳業有限責任公司) (“Qinghaihu Dairy”), Qinghai Shengya Plateau Pasture Co., Ltd.* (青海聖亞高原牧場有限公司) (Qinghai Shengya), Linxia County Ruiyuan Pasture Co., Ltd.* (臨夏縣瑞園牧場有限公司) (“Linxia Ruiyuan”) and Lanzhou Ruixing Farming Co., Ltd.* (蘭州瑞興牧業有限公司) (“Lanzhou Ruixing”).

Mr. Chen Yuhai (陳玉海), aged 45, is the executive Director and general manager of the Company. He was appointed to the Board on 6 April 2011. After joining our Company in April 2008, Mr. Chen has served as project manager responsible for the overall work of the project development department. Mr. Chen has more than 20 years of experience in the dairy industry. Mr. Chen attended the Business Administration Chief Executive Officer Senior Training Course (工商管理總裁高級研修班) organised by Tsinghua University (清華大學) during 17 March 2011 to 19 May 2012, and the Enterprise Management Senior Research and Study Course (企業管理人員高級研修班) organised by Zhejiang University (浙江大學) in October 2010. Mr. Chen was the branch manager and deputy general manager of the marketing department of Ningxia Xiajin Dairy and Beverage Co., Ltd. (寧夏夏進乳品飲料有限公司) from 1995 to 2005. From 2005 to 2007, Mr. Chen served as the deputy general manager in Ningxia Hongguo Dairy Co., Ltd. (寧夏紅果乳業有限公司). He is the legal representative of Ningxia Zhuangyuan Pasture Co., Ltd.* (寧夏莊園牧場有限公司) (“Ningxia Zhuangyuan”) and the supervisor of Wuwei Ruida Pasture Co., Ltd.* (武威瑞達牧場有限公司) (“Wuwei Ruida”), Linxia County Ruian Pasture Co., Ltd.* (臨夏縣瑞安牧場有限公司) (“Linxia Ruian”) and Qinghai Shengyuan Plateau Pasture Co., Ltd.* (青海聖源牧場有限公司) (“Qinghai Shengyuan”).

Ms. Zhang Qianyu (張騫予), aged 38, is the executive Director, secretary to the Board, manager of the securities department and joint company secretary of the Company. Ms. Zhang is responsible for system establishment, plans administration and equity management. Ms. Zhang joined the Company in January 2018. Ms. Zhang obtained her bachelor degree in Accounting from Taiyuan University of Technology (太原理工大學) in July 2003. She was a member of The Chinese Institute of Certified Public Accountants. Prior joining the Company, Ms. Zhang worked as a business manager of the investment banking department of Xi’an Branch of GF Securities Co., Ltd. from July 2012 to December 2016. Ms. Zhang was the general manager of the investment banking department of Lanzhou Branch of China CITIC Bank Corporation Limited from January 2017 to December 2017.

Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Song Xiaopeng (宋曉鵬), aged 41, is the non-executive Director and a member of the strategy committee of the Company. He was appointed to the Board on 2 March 2015. Since 2010, Mr. Song has successively been the Deputy General Manager of Shenzhen Shenshang Richland Xingye Fund Management Co., Ltd. (深圳市深商富坤興業基金管理有限公司) and the Senior Investment Manager of Shenzhen Richland Equities Ltd. (深圳市富坤創業投資有限公司). Mr. Song obtained his bachelor degree in Management from Shanxi University of Finance & Economics (山西財經大學) in March 2002. He was a qualified Certified Public Accountant of the PRC.

Mr. Yap Kean Chong (葉健聰), aged 53, is the non-executive Director of the Company. He was appointed to the Board on 6 April 2011. Mr. Yap obtained his bachelor degree in Business in Curtin University of Technology in February 1988, and his post graduate diploma in Business from Curtin University of Technology in August 1990. He was qualified as the admitted Associate of the Institute of Chartered Secretaries and Administrators in May 1991 and received the Certificate of Membership of the Institute of Chartered Accountant in Australia in February 2002. Mr. Yap has been the director and chief executive officer of Rico Harvest Capital (上海財晟股權投資管理有限公司) since 2009.

Independent Non-executive Directors

Ms. Liu Zhijun (劉志軍), aged 46, is the independent non-executive Director and the chairman of each of the audit committee and the remuneration and appraisal committee of the Company. She graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in securities and futures (證券與期貨) in July 1996. Ms. Liu then obtained a master degree in finance (金融學) in January 2001 from Wuhan University (武漢大學) and a doctoral degree in finance (金融學) in June 2009 from Suzhou University (蘇州大學). She is also a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). Since July 1996, Ms. Liu has been teaching in School of Finance of Lanzhou University of Finance and Economics (蘭州財經大學) and is currently a professor of the said university. Ms. Liu also serves as an independent non-executive director of Gansu Dunhuang Seed Co., Ltd. (甘肅省敦煌種業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600354), Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange, Stock code: 600108), Lanzhou Great Wall Electrical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600192) and Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002644).

Mr. Wong Cho Hang Stanley (黃楚恒), aged 44, is the independent non-executive Director and a member of each of the audit committee and nomination committee of the Company. He was appointed to the Board on 2 March 2015. Mr. Wong has been the director and vice general manager of Chuan Chiong Co., Ltd. (泉昌有限公司) since 2007. He is awarded the “2014 Excellence in Achievement of World Chinese Youth Entrepreneurs” (世界傑出青年華商) jointly by Yazhou Zhoukan (亞洲週刊) and World Federation of Chinese Entrepreneurs Organisation (世界華商組織聯盟). He is the committee member of 11th Fujian Provincial Committee of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆福建省委員會委員). Mr. Wong obtained his bachelor degree in Economics, from Carleton University in 1998.

Directors, Supervisors and Senior Management

Independent Non-executive Directors *(Continued)*

Mr. Zhao Xinmin (趙新民), aged 49, is the independent non-executive Director, chairman of the nomination committee and a member of each of the audit committee, the remuneration and appraisal committee and the strategy committee of the Company. Mr. Zhao has more than 20 years of experience in the securities law sector. Mr. Zhao obtained his bachelor degree in Law from Gansu Institute of Political Science and Law (甘肅政法學院) in June 1993. He acquired the Lawyer's Practice License of the PRC in March 1994. He was a lawyer of Gansu Zheng Tian He Law Firm (甘肅正天合律師事務所) from 1994 to 2001. Mr. Zhao was a lawyer of Allbright Law Office (上海錦天城律師事務所) from 2001 to 2005. Mr. Zhao has been the partner of Shanghai Ke Hui Law Firm* (上海科匯律師事務所) since 2005. Mr. Zhao also serves as an independent non-executive director of Lanzhou Changcheng Electric Apparatus Stock Co., Ltd.* (蘭州長城電工股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600192), Gansu Qilianshan Cement Group Company Limited (甘肅祁連山水泥集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600720), Tianshui Zhongxing Bio-Technology Co., Ltd. (天水眾興菌業科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002772) and Lanzhou LS Heavy Equipment Co., Ltd.* (蘭州蘭石重型裝備股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603169). Mr. Zhao served as an independent non-executive director of Dayu Jieshui Group Company Limited (大禹節水集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300021) from April 2014 to April 2017. Mr. Zhao served as an independent non-executive director of Gansu Ronghua Industrial (Group) Company Limited (甘肅榮華實業(集團)股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 600311) from July 2016 to January 2018.

Supervisors

Mr. Wei Lin (魏琳), aged 50, was appointed to the Supervisory Committee on 2 March 2015. Mr. Wei has been the managing partner (執行事務合夥人) of Gansu Hengrui Asset Valuation Firm (甘肅恒瑞資產評估事務所) since 2012. Mr. Wei worked in ICBC Lanzhou Branch Qilihe Sub-branch (中國工商銀行蘭州分行七里河支行) from 1985 to 2001. He has obtained the Finance and Economics Personnel Certificate (金融經濟師證書) accredited by Ministry of Personnel People's Republic of China (中華人民共和國人事部) in October 1996. He was qualified as a PRC Asset Valuer accredited by the China Appraisal Society (中國資產評估協會) in August 2005. Mr. Wei has completed a three-year Finance programme in Night College of Lanzhou University of Finance and Economics (蘭州商學院) in July 1991.

Mr. Sun Chuang (孫闢), aged 32, obtained his bachelor degree in Law from Zhengzhou University (鄭州大學) in July 2010. He is also the arbitrator of the Shenzhen Court of Arbitration. Mr. Sun obtained the Legal Professional Qualification Certificate of the PRC in 2010. He also obtained Securities Investment Fund Industry Qualification Certificate of the PRC in 2017. Mr. Sun has served as the vice general manager for the risk management department of Shenzhen CDF- Capital Co., Ltd. (深圳市創東方投資有限公司) since July 2016. Mr. Sun has extensive experience in investment risk management and legal matters. From July 2010 to July 2013, Mr. Sun served as the legal specialist of China General Nuclear Power Service Group Company Limited* (中廣核服務集團有限公司) (formerly known as Guangdong Daya Bay Nuclear Power Service (Group) Company Limited (廣東大亞灣核電服務(集團)有限公司)). Mr. Sun served as the legal manager of Shenzhen Taifeng Investment Group Company Limited (深圳市泰豐投資集團有限公司) from August 2013 to August 2014. From September 2014 to June 2016, Mr. Sun served as the legal manager of Shenzhen Baode Investment Holding Company Limited (深圳市寶德投資控股有限公司).

Directors, Supervisors and Senior Management

Supervisors *(Continued)*

Ms. Du Wei (杜魏), aged 41, was appointed to the Supervisory Committee on 6 April 2011. Ms. Du has obtained the college diploma majoring in Electronic Technology and Micro-computer Application by Lanzhou University (蘭州大學) in July 2001, and was engaged in a self-learning programme of Lanzhou University majoring in Computer Science Application and graduated in June 2004. Ms. Du is also qualified as Second Level Corporate Human Resource Manager (二級企業人力資源管理師) by the Occupational Skill Testing Centre of Human Resource and Social Security Department (人力資源和社會保障部職業技能鑒定中心) in December 2013. Ms. Du joined our Company in March 2008 and used to serve as the person-in-charge in our human resource department. Ms. Du is currently the manager of our human resource department responsible for management of human resource of our Company.

Senior Management

Mr. Li Baozhu (李寶柱), aged 46, is the deputy general manager of the Company. Mr. Li has almost 20 years of experience in dairy industry. Mr. Li obtained his bachelor degree from Ninxia University majoring in Food Science in July 2003 and received a diploma in manufacturing and operational officer senior study programme (生產與運營總監高級研修班) from Fudan University (復旦大學) in 2010. Mr. Li served in different positions such as workshop director and production manager of Ningxia Xiajin Dairy and Beverage Co., Ltd. (寧夏夏進乳品飲料有限公司) and deputy general manager of a branch company of Ningxia Xiajin Dairy Group Co. Ltd. (寧夏夏進乳業集團股份有限公司) from August 1994 to June 2005. Subsequently, Mr. Li worked in Ningxia Hongguo Dairy Co. Ltd. (寧夏紅果乳業有限公司) responsible for the quality control of production and technology from July 2005 to October 2006. After joining our Company in August 2007, Mr. Li has been our production officer responsible for the production, operation and management of the Yuzhong production plant of our Company.

Mr. Ma Tianliang (馬添糧), aged 39, is the deputy general manager of the Company since July 2011 and general manager of Qinghaihu Dairy, a subsidiary of the Company, since December 2014. Mr. Ma is responsible for the overall management of Qinghaihu Dairy. Mr. Ma participated in Tsinghua University Marketing and Creativity Senior Study Programme (清華大學營銷管理與創新高級研修班) from June 2009 to July 2010. Mr. Ma is enrolled in a master programme at Lanzhou University (蘭州大學) majoring in Business Management. Mr. Ma joined our Company in January 2003 and has served in different positions within our Company, including serving in marketing and management positions in different regions.

Supervisory Committee's Report

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

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

During the Reporting Year, the Supervisory Committee convened 9 meetings.

The Supervisory Committee has reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming AGM. We are of the opinion that the Board, chief executive of the Company and other Senior Management have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the articles of association of the Company. Up till now, none of the Directors, chief executive of the Company nor Senior Management has been found to have been in breach of any laws or regulations or the articles of association of the Company in material respects and damaged the interests of the Company or the Shareholders. The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2018 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Supervisory Committee

Wei Lin

Lanzhou, the PRC, 30 January 2019

Corporate Governance Report

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

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions. Having made specific enquiry of all Directors and the supervisors of the Company (the "Supervisors"), all the Directors and Supervisors confirm that they have complied with the required standards of the Model Code during the year ended 31 December 2018.

BOARD OF DIRECTORS AND MANAGEMENT

The Board is responsible and has general power for the management and conduct of the Group's business. As of the date of this report, the Board consists of nine Directors, comprising four executive Directors, namely Mr. Ma Hongfu, Mr. Wang Guofu, Mr. Chen Yuhai, and Ms. Zhang Qianyu, two non-executive Directors, namely Mr. Song Xiaopeng and Mr. Yap Kean Chong, and three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. Biographical details of the Directors are set out in the "Directors, Supervisors and Senior Management" section on pages 23 to 24 of this annual report.

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

- developing the Company's development plans;
- developing the Company's management and business strategies;
- approving financial statements;
- developing and approving the internal control and risk management systems;

Corporate Governance Report

- developing and reviewing the Company's corporate governance policies and practices;
- developing, reviewing and monitoring the code of conduct and compliance manual for employees and Directors;
- reviewing and monitoring training and continuous professional development of Directors and senior management of the Company (the "Senior Management");
- reviewing the Company's compliance with the CG Code under the Listing Rules and disclosure as set out in the Corporate Governance Reports included in annual reports of the Company; and
- reviewing and monitoring the Company's policies and practices regarding compliance with laws and regulations.

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

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

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

Corporate Governance Report

TRAINING AND DEVELOPMENT OF DIRECTORS

For the year ended 31 December 2018, the Directors took part in various continuous training with respect to Directors' duties through regularly receiving latest information and updates in relation to the Listing Rules and related regulations, participating in relevant training programmes or through regularly taking note of industrial updates, attending relevant seminars or perusing reading materials, magazines and updated information in relation to business and industrial development. The following table sets out a summary of the types of training our Directors received:

Directors	Reading materials updating on new rules and regulations
Executive Directors	
Mr. Ma Hongfu	✓
Mr. Wang Guofu	✓
Mr. Chen Yuhai	✓
Ms. Zhang Qianyu (appointed on 26 March 2018)	✓
Mr. Yan Bin (retired on 26 March 2018)	✓
Non-executive Directors	
Mr. Yap Kean Chong	✓
Mr. Song Xiaopeng	✓
Independent non-executive Directors	
Ms. Liu Zhijun	✓
Mr. Zhao Xinmin (appointed on 26 March 2018)	✓
Mr. Wong Cho Hang Stanley	✓
Ms. Xin Shihua (retired on 26 March 2018)	✓

Note: The Company has received from each of the Directors the confirmations on taking continuous professional training.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

During the year ended 31 December 2018, Mr. Ma Hongfu holds the position of the chairman of the Board while Mr. Chen Yuhai serves as the general manager of the Company, a position equivalent to a chief executive officer in the PRC.

Corporate Governance Report

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

APPOINTMENT OF DIRECTORS

The principal particulars of these service contracts for each of the executive Directors, non-executive Directors and independent non-executive Directors are (a) for a term of three years commencing from 26 March 2018, and (b) are subject to termination in accordance with their respective terms.

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

BOARD MEETINGS

The Board meets regularly. During the Reporting Year, 14 Board meetings were held at approximately monthly intervals.

Name of Directors	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Executive Directors	
Mr. Ma Hongfu	14/14
Mr. Wang Guofu	14/14
Mr. Chen Yuhai	14/14
Ms. Zhang Qianyu (appointed on 26 March 2018)	12/12
Mr. Yan Bin (retired on 26 March 2018)	2/2
Non-executive Directors	
Mr. Yap Kean Chong	14/14
Mr. Song Xiaopeng	14/14
Independent Non-executive Directors	
Ms. Liu Zhijun	14/14
Mr. Zhao Xinmin (appointed on 26 March 2018)	12/12
Mr. Wong Cho Hang Stanley	14/14
Ms. Xin Shihua (retired on 26 March 2018)	2/2

Corporate Governance Report

BOARD MEETINGS *(Continued)*

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

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

Corporate Governance Report

BOARD MEETINGS *(Continued)*

During the Year, the Company convened one annual general meeting on 20 June 2018 and two extraordinary general meetings on 26 March 2018 and 26 September 2018, respectively.

Name of Directors	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Executive Directors	
Mr. Ma Hongfu	3/3
Mr. Wang Guofu	3/3
Mr. Chen Yuhai	3/3
Ms. Zhang Qianyu (appointed on 26 March 2018)	2/2
Mr. Yan Bin (retired on 26 March 2018)	1/1
Non-executive Directors	
Mr. Yap Kean Chong	3/3
Mr. Song Xiaopeng	3/3
Independent Non-executive Directors	
Ms. Liu Zhijun	3/3
Mr. Zhao Xinmin (appointed on 26 March 2018)	2/2
Mr. Wong Cho Hang Stanley	3/3
Ms. Xin Shihua (retired on 26 March 2018)	1/1

BOARD COMMITTEES

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

Corporate Governance Report

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. The chairman of the Audit Committee is Ms. Liu Zhijun. Details of the terms of reference of the Audit Committee are set out on the Company's website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

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

During the Reporting Year, 4 meetings of the Audit Committee were held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Ms. Liu Zhijun	4/4
Mr. Zhao Xinmin (appointed on 26 March 2018)	3/3
Mr. Wong Cho Hang Stanley	4/4
Ms. Xin Shihua (retired on 26 March 2018)	1/1

Corporate Governance Report

NOMINATION COMMITTEE

The nomination committee of the Company (the “Nomination Committee”) consists of one executive Director, namely Mr. Ma Hongfu, and two independent non-executive Directors, namely Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. The chairman of the Nomination Committee is Mr. Zhao Xinmin. Details of the terms of reference of the Nomination Committee are set out on the Company’s website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

- (1) provide advice on the Board’s scale and composition according to our Company’s operation condition, asset size and shareholding structure;
- (2) research on selecting standards and procedure of Directors and Senior Management and provide advice to the Board accordingly;
- (3) search for suitable candidates as qualified Directors and Senior Management;
- (4) examine and provide advice on candidates as Directors and Senior Management;
- (5) examine and provide advice on other candidates of Senior Management that needs to be appointed by the Board; and
- (6) other issues as authorised by the Board.

During the Reporting Year, 1 meeting of the Nomination Committee was held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Mr. Zhao Xinmin (appointed on 26 March 2018)	0/0
Mr. Ma Hongfu	1/1
Mr. Wong Cho Hang Stanley	1/1
Ms. Xin Shihua (retired on 26 March 2018)	1/1

Corporate Governance Report

Nomination Policy

The Board has adopted the nomination policy (the “Nomination Policy”) which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

- (1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;
- (2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;
- (3) reviewing the profiles of the shortlisted candidates and interview them; and
- (4) making recommendations to the Board on the selected candidates.

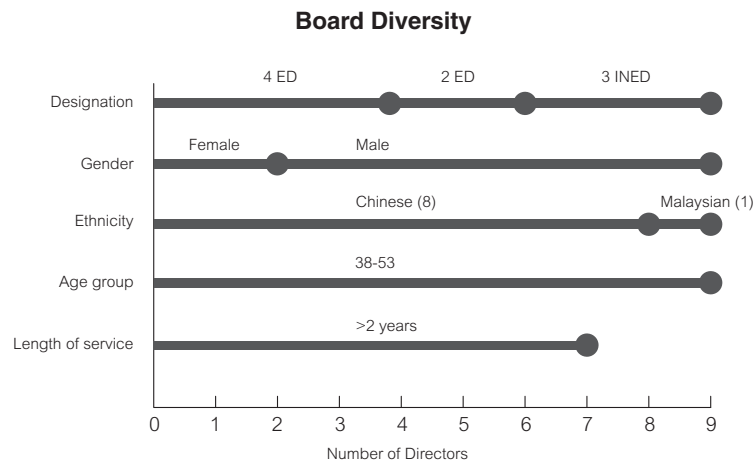
The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors’ resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

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

Corporate Governance Report

In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, or professional experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will disclose annually, in the corporate governance report, on the Board's composition under diversified perspectives (including gender, age, cultural and educational background, or professional experience), and monitor the implementation of this policy. The Nomination Committee will also review the diversity policy, as appropriate, to ensure the effectiveness of the diversity policy. The Nomination Committee will discuss any revisions which may be required, and recommend any such revisions to the Board for consideration and approval.

As at 31 December 2018, the Board's composition under major diversity perspectives was summarised as follows:



ED: Executive Director

NED: Non-Executive Director

INED: Independent Non-Executive Director

Corporate Governance Report

REMUNERATION AND APPRAISAL COMMITTEE

The remuneration and appraisal committee of the Company (the “Remuneration and Appraisal Committee”) consists of one executive Director, namely Mr. Wang Guofu, and two independent non-executive Directors, namely Ms. Liu Zhijun and Mr. Zhao Xinmin. The chairman of the Remuneration and Appraisal Committee is Ms. Liu Zhijun. Details of the terms of reference of the Remuneration and Appraisal Committee are set out on the Company’s website (www.lzzhuangyuan.com) and the website of the Stock Exchange (www.hkexnews.hk). The principal duties of the committee include but not limited to the followings:

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

During the Reporting Year, 2 meetings of the Remuneration and Appraisal Committee were held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Ms. Liu Zhijun	2/2
Mr. Wang Guofu	2/2
Mr. Zhao Xinmin (appointed on 26 March 2018)	2/2
Ms. Xin Shihua (retired on 26 March 2018)	0/0

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

Corporate Governance Report

SENIOR MANAGEMENT EMOLUMENTS

For the year ended 31 December 2018, the emoluments of the Senior Management are within the following band:

	Number of Senior Management
HK\$Nil – HK\$500,000	1
HK\$500,000 – HK\$1,000,000	1

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

STRATEGY COMMITTEE

The strategy committee of the Company (the “Strategy Committee”) consists of one executive Director, namely Mr. Ma Hongfu, one non-executive Director, namely Mr. Song Xiaopeng, and one independent non-executive Director, namely Mr. Zhao Xinmin. The chairman of the Strategy Committee is Mr. Ma Hongfu. The primary duties of the Strategy Committee include, but are not limited to, the followings:

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

Corporate Governance Report

- (9) supervise and analyse issues mentioned above and provide advice on adjustments and improvements to the Board; and
- (10) other issues as authorised by the Board.

During the Reporting Year, 1 meeting of the Strategy Committee was held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Mr. Ma Hongfu	1/1
Mr. Song Xiaopeng	1/1
Mr. Zhao Xinmin (appointed on 26 March 2018)	1/1
Ms. Xin Shihua (retired on 26 March 2018)	0/0

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

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

FINANCIAL REPORTING

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

The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to any events or conditions that may affect the business of the Group or cast doubts on its ability to continue as going concern.

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

Please also refer to the auditor's report in this annual report for further details.

Corporate Governance Report

AUDITORS AND THEIR REMUNERATIONS

During the Reporting Year, the fees received/receivable by the Company's auditor, Ruihua Certified Public Accountants (Special General Partnership), is set out as follows:

Nature of Services	Fee paid/payable (RMB)
Audit Service	1,984,026.7
Non-audit Services	0

JOINT COMPANY SECRETARIES

Ms. Zhang Qianyu and Ms. Ho Wing Yan are our joint company secretaries as at the date of this report. During the Reporting Year, our joint company secretaries were Mr. Li Siu Bun and Mr. Yan Bin. Following the retirement of Mr. Yan Bin on 26 March 2018, Mr. Wang Guofu has been appointed as the joint company secretary of the Company. Ms. Zhang Qianyu and Ms. Ho Wing Yan were appointed as the joint company secretary of the Company with effect from 7 January 2019 and 1 January 2019, respectively.

The Company has engaged in a service contract with an external service provider, Ms. Ho Wing Yan, who was appointed as one of the joint company secretaries of the Company. Mr. Zhang Qianyu, the executive Director and the other joint company secretary of the Company, is the primary corporate contact person of the Company with Ms. Ho Wing Yan.

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

During the Reporting Year and substituted at the end of the Reporting Year, the Company has provided Mr. Li Siu Bun, Mr. Wang Guofu, Ms. Zhang Qianyu and Ms. Ho Wing Yan with sufficient resources to receive not less than 15 hours of relevant professional training for every financial year as required by Rule 3.29 of the Listing Rules.

Corporate Governance Report

SHAREHOLDERS' COMMUNICATION POLICY AND RIGHTS

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

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

Convening extraordinary general meetings

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

Procedures for putting forward proposals at a general meeting

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

Corporate Governance Report

Procedures of Making Enquiry to the Board

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

The Board undertakes that it listens to and takes note of Shareholders' opinion, and Shareholders are welcome to raise questions or concerns as to the management and governance of the Group. They may at any time send their questions or concerns to the company secretary by post at Units 3306-12, 33/F., Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong, which will be forwarded to the Board.

Dividend Distribution Plan

The Company has adopted the dividend distribution plan for shareholders within the next three years (2018-2020) (the "Dividend Distribution Plan") on 29 September 2017 and be implemented on 1 January 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. Details of the Dividend Distribution Plan are set out in the circular of the Company dated 12 September 2017. The Company takes priority to distributing dividends in cash, shares or a combination of cash and shares and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the current earning scale, cash flows, development status and requirement for funds and other factors as the Board may deem relevant. The Dividend Distribution Plan will be reviewed at least once every three years.

Constitutional Documents of the Company

Save as the amendments to the Articles of Association as detailed in the Company's circular dated 5 February 2018 and 30 April 2018 and as approved by our Shareholders at the extraordinary general meeting held on 26 March 2018 and the annual general meeting held on 20 June 2018, there has been no amendment to the constitutional documents of the Company.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

Environmental, Social and Governance Report

BASIS OF PREPARATION

We have adopted the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide ("ESG Guide") in preparing this report. The Directors considered we have complied with the "comply or explain" provisions set out in the ESG Guide for the year ended 31 December 2018. This is the third annual Environmental, Social and Governance ("ESG") Report of the company. An online copy of this report is available at <http://www.lzzhuangyuan.com/>.

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

BUSINESS OPERATION OF THE GROUP

During the year ended 31 December 2018, the Group engaged principally operates two business segments: (i) dairy farming business, under which we produced and sold raw milk; and (ii) dairy products production business, under which we produced and sold dairy products. This report provides general disclosures that cover both dairy farming business and dairy products production business.

OUR ESG MANAGEMENT APPROACH

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

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

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

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

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

Environmental, Social and Governance Report

PROTECTING OUR ENVIRONMENT

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

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

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

In the reporting period, we consumed 603,488 cubic meter of freshwater and 14,831 cubic meter of treated water for secondary uses. While most of the water is drunk by our cattle and added to our products, only 364,984 cubic meter of waste water are discharged.

Our major air and greenhouse gas emissions is cattle methane emission. In the reporting period, we produced 441 cubic meter methane. Our indirect air and greenhouse gas emissions are mainly from purchased electricity. In the reporting period, we consumed 17.54 million kWh electricity, which generated approximately 12,000 tonnes of carbon dioxide. Of which, 11.42 million kWh are consumed by our Dairy Products Production Business. To minimise our emissions, we have used Light Emitting Diodes (“LED”) lights and have temperature control system in all of our production plants.

Environmental, Social and Governance Report

Apart from electricity, we also consumed 323,841 cubic meter of natural gas and 284,859 liter of diesel, which generated approximately 16 tonnes and 745 tonnes of carbon dioxide respectively, in the reporting period. All of the natural gas is consumed by the dairy products production business while most of the diesel is consumed by the engines used in the dairy farming business.

Dairy Farming Business

Our major non-hazardous waste is cowpat. In the reporting period, we disposed 59,408 tonnes non-hazardous waste, mainly cowpat. We adopt electronic scraper to clear the cowpat automatically, which provides a clean and comfortable living environment to our cows with minimum water consumption. Used plastic wastes and medical wastes would be treated by qualified firms for disposal. Commercial wastes would be sent to waste transfer stations for recycling.

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

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

In 2018, we carried out technical transformation for the sewage treatment facility of dairy farm in Shaanxi, which helped to improve the daily processing capacity and efficiency of the sewage treatment facility.

Dairy Products Production Business

Our major non-hazardous waste includes metal scrap from aged equipment and packaging materials. To minimize the waste, we adopt waste classification system to ensure all re-usable parts and materials would not be disposed. In the reporting period, we produced 1,282.2 tonnes general commercial wastes. We do not generate any hazardous waste.

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

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

In 2018, we carried out technical transformation of desulfurization and denitrification in the boilers of production base in Lanzhou, which made contribution to the environmental protection.

Environmental, Social and Governance Report

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

Compliance

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

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

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

EMPLOYMENT AND LABOUR PRACTICES

We recognise our employees as an important assets. As on 31 December 2018, the Group had 907 (2017: 724) employees. Of which, 427 are males and 480 are females. We are committed to building an open and inspirational working environment to our employees.

We promote fair competition

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

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

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

We do not tolerate discrimination or harassment

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

Environmental, Social and Governance Report

We welcome for feedbacks

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

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

We promote occupational safety and health

We commit to providing a safe working environment to employees and to protect them from occupational hazards. Safety guidelines are formulated and communicated to all employees. Relevant trainings are organised regularly to improve our employees' awareness on health and safety. In March 2018, we invited fire instructor to conduct training session with our staff on the fire equipment usage and have fire drills to improve their awareness of fire security.

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

We promote sustainable learning environment

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

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

Prohibition on child and forced labour

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

Environmental, Social and Governance Report

SUPPLY CHAIN MANAGEMENT

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

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

PRODUCT RESPONSIBILITY

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

Our quality control system is designed based on the Good Manufacturing Practices (GMPs), the Hazard Analysis and Critical Control Points (HACCPs) and the Sanitation Standard Operating Procedures (SSOPs). As at 31 December 2018, we have obtained Dairy HACCP Certification for our production of liquid milk at our Qinghai production facility and ISO9001:2008 Quality Management System Certificate for our development and production of pasteurised milk, UHT milk, yogurt, other milk beverages and milk powder.

Dairy Farming Business

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

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

Environmental, Social and Governance Report

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

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

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

Dairy Products Production Business

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

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

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

Environmental, Social and Governance Report

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

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

INTELLECTUAL PROPERTY

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

ANTI-CORRUPTION

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

COMMUNITY INVESTMENT

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

In 2018, we participated the tree planting activity in Yuzhong Xian Baihu Shan and visited the home of poor students in Yuzhong county.

Environmental, Social and Governance Report

MATERIAL ENVIRONMENTAL KPIS

	Unit of Measurement	2018 Annual Total	Carbon dioxide emission
Use of Electricity			
Dairy Farming Business	kWh	6.12 million	4,083 tonnes
Dairy Products Production Business		11.42 million	7,618 tonnes
Greenhouse gas emission			
Methane	Cubic meter	441	
Use of Natural Gas		323,841	16 tonnes
Use of Diesel	Liter	284,859	745 tonnes
Use of Freshwater	m ³	603,488	
Use of Treated water		14,831	
Waste Water Discharged		364,984	
Disposal of Hazardous Waste			
Dairy Farming Business	Tonne	59,408	
Dairy Products Production Business		1,282.2	

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

Directors' Report

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

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

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

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

(A) FAIR REVIEW OF THE COMPANY'S BUSINESS

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

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

Directors' Report

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

Overview

We are one of the leading dairy companies in Gansu, Shaanxi and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We own and operate six dairy farms and collectively operate three dairy farms through cooperation with local dairy farmers as at 31 December 2018. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so as to maintain approximately 60% of our raw milk requirements that could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

Product mix has affected our revenue, gross profit and gross profit margin in the past. We continued to place effort to increase the sales of Cold Chain Liquid Milk Products, which we believe that will represent the consumer preferences in the near future and will provide higher selling price and higher gross profit margin to us compared to other dairy products.

While our sales of yogurt products decreased from RMB223.9 million in 2017 to RMB199.7 million in 2018, attributable to the research and development of new products, the gross profit margin of our yogurt products increased from 33.6% in 2017 to 34.5% in 2018. Revenue from modified milk products increased from RMB117.8 million in 2017 to RMB170.1 million in 2018 due to the increase of the selling price of modified milk by the Group. Our gross profit margin of the principal activities increased to 32.16% in 2018 from 30.8% in 2017 due to (1) the acquisition of Dongfang Dairy; (2) the optimization of product structure.

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

Directors' Report

Our business model

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

Our products and brands

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

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

Further discussion and analysis of the performance for 2018 and the financial position as at the end of 2018 using financial KPIs which complement or supplement the financial statements can be found in the Financial Overview of the Management Discussion and Analysis section set out on this annual report. This discussion forms part of this Directors' Report.

Directors' Report

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

Environmental matters

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

Health and safety matters

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

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

Relationships with contracted farmers

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

Directors' Report

Relationship with third party raw milk suppliers

Raw milk purchased from third party suppliers mainly comes from dairy farms in Gansu and Qinghai, which are two of the six traditional pastoral areas in China with plenty supply of raw milk.

In order to alleviate risks for conduct of suppliers, we select our suppliers based on their production environment, number of milkable cows, quality as well as price. We generally source raw milk from dairy farms that have more than 250 dairy cows to ensure quality and safety. Before we make our selection, we also engage in verification of the suppliers' information including area of the dairy farms, milk tank capacity, inspection certificate of the fresh raw milk and business licence. We conduct regular inspection on our suppliers' dairy farms and facilities and we regularly monitor the conditions of our suppliers' facilities, hygiene conditions, quality of raw milk and storage and transportation equipment.

Our Company has established long-standing relationships with many dairy farms in Gansu and Qinghai, which allows us to secure steady supply of fresh raw milk at reasonable prices. We had entered into raw milk supply agreements with 23 external raw milk suppliers during the Reporting Year. Under our arrangements with the dairy farms, we do not substantially reduce the purchase prices when raw milk is low in demand and in return, the dairy farms do not substantially raise the purchase prices when raw milk is high in demand, nor do they reduce the amount of their supply. To address potential fluctuations of raw milk price, the purchase price of raw milk is usually set under the terms of the purchase agreements with our suppliers, which can be adjusted as agreed between both parties with regard to the prevailing market conditions. There is no requirement on minimum purchase amount of raw milk in our purchase agreements. We typically settle payments for raw milk with our suppliers monthly, although in some cases we may be required to make prepayments. Our purchase agreements usually have a term of one year.

During the Reporting Year, the Group did not have any significant disputes with our major suppliers.

Relationship with distributors

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

Directors' Report

As our principal products sold to retail consumers, mainly through distributors and sales agents, the quality of distributors is important. In order to alleviate quality risks of distributors, our distributors are primarily self-employed individuals and trading companies. We select our third party distributors based on a number of criteria, including but not limited to delivery capabilities, distribution network coverage, relationship with sales channels, possession of relevant licences and their resource deployment for target markets. For example, we generally require new distributors to have a stable place of business, a wide network of sales points and more than two years' working relationship with targeted sales channels. We require our distributors to possess qualifications and licences required for their operation under our distribution agreement.

During the Reporting Year, the Group did not have any material disputes with our major customers.

Relationship with employees

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

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

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

Directors' Report

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

The major risks we face in our business are:

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

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

Directors' Report

(C) IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF 2018 (PARAGRAPH 53-54 OF AB5)

Subsequent to 31 December 2018, there had been no significant change in our principal business, pricing policy and costs structure, while the market price of raw milk experienced slight fluctuation.

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

Extensive sales and distribution regional network in Gansu and Qinghai

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

Strong market-oriented product development

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

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

Short and longer term funding needs

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

On 31 January 2019, at the fifteenth meeting of the third session of the Board of the Company, the Board considered and approved, among others, the relevant resolutions on the A Share convertible bond issuance plan. The proposed issuance of A Share convertible bonds is subject to, amongst others, the Shareholders' approvals at the extraordinary general meeting and the class meetings of the Company. For details, please refer to the announcement of the Company dated 31 January 2019.

Directors' Report

Risk warning in respect of forward-looking statements

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

PRINCIPAL ACTIVITIES

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

RESULTS OF THE GROUP

The Group's and the Company's results for the Reporting Year and the state of affairs of the Group and the Company as at 31 December 2018 are set out in the Financial Statements on pages 74 to 215 of this annual report.

DIVIDEND

The Board has resolved to recommend the payment of final dividend of RMB6.80 cents per share (including tax) for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB7.30 cents per share). The total dividend amounted to approximately RMB12.7 million.

The proposed final dividend is subject to the consideration and approval of the shareholders at the forthcoming annual general meeting (the "AGM") of the Company. The Company will publish announcement, circular and notice of general meeting regarding the AGM in accordance with the Listing Rules and the articles of association of the Company. For details in relation to the record date and date of closure of register of members for the payment of the final dividend to the holders of H Shares, please refer to the paragraph headed "Closure of Register of Members for H Shares for AGM and Dividend Distribution" below. It is expected that the final dividend will be distributed before 31 August 2019.

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

Directors' Report

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

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

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

For ascertaining H Shareholders' eligibility to attend and vote at the AGM, the register of members for H Shares of the Company will be closed from Tuesday, 28 May 2019 to Thursday, 27 June 2019, both days inclusive, during which period no transfer of H Shares of the Company will be registered. H Shareholders whose names appear on the register of members for H Shares of the Company at the close of business on Monday, 27 May 2019 are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with H share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Monday, 27 May 2019.

Please refer to A Share announcement as published by the Company on the website of the Shenzhen Stock Exchange for relevant information in respect of the Shareholders of A Shares attending the AGM.

Directors' Report

For ascertaining the entitlements of the Shareholders to receive the final dividend (if any), the register of members for H Shares of the Company will be temporarily closed from Friday, 5 July 2019 to Wednesday, 10 July 2019 (both days inclusive), during which no transfer of H Shares of the Company will be registered. All transfer documents together with the relevant share certificates and form of transfer must be delivered to the Company's H share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Thursday, 4 July 2019. If the proposed profit distribution plan is approved at the AGM, the final dividend will be paid to the Shareholders whose names are registered in the Company's register of members on Thursday, 4 July 2019.

FINANCIAL SUMMARY

A summary of the published financial performance and of the assets and liabilities of the Group for the last five reporting years, as extracted from the audited financial statement and accountant's report in the prospectus of the Company dated 30 September 2015 and reclassified as appropriate, is set out on page 216 of this annual report.

SHARE CAPITAL

As at 31 December 2018, there was a total issued share capital of 187,340,000 Shares which include:

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

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, there was no purchase, redemption or sale by the Company, or any of its subsidiaries, of any listed securities of the Company.

PRE-EMPTIVE RIGHTS

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

Directors' Report

CAPITAL RESERVE, SURPLUS RESERVE AND RETAINED EARNINGS

Details of the movements in the reserves of the Company during the Reporting Year are set out in Notes VI. 31, 32 and 33 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the aggregate amount of reserves available for distribution to equity Shareholders amounted to approximately RMB310.22 million (31 December 2017: RMB270.7 million).

CHANGES OF AUDITORS

On 5 February 2018, the Board proposed to cease to appoint KPMG as the international auditors of the Company (the "Proposed Cessation of Appointment") and appoint KPMG Huazhen LLP as the PRC auditors of the Company.

The change of auditors have been approved by the extraordinary general meeting of the Company held on 26 March 2018. Further details of the change of auditors, please refer to the announcement of the Company dated 5 February 2018 and the circular of the Company dated 5 February 2018.

On 20 April 2018, the Board proposed to appoint Ruihua Certified Public Accountants (Special General Partnership) as the auditors of the Company following the retirement of KPMG Huazhen LLP.

The change of auditors have been approved by the annual general meeting of the Company held on 20 June 2018. Further details of the change of auditors, please refer to the announcement of the Company dated 20 April 2018 and the circular of the Company dated 30 April 2018.

FIXED ASSETS AND CONSTRUCTION IN PROGRESS

Details of the changes in the fixed assets and construction in progress of the Group during the Reporting Year are set out in Note VI. 9 and 10 to the Financial Statements.

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

The Group has no material litigation or arbitration proceedings during the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the largest customer and supplier of the Group accounted for 1.98% and 4.82% of the Group's total revenue and raw materials purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for 9.65% and 17.96% of the Group's total revenue and raw materials purchases, respectively.

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

Directors' Report

EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2018, there had been no significant change in our principal business, pricing policy and costs structure, while the market price of raw milk experienced slight fluctuation.

RESTRICTED SHARE INCENTIVE SCHEME

On 28 September 2018, the Board passed a resolution in respect of the proposed adoption of the 2018 Restricted Share Incentive Scheme (the "2018 Incentive Scheme") and the respective grants, and also the approval of the draft of the 2018 Incentive Scheme and the draft proposal in respect of the grants. The 2018 Incentive Scheme shall become effective upon the approval at the EGM and Class Meetings of the Company. On 11 March 2019, the Board passed a resolution in respect of the proposed adoption of the amendment of the 2018 Incentive Scheme i.e. 2019 Incentive Scheme and the respective grants, and also the approval of the draft of the 2019 Incentive Scheme and the draft proposal in respect of the grants. The 2019 Incentive Scheme shall become effective upon the approval at the EGM and Class Meetings of the Company. For details, please refer to the announcements of the Company dated 28 September 2018 and 11 March 2019.

ISSUANCE OF A SHARE CONVERTIBLE BONDS

On 31 January 2019, at the fifteenth meeting of the third session of the Board of the Company, the Board considered and approved, among others, the relevant resolutions on the A Share convertible bond issuance plan. The proposed issuance of A Share convertible bonds is subject to, amongst others, the Shareholders' approvals at the extraordinary general meeting and the class meetings of the Company. For details, please refer to the announcement of the Company dated 31 January 2019.

Directors' Report

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Ma Hongfu
Mr. Wang Guofu
Mr. Chen Yuhai
Ms. Zhang Qianyu (*appointed on 26 March 2018*)
Mr. Yan Bin (*retired on 26 March 2018*)*

Non-Executive Directors

Mr. Yap Kean Chong
Mr. Song Xiaopeng

Independent Non-Executive Directors

Ms. Liu Zhijun
Mr. Zhao Xinmin (*appointed on 26 March 2018*)
Mr. Wong Cho Hang Stanley
Ms. Xin Shihua (*retired on 26 March 2018*)*

* Mr. Yan Bin and Ms. Xin Shihua retired as Directors due to their term of office expire.

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

Supervisors

Ms. Du Wei
Mr. Wei Lin
Mr. Sun Chuang (*appointed on 26 March 2018*)
Mr. Pan Jin (*retired on 26 March 2018*)*

* Mr. Pan Jin retired as Supervisor due to his term of office expires.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all its independent non-executive Directors independent.

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

Directors' Report

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or fellow subsidiaries or its parent company was a party, and in which a Director or Supervisor or an entity connected with any of them had a material interest, whether directly or indirectly subsisted at the end of the Reporting Year or at any time during the Reporting Year.

As at 31 December 2018, no contract of significance had been entered into between the Company, or any of its subsidiaries, and the controlling shareholders of the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Ma Hongfu, Lanzhou Zhuangyuan Investment Co., Ltd. (蘭州莊園投資有限公司) ("Zhuangyuan Investment") and Gansu Lucky Cow Investment Co., Ltd. (甘肅福牛投資有限公司) ("Lucky Cow") (the Controlling Shareholders) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 23 September 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the period for the year ended 31 December 2018.

Directors' Report

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

The interests in shares of the Company held by the Directors and Supervisors during the Reporting Year is disclosed in the section headed "DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" below. At no time during the Reporting Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or Supervisor or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors or Supervisor to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

EMOLUMENT POLICY

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

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the Reporting Year or subsisted at the end of the Reporting Year.

SHARE OPTION SCHEME

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

Directors' Report

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

As at 31 December 2018, the interests and short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

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

Notes:

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

Save as disclosed above, as at 31 December 2018, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Report

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

As at 31 December 2018, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares/ H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
A Shares				
Yang Xiuhua (Note 2)	Interest of spouse	78,092,100 (L)	51.31%	41.68%
Lanzhou Zhuangyuan Investment Co., Ltd. (Note 3)	Beneficial owner	30,894,700 (L)	20.30%	16.49%
Gansu Lucky Cow Investment Co., Ltd. (Note 3)	Beneficial owner	15,000,000 (L)	9.85%	8.01%
China Dragon Securities Co., Ltd. (華龍證券股份有限公司) (Note 4)	Person having a security interest in Share	15,000,000 (L)	9.85%	8.01%
H Shares				
Hu Keliang	Beneficial owner	6,960,000 (L)	19.81%	3.72%
Li Yanling (Note 5)	Interests of spouse	6,960,000 (L)	19.81%	3.72%
Wang Wei (Note 6)	Beneficial owner	800,000 (L)	2.28%	0.43%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.49%
Li Qi (Note 6)	Interests of spouse	3,600,000 (L)	10.25%	1.92%
Venko Limited (Note 6)	Beneficial owner	2,800,000 (L)	7.97%	1.49%
Ren Qifeng (Note 7)	Interest of controlled corporation	3,523,000 (L)	10.03%	1.88%
Ren Songliu (Note 7)	Interests of spouse	3,523,000 (L)	10.03%	1.88%
Technoart Investments Limited (Note 7)	Beneficial owner	3,523,000 (L)	10.03%	1.88%
Hu Jiawu	Beneficial owner	2,800,000 (L)	7.97%	1.49%
Xi Xin (Note 8)	Interests of spouse	2,800,000 (L)	7.97%	1.49%
Zhang Chenbin	Beneficial owner	2,443,500 (L)	6.96%	1.30%

Directors' Report

Notes:

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

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

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

SUFFICIENCY OF PUBLIC FLOAT

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

Directors' Report

AUDITORS

The consolidated financial statements for the year ended 31 December 2017 were audited by KPMG and KPMG Huazhen LLP respectively. The consolidated financial statements for the Reporting Year were audited by Ruihua Certified Public Accountants (Special General Partnership).

Ruihua Certified Public Accountants (Special General Partnership) will retire at the AGM and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of Ruihua Certified Public Accountants (Special General Partnership) as auditors of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

蘭州莊園牧場股份有限公司

Lanzhou Zhuangyuan Pasture Co., Ltd.*

Ma Hongfu

Chairman

Lanzhou, the PRC, 30 January 2019

Auditor's Report

To the Shareholders of Lanzhou Zhuangyuan Pasture Co., Ltd.,

I. OPINION

We have audited the financial statements of Lanzhou Zhuangyuan Pasture Co., Ltd. (hereinafter referred to as "Zhuangyuan Pasture Company" or "Company"), which comprise the consolidated and company balance sheets as at 31 December 2018, the consolidated and company income statements, the consolidated and company cash flow statements, the consolidated and company statements of changes in shareholders' equity for the year of 2018 and relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared in accordance with the provisions of Accounting Standards for Business Enterprises in all material respects and present fairly the consolidated and company financial position of Zhuangyuan Pasture Company as at 31 December 2018 and the consolidated and company operating results and cash flows for the year of 2018.

II. BASIS FOR OPINION

We conducted our audit in accordance with the provisions of China Standards on Auditing for Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Zhuangyuan Pasture Company in accordance with the China Code of Ethics for Certified Public Accountants, 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.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We recognise that the following matters are the key audit matters which shall be provided in the auditor's report.

(I) Revenue recognition

1. Matters description

As mentioned in note "IV. Significant accounting policies and accounting estimate of the Company" 23 and note "VI. Notes to consolidated financial statements" 34 to financial statements.

The principal products of Zhuangyuan Pasture Company comprise pasteurised milk, UHT milk, modified milk, yogurt and milk beverages, which are mainly sold through distributors, sales agents and direct sales.

The contract terms with customers by Zhuangyuan Pasture Company are generally standardised with sales returns and exchanges not being permitted except for in the case of product defects or spoilage.

Revenue of Zhuangyuan Pasture Company is recognised when the customer has acknowledged acceptance of the goods by signing the goods delivery note which is the point at which the related risks and rewards of ownership of the goods are considered to have been transferred to the customer.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of Zhuangyuan Pasture Company, which gives rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.

2. How the matter was addressed in our audit

Our audit procedures to assess revenue recognition included the following in the process of auditing significant matters:

- (1) understanding and assessing the design for internal control relating to revenue recycling as well as testing the effectiveness of key internal control;
- (2) executing analytical review procedures as per development state of the industry and actual operation characteristics of the Company to judge rationality of sales revenue and gross margin changes;
- (3) obtaining the agreements signed by and between the Company and the customer as well as inspecting key clauses, such as delivery and acceptance, payment and settlement policies and assessing whether accounting policies for revenue recognition of Zhuangyuan Pasture Company complies with requirements of Accounting Standards of Business Enterprises;

Auditor's Report

- (4) distinguishing product and sale type, taking samples for inspection, respectively, selecting important samples to inspect the revenue and recognising related supporting documents (including financial documents, sales records, contracts, shipment documents, receipt documents, regular letters of reconciliation and records on signing in) to verify truthfulness and accuracy of revenue recognition;
- (5) sampling and recognising sale and settlement balance of payment for goods to the customer with letters of recognition;
- (6) cut-off test for sales revenue before and after the balance sheet date to evaluate whether the sales revenue is recorded in the proper accounting period;
- (7) inspecting main customers by field visit and interview as well as field investigation of warehouse and business premises.

(II) Valuation of bearer biological assets

1. Matters description

As mentioned in note "IV. Significant accounting policies and accounting estimate of the Company" 16 and note "VI. Notes to consolidated financial statements" 11 and "X. Disclosure of fair value" to financial statements.

Zhuangyuan Pasture Company's bearer biological assets comprise dairy cattle, which are categorised into calves, heifers and milkable cows. Zhuangyuan Pasture Company engaged an independent external valuer to assist in valuation of the bearer biological assets based on different valuation techniques on each category.

The fair value assessment of bearer biological assets involves a significant degree of judgment, particularly in respect of estimated culling and birth rates, future average milk production volumes, future raw milk market prices, breeding costs and the discount rate applied.

We identified the valuation of bearer biological assets as a key audit matter because the valuation is dependent on certain key assumptions, which require the exercise of significant management judgment and are subject to an inherent risk of error or potential management bias.

2. How the matter was addressed in our audit

Our audit procedures to assess revenue recognition included the following in the process of auditing significant matters:

- (1) evaluating the external valuers' competence, capabilities and objectivity;
- (2) assessing the key assumptions adopted in the valuation of bearer biological assets, including the estimated culling and birth rates, future average milk production volumes, future market prices for raw milk, breeding costs and discount rate based on the work by external evaluation experts;
- (3) observing the physical count of bearer biological assets performed by Zhuangyuan Pasture Company and comparing the quantity of bearer biological assets with that included in the valuation model.

IV. OTHER INFORMATION

Zhuangyuan Pasture Company's management is responsible for the other information. The other information comprises all the information included in 2018 annual report of Zhuangyuan Pasture Company, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Auditor's Report

V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management of Zhuangyuan Pasture Company (hereinafter referred to as the "Management") is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing Zhuangyuan Pasture Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Zhuangyuan Pasture Company or to cease operations, or has no realistic alternative but to do so.

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

VI. CERTIFIED PUBLIC ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's Report

- (4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Zhuangyuan Pasture's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Zhuangyuan Pasture Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Zhuangyuan Pasture to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Ruihua Certified Public Accountants Firm
(Special General Partnership)**

Beijing, China

Certified Public Accountant in the People's
Republic of China:
Li Zongyi (Engagement Partner)
Certified Public Accountant Registered in the
People's Republic of China:
Zhang Youquan
30 January 2019

Consolidated Balance Sheet

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash at bank and on hand	VI. 1	403,091,181.37	747,642,372.75	747,642,372.75
Trading financial assets				
Financial assets measured at the fair value with its changes included in the current profits and losses				
Derivative financial assets				
Bills receivable and accounts receivable	VI. 2	36,674,292.53	24,403,065.85	24,403,065.85
Including: bills receivable		200,000.00		
Accounts receivable		36,474,292.53	24,403,065.85	24,403,065.85
Prepayments	VI. 3	13,351,970.35	6,131,850.02	6,131,850.02
Other receivables	VI. 4	12,859,500.92	13,290,298.02	13,290,298.02
Including: Interests receivable				
Dividends receivable				
Inventories	VI. 5	88,920,515.66	71,078,079.91	71,078,079.91
Contract assets				
Held-for-sale assets	VI. 6		6,458,501.72	6,458,501.72
Non-current assets due within one year				
Other current assets	VI. 7	2,732,075.27	3,087,413.98	3,087,413.98
Total current assets		557,629,536.10	872,091,582.25	872,091,582.25

Consolidated Balance Sheet (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	31 December 2018	1 January 2018	31 December 2017
Non-current assets:				
Creditor's investment				
Available-for-sale financial assets				33,720,671.00
Other creditor's investments				
Held-to-maturity investment				
Long-term receivables				
Long-term equity investments				
Other equity instrument investment	VI. 8	44,471.00	41,819,725.38	
Other non-current financial assets				
Investment property				
Fixed assets	VI. 9	939,220,755.53	625,799,144.70	625,799,144.70
Construction in progress	VI. 10	37,670,284.43	40,475,357.07	40,475,357.07
Bearer biological assets	VI. 11	270,304,000.00	175,815,804.71	175,815,804.71
Oil and gas assets				
Intangible assets	VI. 12	74,720,414.54	20,571,548.22	20,571,548.22
Development expenditures				
Goodwill	VI. 13	58,690,507.80		
Long-term deferred expenses	VI. 14	8,121,802.02	1,629,589.78	1,629,589.78
Deferred income tax assets	VI. 15	7,437,269.96	4,877,752.80	4,877,752.80
Other non-current assets	VI. 16	94,270,000.00	28,736,250.06	28,736,250.06
Total non-current assets		1,490,479,505.28	939,725,172.72	931,626,118.34
Total assets		2,048,109,041.38	1,811,816,754.97	1,803,717,700.59

Consolidated Balance Sheet (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term loans	VI. 17	437,000,000.00	406,000,000.00	406,000,000.00
Trading financial liabilities				
Financial liabilities measured at the fair value with its changes included in the current profits and losses				
Derivative financial liabilities				
Bills payable and accounts payable	VI. 18	195,492,406.72	120,877,706.97	120,877,706.97
Advances from customers				24,062,136.66
Contract liabilities	VI. 19	26,619,170.51	20,565,928.77	
Employee benefits payable	VI. 20	3,137,339.49	6,186,062.94	6,186,062.94
Taxes payable	VI. 21	43,114,591.17	12,170,961.95	8,674,754.06
Other payables	VI. 22	41,599,096.36	21,251,742.31	21,251,742.31
Including: interest payable		367,508.92	403,694.71	403,694.71
Dividends payable				
Held-for-sale liabilities				
Non-current liability due within one year	VI. 23	33,751,973.50	20,054,483.87	20,054,483.87
Other current liabilities				
Total current liabilities		780,714,577.75	607,106,886.81	607,106,886.81
Non-current liability				
Long-term loans	VI. 24	39,559,300.45	26,559,671.60	26,559,671.60
Bonds payable				
Including: preferred shares				
Perpetual bonds				
Long-term payables	VI. 25	2,360,888.31	1,394,555.79	1,394,555.79
Long-term employee benefits payable				
Estimated liabilities	VI. 26	11,403.51		
Deferred revenues	VI. 28	34,758,573.96	40,991,391.67	40,991,391.67
Deferred income tax liabilities	VI. 15	6,297,564.28	1,214,858.16	
Other non-current liabilities				
Total non-current liabilities		82,987,730.51	70,160,477.22	68,945,619.06
Total liabilities		863,702,308.26	677,267,364.03	676,052,505.87

Consolidated Balance Sheet (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	31 December 2018	1 January 2018	31 December 2017
Shareholders' equity:				
Share capital	VI. 29	187,340,000.00	187,340,000.00	187,340,000.00
Other equity instruments				
Including: preferred shares				
Perpetual bonds				
Capital reserves	VI. 30	508,790,782.09	508,790,782.09	508,790,782.09
Less: treasury share				
Other comprehensive income	VI. 31		6,884,196.22	
Special reserves				
Surplus reserves	VI. 32	37,194,404.27	32,051,090.62	32,051,090.62
General risk reserves				
Retained earnings	VI. 33	451,081,546.76	399,483,322.01	399,483,322.01
Total shareholders' equities attributable to the parent company		1,184,406,733.12	1,134,549,390.94	1,127,665,194.72
Minority shareholders' equity				
Total shareholders' equity		1,184,406,733.12	1,134,549,390.94	1,127,665,194.72
Total liabilities and shareholders' equities		2,048,109,041.38	1,811,816,754.97	1,803,717,700.59

The notes to financial statements on pages 91 to 215 form part of these financial statements.

These financial statements on pages 80 to 90 are signed by the following persons:

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

Consolidated Income Statement

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
I. Total operating income		657,732,097.02	628,374,037.21
Including: operating income	VI. 34	657,732,097.02	628,374,037.21
II. Total operating costs		609,310,975.09	576,092,354.43
Including: operating costs	VI. 34	445,395,298.89	435,408,364.01
Taxes and surcharges	VI. 35	5,008,543.37	3,578,501.45
Selling expenses	VI. 36	83,983,105.31	71,556,173.52
Administrative expenses	VI. 37	48,710,725.87	54,293,072.18
R&D expenses	VI. 38	4,371,584.52	915,737.60
Financial expenses	VI. 39	21,200,766.68	11,140,062.88
Including: interest expenses		24,136,245.80	20,786,244.03
Interest income		3,541,023.80	2,263,128.18
Asset impairment loss	VI. 40	436,433.73	-799,557.21
Credit impairment loss	VI. 41	204,516.72	
Add: other income	VI. 42	13,437,230.26	10,786,929.40
Investment income (the losses are expressed by "-".)			
Including: investment income in joint ventures and cooperative enterprises			
Net exposure hedge profits and losses (the loss is expressed by "-")			
Income from changes in fair value (The loss is expressed by "-")	VI. 43	174,963.30	8,001,875.88
Income from asset disposals (the losses are expressed by "-".)	VI. 44	2,636,907.21	-276,141.49
III. Operating profit (the loss is presented as "-")		64,670,222.70	70,794,346.57
Add: non-operating income	VI. 45	3,059,242.24	548,125.75
Less: non-operating expenses	VI. 46	2,544,655.67	286,583.66
IV. Total profits (the total loss is presented as "-")		65,184,809.27	71,055,888.66
Less: income tax expense	VI. 47	1,651,647.09	2,704,003.49
V. Net profit (the loss is presented as "-")		63,533,162.18	68,351,885.17
(I) Classification according to business continuity			
1. Net profit from continuing operation (net loss is presented as "-")		63,533,162.18	68,351,885.17
2. Net profit from discontinued operation (net loss is presented as "-")			
(II) Classifying according to the attribution of the ownership			
1. Minority shareholders' profit and loss (net loss is presented as "-")			
2. Net profit attributable to the shareholders of parent company (net loss is presented as "-")		63,533,162.18	68,351,885.17

Consolidated Income Statement (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
VI. Net other comprehensive income after-tax			
Net other comprehensive income after-tax attributable to shareholders of the parent company			
(I) Other comprehensive income that cannot be reclassified into profits and losses afterwards			
1. Change amount of defined benefit plans from the re-measurement			
2. Other comprehensive income that cannot be transferred into the profits and losses under the equity law			
3. Fair value change of other equity instrument investment			
4. Fair value change of enterprise credit risk			
5. Others			
(II) Other comprehensive income to be reclassified into profits and losses afterwards			
1. Other comprehensive income that be transferred into the profits and losses under the equity law			
2. Fair value change of other creditor's investment			
3. Profits and losses of changes in fair value of available-for-sale financial assets			
4. Amount of financial assets reclassified into other comprehensive income			
5. Profits and losses of available-for-sale financial assets reclassified from held-to-maturity investment			
6. Credit impairment reserves of other creditor's investment			
7. Cash flow hedging reserve (the effective part of cash flow hedging profits and losses)			
8. Translation difference in foreign currency financial statements			
9. Others			
Net other comprehensive income after-tax attributable to minor shareholders			

Consolidated Income Statement (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
VII. Total comprehensive income		63,533,162.18	68,351,885.17
Total comprehensive income attributable to shareholders of the parent company		63,533,162.18	68,351,885.17
Total comprehensive income attributable to shareholders of the parent company			
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/share)	XVI. 2	0.34	0.46
(II) Diluted earnings per share (RMB/share)	XVI. 2	0.34	0.46

The notes to financial statements on pages 91 to 215 form part of these financial statements.

These financial statements on pages 80 to 90 are signed by the following persons:

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
I. Cash flow from operating activities:			
Proceeds from sale of goods and rendering of services		708,775,617.46	724,638,501.25
Refund of taxes received			
Proceeds from other operating activities	VI. 48	44,760,821.46	28,575,770.61
Sub-total of cash inflows from operating activities		753,536,438.92	753,214,271.86
Payment for goods and services		487,287,131.67	423,462,498.87
Payment to and for employees		56,115,392.06	49,350,895.16
Payment of various taxes		35,012,712.36	43,823,357.44
Payment for other operating activities	VI. 48	71,398,435.81	91,403,186.32
Sub-total of cash outflows from operating activities		649,813,671.90	608,039,937.79
Net cash flow from operating activities		103,722,767.02	145,174,334.07
II. Cash flow from investment activities:			
Proceeds from the return of investment			
Proceeds from investment income			
Net proceeds from disposal of fixed assets, intangible assets and other long-term assets		14,894,076.99	28,009,688.42
Net proceeds from disposal of subsidiaries and other business units			
Proceeds from other investment activities		13,377,231.82	20,510,675.32
Sub-total of cash inflows from investing activities		28,271,308.81	48,520,363.74
Payment for acquisition of fixed assets, intangible assets and other long-term assets		212,545,812.60	73,039,629.77
Cash paid for investments		200,892,400.00	
Net increase amount in pledged loans			
Net cash paid for acquisition of subsidiaries and other business units			
Payment for other investing activities		14,300,079.98	24,993,838.13
Sub-total of cash outflow from investing activities		427,738,292.58	98,033,467.90
Net cash flow from investing activities		-399,466,983.77	-49,513,104.16

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
III. Cash flows from financing activities :			
Proceeds from investors			320,926,400.00
Including: proceeds from subsidiary by absorbing minority shareholders' investments			
Proceeds from borrowings		460,000,000.00	431,380,000.00
Proceeds from the issuance of bonds			
Other proceeds from other financing activities			
Sub-total of cash inflow from financing activities		460,000,000.00	752,306,400.00
Repayments of borrowings		469,488,212.43	335,199,956.07
Payment for dividends, appropriation of profits or interest		37,858,722.62	31,848,372.57
Including: dividends and profits paid by subsidiaries to minority shareholders			
Payment for other financing activities		4,750,247.44	16,523,312.83
Sub-total of cash outflows from financing activities		512,097,182.49	383,571,641.47
Net cash flow from financing activities		-52,097,182.49	368,734,758.53
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		-263,581.13	-851,924.51
V. Net increase in cash and cash equivalents	VI. 49	-348,104,980.37	463,544,063.93
Add: Cash and cash equivalents at the beginning of the period		736,896,081.76	273,352,017.83
VI. Cash and cash equivalents at the end of the period	VI. 49	388,791,101.39	736,896,081.76

The notes to financial statements on pages 91 to 215 form part of these financial statements.

These financial statements on pages 80 to 90 are signed by the following persons:

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

Consolidated Statement of Changes Shareholders' Equity

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	2018											
	Attributable to shareholders of the parent company					Total shareholders' equity						
	Share capital	Preferred shares	Perpetual bonds	Other equity instruments	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Retained earnings	Minority shareholders' equity	Total shareholders' equity
I. Balance at the end of the previous year	187,340,000.00			508,790,782.09		6,884,196.22		32,051,080.62		399,483,322.01		1,127,665,194.72
Add: Charge in accounting policies												
Pro-period error correction												
Business combination under the common control:												
Others						6,884,196.22						6,884,196.22
II. Balance at the beginning of the year	187,340,000.00			508,790,782.09		6,884,196.22		32,051,080.62		399,483,322.01		1,127,665,194.72
III. Increase/decrease amount during the period (decrease is presented as "-")												
(I) Total comprehensive income												
(II) Invested and reduced capitals of shareholders												
1. Common share contributed by shareholders												
2. Capital contributed by other equity instrument holders												
3. Amount of share-based payment included in shareholders' equities												
4. Others												
(III) Appropriation of profits												
1. Appropriation for surplus reserve												
2. Withdrawal of general risks reserve												
3. Distributions to shareholders												
4. Others												
(IV) Internal carry-over of shareholder's equity												
1. Paid-in capitals (or share capital) transferred with capital reserves												
2. Surplus reserves (or share capital) transferred with capital reserves												
3. Surplus reserve to cover the losses												
4. Transferred the balance of defined benefits plan to retained earnings												
5. Transferred other comprehensive income to retained earnings												
6. Others												
(V) Special reserve												
1. Withdraw amount in the period												
2. Utilized amount in the period												
(VI) Others												
IV. Balance at the end of the year	187,340,000.00			508,790,782.09		6,884,196.22		37,194,404.27		451,081,546.76		1,184,406,733.12

Consolidated Statement of Changes in Shareholders' Equity (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Shareholders' equities attributable to the parent company						Minority shareholders' equity	Total shareholders' equity		
	Share capital	Preferred shares	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income				
			Perpetual bonds	Others	Special reserves	Surplus reserves	General risk reserves	Retained earnings	Minority shareholders' equity	Total shareholders' equity
I. Balance at the end of the previous year	140,500,000.00			246,127,082.09		28,203,412.51		345,404,214.95		760,234,709.55
Add: Change in accounting policies										
Prior-period error correction										
Business combination under the common control:										
Others										
II. Balance at the beginning of the year	140,500,000.00			246,127,082.09		28,203,412.51		345,404,214.95		760,234,709.55
III. Increase/decrease amount during the period (decrease is presented as "-")	46,840,000.00			282,663,700.00		3,847,678.11		54,079,107.06		387,439,465.17
(I) Total comprehensive income								68,351,665.17		68,351,665.17
(II) Invested and reduced capitals of shareholders	46,840,000.00			282,663,700.00						339,503,700.00
1. Ordinary share contributed by shareholders	46,840,000.00			282,663,700.00						339,503,700.00
2. Capital contributed by other equity instrument holders										
3. Amount of share-based payment included in shareholders' equities										
4. Others										
(III) Appropriation of profits								-14,272,778.11		-14,272,778.11
1. Appropriation for surplus reserve								-3,847,678.11		-3,847,678.11
2. Withdrawal of general risks reserve										
3. Distributions to shareholders										
4. Others										
(IV) Internal carry-over of shareholders' equity										
1. Paid-in capitals (or share capital) transferred with capital reserves										
2. Surplus reserve (or share capital) transferred with capital reserves										
3. Surplus reserve to cover the losses										
4. Transferred the balance of defined benefits plan to retained earnings										
5. Transferred other comprehensive income to retained earnings										
6. Others										
(V) Special reserve										
1. Withdraw amount in the period										
2. Utilized amount in the period										
(VI) Others										
IV. Balance at the end of the year	187,340,000.00			528,790,782.09		32,051,090.62		399,483,322.01		1,127,665,194.72

The notes to financial statements on pages 91 to 215 form part of these financial statements.

These financial statements on pages 80 to 90 are signed by the following persons:

Legal Representative:

The person in charge of accounting affairs:

The head of accounting department:

Balance Sheet

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash at bank and on hand		302,152,523.33	685,225,413.30	685,225,413.30
Trading financial assets				
Financial assets measured at the fair value with its changes included in the current profits and losses				
Derivative financial assets				
Bills receivable and accounts receivable	XV. 1	23,420,606.04	17,719,619.46	17,719,619.46
Including: bills receivable		200,000.00		
Accounts receivable		23,220,606.04	17,719,619.46	17,719,619.46
Prepayments		3,171,102.84	1,126,929.20	1,126,929.20
Other receivables	XV. 2	493,110,386.83	394,958,085.86	394,958,085.86
Including: interests receivable				
Dividends receivable				
Inventories		21,986,320.79	26,893,582.44	26,893,582.44
Contract assets				
Held-for-sale assets			6,458,501.72	6,458,501.72
Non-current assets due within one year				
Other current assets		1,609,155.29	3,086,324.24	3,086,324.24
Total current assets		845,450,095.12	1,135,468,456.22	1,135,468,456.22

Balance Sheet (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	31 December 2018	1 January 2018	31 December 2017
Non-current assets:				
Creditor's investment				
Available-for-sale financial assets				33,720,671.00
Other creditor's investments				
Held-to-maturity investment				
Long-term receivables				
Long-term equity investments	XV. 3	524,788,965.98	233,013,711.60	233,013,711.60
Other equity instrument investment		44,471.00	41,819,725.38	
Other non-current financial assets				
Investment property				
Fixed assets		205,199,246.35	152,026,789.22	152,026,789.22
Construction in process		16,629,400.99	31,842,871.09	31,842,871.09
Bearer biological assets				
Oil and gas assets				
Intangible assets		58,118,767.50	4,636,409.36	4,636,409.36
Development expenditures				
Goodwill				
Long-term deferred expenses		5,242,718.45		
Deferred income tax assets		3,225,755.75	3,000,352.28	3,000,352.28
Other non-current assets		60,400,000.00	15,066,250.06	15,066,250.06
Total non-current assets		873,649,326.02	481,406,108.99	473,307,054.61
Total assets		1,719,099,421.14	1,616,874,565.21	1,608,775,510.83

Balance Sheet (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term loans		420,000,000.00	350,000,000.00	350,000,000.00
Trading financial liabilities				
Financial liabilities measured at the fair value with its changes included in the current profits and losses				
Derivative financial liabilities				
Bills payable and accounts payable		76,860,949.67	71,795,379.01	71,795,379.01
Advances from customers				22,137,321.07
Contract liabilities		19,174,228.30	18,920,787.24	
Employee benefits payable		2,018,151.21	4,620,355.61	4,620,355.61
Taxes payable		38,217,540.12	10,900,141.13	7,683,607.30
Other payables		57,546,859.24	79,507,470.97	79,507,470.97
Including: Interest payable		359,274.20	237,351.61	237,351.61
Dividends payable				
Held-for-sale liabilities				
Non-current liability due within one year		5,308,359.35	14,515,413.87	14,515,413.87
Other current liabilities				
Total current liabilities		619,126,087.89	550,259,547.83	550,259,547.83

Balance Sheet (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	31 December 2018	1 January 2018	31 December 2017
Non-current liabilities:				
Long-term loans		19,439,300.45	21,559,671.60	21,559,671.60
Bonds payable				
Including: Preferred shares				
Perpetual bonds				
Long-term payables			1,394,555.79	1,394,555.79
Long-term employee benefits payable				
Estimated liabilities		6,776.34		
Deferred revenues		13,260,249.95	14,151,100.00	14,151,100.00
Deferred income tax liabilities		1,214,858.16	1,214,858.16	
Other non-current liabilities				
Total non-current liabilities		33,921,184.90	38,320,185.55	37,105,327.39
Total liabilities		653,047,272.79	588,579,733.38	587,364,875.22
Shareholders' equity:				
Share capital		187,340,000.00	187,340,000.00	187,340,000.00
Other equity instruments				
Including: Preferred shares				
Perpetual bonds				
Capital reserves		531,302,474.16	531,302,474.16	531,302,474.16
Less: Treasury share				
Other comprehensive income			6,884,196.22	
Special reserves				
Surplus reserves		37,194,404.27	32,051,090.62	32,051,090.62
General risk reserves				
Retained earnings		310,215,269.92	270,717,070.83	270,717,070.83
Total shareholders' equity		1,066,052,148.35	1,028,294,831.83	1,021,410,635.61
Total liabilities and shareholders' equities		1,719,099,421.14	1,616,874,565.21	1,608,775,510.83

The notes to financial statements on pages 91 to 215 form part of these financial statements.

These financial statements on pages 80 to 90 are signed by the following persons:

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

Income Statement

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
I. Operating income	XV. 4	482,024,740.39	440,812,328.28
Less: Operating costs	XV. 4	330,032,253.16	315,162,803.03
Taxes and surcharges		3,144,406.15	2,277,587.76
Selling expenses		53,245,012.96	46,163,503.23
Administrative expenses		27,552,724.61	28,388,803.88
R&D expense		3,107,274.02	792,431.12
Financial expenses		18,662,557.20	7,908,555.42
Including: Interest expenses		20,966,944.65	15,557,104.06
Interest income		3,010,692.90	1,120,796.80
Asset impairment loss		197,141.12	-273,604.53
Credit impairment loss		18,726.68	
Add: Other incomes		6,141,533.98	2,056,398.74
Investment income (the losses are expressed by "-".)			
Including: Investment income in joint ventures and cooperative enterprises			
Net exposure hedge profits and losses (the loss is expressed by "-")			
Income from changes in fair value (The loss is expressed by "-")			
Income from asset disposals (the losses are expressed by "-")		2,603,031.01	-78,378.75
II. Operating profit (the loss is presented as "-")		54,809,209.48	42,370,268.36
Add: Non-operating income		1,120,261.78	36,422.90
Less: Non-operating expenses		1,196,594.42	274,880.76
III. Total profits (the total loss is presented as "-")		54,732,876.84	42,131,810.50
Less: Income tax expense		3,299,740.32	3,655,029.39
IV. Net profit (Net loss shall be expressed by "-")		51,433,136.52	38,476,781.11
(I) Net profit from continuing operation (net loss is presented as "-")		51,433,136.52	38,476,781.11
(II) Net profit from discontinued operation (net loss is presented as "-")			

Income Statement (continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
V. Net other comprehensive income after-tax			
(I) Other comprehensive income that cannot be reclassified into profits and losses afterwards			
1. Change amount of defined benefit plans from the re-measurement			
2. Other comprehensive income that cannot be transferred into the profits and losses under the equity law			
3. Fair value change of other equity instrument investments			
4. Fair value change of enterprise credit risk			
5. Others			
(II) Other comprehensive income to be reclassified into profits and losses afterwards			
1. Other comprehensive income that be transferred into the profits and losses under the equity law			
2. Fair value change of other creditor's investment			
3. Profits and losses of changes in fair value of available-for-sale financial assets			
4. Amount of financial assets reclassified into Other comprehensive income			
5. Profits and losses of available-for-sale financial assets reclassified from held-to-maturity investment			
6. Credit impairment reserves of other creditor's investment			
7. Cash flow hedging reserve (the effective part of cash flow hedging profits and losses)			
8. Translation difference in foreign currency financial statements			
9. Others			
VI. Total comprehensive income		51,433,136.52	38,476,781.11

The notes to financial statements on pages 91 to 215 form part of these financial statements.

These financial statements on pages 80 to 90 are signed by the following persons:

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

Cash Flow Statement

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
I. Cash flow from operating activities:			
Proceeds from sale of goods and rendering of services		535,253,810.86	578,379,939.50
Refund of taxes received			
Proceeds from other operating activities		68,935,723.89	23,873,582.46
Sub-total of cash inflow from operating activities		604,189,534.75	602,253,521.96
Payment for goods and services		500,674,586.90	354,868,428.05
Payment to and for employees		30,820,047.96	28,674,914.30
Payment of various taxes		29,276,081.15	35,328,324.25
Payment for other operating activities		87,261,930.82	53,268,150.81
Sub-total of cash inflow from operating activities		648,032,646.83	472,139,817.41
Net cash flow from operating activities		-43,843,112.08	130,113,704.55
II. Cash flow from investment activities:			
Proceeds from the return of investment			
Proceeds from investment income			
Net proceeds from disposal of fixed assets, intangible assets and other long-term assets		8,345,032.49	1,355,865.71
Net proceeds from disposal of subsidiaries and other business units			
Proceeds from other investment activities		13,377,231.82	15,715,058.90
Sub-total of cash inflow from investing activities		21,722,264.31	17,070,924.61
Payment for acquisition of fixed assets, intangible assets and other long-term assets		170,618,329.06	11,949,603.48
Cash paid for investments		201,892,400.00	
Net cash paid for obtaining subsidiaries and other business units			
Payment for other investing activities		14,300,079.98	24,993,838.13
Sub-total of cash outflow from investing activities		386,810,809.04	36,943,441.61
Net cash flow from investing activities		-365,088,544.73	-19,872,517.00

Cash Flow Statement (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	Note	2018	2017
III. Cash flows from financing activities :			
Proceeds from investors			320,926,400.00
Proceeds from borrowings		440,000,000.00	375,380,000.00
Proceeds from the issuance of bonds			
Other Proceeds from in connection with financing activities			
Sub-total of cash inflow from financing activities		440,000,000.00	696,306,400.00
Repayments of borrowings		380,178,212.43	240,699,956.07
Payment for dividends, appropriation of profits or interest		34,702,981.15	26,652,308.38
Payment for other financing activities		2,550,247.44	16,523,312.83
Sub-total of cash outflow from financing activities		417,431,441.02	283,875,577.28
Net cash flow from financing activities		22,568,558.98	412,430,822.72
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		-263,581.13	-851,924.51
V. Net increase in cash and cash equivalents		-386,626,678.96	521,820,085.76
Add: Cash and cash equivalents at the beginning of the period		674,479,122.31	152,659,036.55
VI. Cash and cash equivalents at the end of the period		287,852,443.35	674,479,122.31

The notes to financial statements on pages 91 to 215 form part of these financial statements.

These financial statements on pages 80 to 90 are signed by the following persons:

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

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018

(Expressed in Renminbi Yuan)

Item	2018						Total shareholders' equity
	Share capital	Preferred shares	Perpetual bonds	Other equity instruments	Less: Treasury share	Other comprehensive income	
				Capital reserves	Surplus reserves	General risk reserves	Retained earnings
I. Balance at the end of the previous year	187,340,000.00			531,302,474.16	32,051,090.62	270,717,070.83	1,021,410,635.61
Add: Change in accounting policies							
Prior-period error correction							
Others							6,884,196.22
II. Balance at the beginning of the year	187,340,000.00			531,302,474.16	32,051,090.62	270,717,070.83	1,028,294,831.83
III. Increase/decrease amount during the period (decrease is presented as "-")							
(I) Total comprehensive income							
(II) Invested and reduced capitals of shareholders							
1. Common share contributed by shareholders							
2. Capital contributed by other equity instrument holders							
3. Amount of share-based payment included in shareholders' equities							
4. Others							
(III) Appropriation of profits							
1. Appropriation for surplus reserve							
2. Withdrawal of general risks reserve							
3. Distributions to shareholders							
4. Others							
(IV) Internal carry-over of shareholders' equity							
1. Paid-in capitals (or share capital) transferred with capital reserves							
2. Surplus reserves (or share capital) transferred with capital reserves							
3. Surplus reserve to cover the losses							
4. Transferred the balance of defined benefits plan to retained earnings							
5. Transferred other comprehensive income to retained earnings							
6. Others							
(V) Special reserve							
1. Withdraw amount in the period							
2. Utilized amount in the period							
(VI) Others							
IV. Balance at the end of the year	187,340,000.00			531,302,474.16	37,194,404.27	310,215,269.92	1,066,052,146.35

Statement of Changes in Shareholders' Equity (Continued)

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	2017						Total shareholders' equity	
	Share capital	Preferred shares	Perpetual bonds	Other equity instruments	Capital reserves	Less: Treasury share		
				Other comprehensive income	Surplus reserves	General risk reserves	Retained earnings	
I. Balance at the end of the previous year	140,500,000.00				28,203,412.51		246,513,067.83	683,655,254.50
Add: Change in accounting policies								
Pro-form error correction								
Others								
II. Balance at the beginning of the year	140,500,000.00				28,203,412.51		246,513,067.83	683,655,254.50
III. Increase/decrease amount during the period (decrease is presented as "-")								
(I) Total comprehensive income								
(II) Invested and reduced capitals of shareholders	46,840,000.00				3,847,678.11		24,204,073.00	337,555,381.11
1. Common share contributed by shareholders	46,840,000.00						38,476,781.11	309,503,700.00
2. Capital contributed by other equity instrument holders								309,503,700.00
3. Amount of share-based payment included in shareholders' equities								
4. Others								
(III) Appropriation of profits								
1. Appropriation for surplus reserve								
2. Withdrawal of general risks reserve								
3. Distributions to shareholders								
4. Others								
(IV) Internal carry-over of shareholders' equity								
(V) Paid-in capitals (or share capital) transferred with capital reserves								
1. Paid-in capitals (or share capital) transferred with capital reserves								
2. Surplus reserves (or share capital) transferred with capital reserves								
3. Surplus reserve to cover the losses								
4. Transferred the balance of defined benefits plan to retained earnings								
5. Transferred other comprehensive income to retained earnings								
6. Others								
(VI) Special reserve								
1. Withdraw amount in the period								
2. Utilized amount in the period								
6. Others								
IV. Balance at the end of the year	187,340,000.00				32,051,090.62		270,717,070.83	1,021,410,635.61

The notes to financial statements on pages 91 to 215 form part of these financial statements.

These financial statements on pages 80 to 90 are signed by the following persons:

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

Notes to the Financial Statements

(Expressed in Renminbi Yuan unless otherwise indicated)

I. COMPANY STATUS

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

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

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

The Company has 11 subsidiaries incorporated into the consolidation scope in 2018; for details, please refer to Note VIII "Interests in other entities". The consolidation scope is increased with two enterprises compared with that in the last year of the Company, for details, please refer to Note VII "Changes for the consolidation scope"

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

The financial statements have been approved by the Board of Directors of the Company on 30 January 2019. According to the Articles of Association of the Company, the financial statements will be submitted to and considered at the shareholders' meeting.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

1. Basis of Preparation

The financial statements of the Company have been prepared on the going concern basis in accordance with the Accounting Standards for Business Enterprises - Basic Standards (promulgated by Decree No. 33 of the Ministry of Finance and Decree No. 76 of the Ministry of Finance) issued by the Ministry of Finance on the basis of actual transactions and events, 42 specific accounting standards, the application guidelines for corporate accounting standards, the interpretation of accounting standards for business enterprises and other relevant regulations issued and revised by the Ministry of Finance on 15 February 2006 (hereinafter collectively referred to as the "Accounting Standards for Business Enterprises") and No. 15 General Rules for the Preparation of Financial Reports - Rules for the Information Disclosure of Companies Publicly Issuing Securities (revised in 2014) of the China Securities Regulatory Commission and the requirements of Hong Kong Companies Ordinance and the Hong Kong Listing Rules.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

III. STATEMENTS ON COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

These financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises or referred to as China Accounting Standards ("CAS") issued by the Ministry of Finance ("MOF") present truly and completely the financial position of the Company as at 31 December 2018, and financial performance and cash flows of the Company for the year of 2018. These financial statements, in all material aspects, comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("CSRC") in 2014. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance and Hong Kong Listing Rules.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company are primary involved in manufacturing and selling dairy products and breeding dairy cows. According to the actual production and management features and the related enterprise accounting standards, several specific accounting policies and accounting estimates about revenue recognition and other transaction and matters are formulated, please refer to the Note IV 23 "Income" for specific description. As for the instructions of major accounting judgment and estimation instructions made by the management, please refer to Note IV 30 "Major accounting judgment and estimation".

1. Accounting period

The accounting period of the Company is divided into annual period and interim period; an interim period refers to a reporting period which is shorter than a whole accounting year. The fiscal year of the Company adopts the calendar year, that is, from 1 January to 31 December every year.

2. Operating cycle

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

3. Functional currency

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

4. Accounting treatment method of business combination under the common control and not under the common control

Business combination refers to the transaction or events of two or more separate enterprises combining into a reporting entity. Business combination is divided into the business combination under the common control and business combination under the different control.

(1) Business combination under the common control

If enterprise involved with merger are under control of the same party or same multiple parties before and after merger, and for a non-temporary period, then it belongs to an business combination under the common control. Under the business combination under the common control, the parties which have obtained the control rights for other consolidated enterprises on the merger date will be considered as the merger party, and other participating enterprises are the merged party. Merger date refers to the day when the merger party has obtained the control rights of the merged party.

The assets and liabilities obtained by merger party shall be measured on the basis of book value of the merged party on the merger date. The capital reserve (share capital premium) shall be adjusted according to the difference between the net assets book value obtained by the merger party and the paid combination consideration book value (or the total face value of the issued shares). The retained earnings will be adjusted as long as capital reserve (share capital premium) is insufficient to be offset.

The merger party's direct expenses incurred from business combination shall be included in the current profits and losses when happening.

(2) Business combination under different control

If enterprise involved with merger are out of control of the same party or same multiple parties before and after merger, then it belongs to an business combination under the not under the common control. Under the business combination under the different control, the parties which have obtained the control rights for other consolidated enterprises on the purchase date will be considered as the purchaser, and other participating enterprises are the acquiree. The purchase date refers to the day when the acquirer has obtained the control rights for the acquiree.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

4. Accounting treatment method of business combination under the common control and not under the common control (Continued)

(2) Business combination under different control (Continued)

As for business combination under different control, the combination costs include the assets paid by the acquirer, the liabilities accrued and assumed, as well as the fair value of the equity security issued for obtaining control right on the acquiree on the purchase date; the intermediary fees, such as auditing, legal service and evaluation and consulting, and other related management fees for the business combination shall be included in the current profits and losses when occurred. The purchaser's transaction expenses of equity securities or debt securities issued as consolidation price shall be counted into the initially recognised amount of equity securities or debt securities. Contingent consideration involved shall be included in the combination costs according to the fair value at the purchase date; if new or further proofs appearing within 12 months after the purchase date show that the contingent consideration needs to be adjusted, the combination goodwill shall be adjusted correspondingly. The purchasing party's combination costs and obtained identifiable net assets during the merger shall be measured according to the fair value on the purchase date. If the combination cost is larger than difference of the fair value share of the acquiree's identifiable net assets obtained on the purchase date during combination, it shall be recognised as goodwill. If the merger cost is lower than the fair value share of the acquiree's identifiable net assets obtained during merging, the measurement of the various identifiable assets of the acquiree obtained, liabilities or fair value with contingent liabilities and the merger costs shall be re-examined firstly, and then if the merger cost is still lower than the fair value share of the acquiree's identifiable net assets obtained during merging, the difference shall be included in the current profits and losses.

If the deductible temporary difference of the purchased party gained by purchasing party fails to be recognised on the purchasing date due to not conforming to the recognition condition of deferred income taxes assets, and new or further information obtained indicates the relevant conditions on the purchase date have existed within 12 months after the purchasing date, and it's predicted that the purchased party can realize the economic benefits brought by deductible temporary differences on the purchasing date, relevant deferred income taxes assets shall be recognised, at the same time, the goodwill shall be reduced; if the goodwill can't offset enough, the differential section shall be recognised as the current profits and losses. Except for the foregoing conditions, the deferred income tax assets which are related to the business combination will be recognised in the current profits and losses.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

4. Accounting treatment method of business combination under the common control and not under the common control (Continued)

(2) Business combination under different control (Continued)

The sum of book value of the acquiree's equity investment held prior to the purchase date and the newly-increased investment cost on the purchase date in the individual financial statement shall be regarded as the initial investment cost of such investment. If the acquiree's equity held prior to the purchase date involves the other comprehensive income, the same basis that the acquiree directly disposes relevant asset or liabilities with other relevant comprehensive income to conduct the accounting treatment when handling the investment (namely, except the variable corresponding share incurred due to defined benefit plan net liability or net assets measured again by the acquiree according to the equity method, other shares shall be transferred in current investment income) will be adopted.

In the consolidated financial statements, the equity of the acquiree held before the purchase date is re-measured according to the fair value of the equity on the purchase date, and the difference between the fair value and the book value is included in the current investment income. If the acquiree's equity held prior to the purchase date involves the other comprehensive income, the same basis that the acquiree directly disposes relevant asset or liabilities with other relevant comprehensive income to conduct the accounting treatment (namely, except the variable corresponding share incurred due to defined benefit plan net liability or net assets measured again by the acquiree according to the equity method, other shares shall be transferred in current investment income on the purchasing date) will be adopted.

5. Consolidated financial statements

(1) Determination principles of consolidated financial statement

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. Control exists when the investor has all of the following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation scope shall cover the Company and all subsidiaries. The subsidiary refers to the subject under the control of the Company.

The Company will re-evaluate if the change in the relevant facts and circumstances leading to the change of the relevant elements involved in the above definition of control.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

5. Consolidated financial statements (Continued)

(2) Preparation method of the consolidated financial statements

From the date of obtaining actual control right of the subsidiaries' net assets and production operation decision, the Company will begin to bring it into the merge scope. Similarly, it will not be reckoned in the consolidation scope from the date when the Company loses its actual control right. As for the disposal of subsidiaries, the operation results and cash flow before disposal date have been properly included in the consolidated income statement and consolidated cash flow statement. As for subsidiaries disposed in the current period, the opening balance of the consolidated balance sheets will not be adjusted. As for the increased subsidiaries through the business combination under the different control, its operating results and cash flow after the purchase date have been properly included in the consolidated income statement and consolidated cash flow statement, and the opening balance and contrast balance of the consolidated financial statement shall be not adjusted. As for the increased subsidiary through the business combination under the common control and the merged party under consolidation by merger, the operating results and cash flow from the beginning of the current period of merge to the merge date have been properly included in the consolidated cash flow statement, and the opening balance and contrast balance, and the contrast balance of the consolidated financial statement shall be adjusted simultaneously.

Where the subsidiary and the Company takes different accounting policies or accounting periods, when preparing the consolidated financial statement, the necessary adjustment shall be made to the subsidiary's financial statements according to this company's accounting policies and accounting period. As for the subsidiaries which are obtained by the business combination not under the common control, the financial statements will be adjusted on the basis of the fair value of the identifiable net assets on the purchase date.

All significant current balances, transactions and unrealized profits of the Company will be offset when the consolidated financial statement is prepared.

Moreover, the subsidiaries' parts which don't belong to the Company in the shareholders' equity and current net profit will be separately listed on the shareholders' equity and net profit as specified in the consolidated financial statement as the profits and losses which belong to the minority shareholders. Meanwhile, the minority shareholders' equity in the current net profit and losses will be listed in the "minority shareholders' profits and losses" under the net profit items in the consolidated income statement. The losses of the subsidiary minority shareholders shared is more than the share of minority shareholders enjoying in the subsidiary's shareholders' equities at the beginning of period, shall write down minority shareholders' equities.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

5. Consolidated financial statements (Continued)

(2) Preparation method of the consolidated financial statements (Continued)

If the control right to original subsidiary has been lost due to the disposal of partial equity investments or other reasons, for the remaining equities, the re-measurement shall be conducted based on the fair value on the day of losing the control right. The sum of the consideration obtained from the disposal of the equity and the fair value of the remaining equity, minus the proportion of the original assets that should be enjoyed by the original subsidiaries from the purchase date, the difference shall be included in the investment income of the current period of loss of control power. Other comprehensive income related to the equity investment of original subsidiary shall adopt the same foundation with purchased party directly disposing related assets or liabilities for accounting treatment when losing control right (namely, except the change caused by original subsidiary company's re-measurement of net liabilities or net assets of defined benefit plan, others are transferred to the current investment incomes). Thereafter, the remaining equity rights shall be provided with follow-up measurement according to Accounting Standards for Business Enterprises No. 2--Long-Term Equity Investment or Accounting Standards for Business Enterprises No. 22---Recognition and Measurement of Financial Instruments. As for details, please refer to Note IV 12 "Long-term equity investments" or the Note IV 8 "Financial instruments".

6. Cash and cash equivalents

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

7. Foreign currency transactions

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

7. Foreign currency transactions (Continued)

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

8. Financial instruments

A financial asset or financial liability is recognised when the Company becomes a party to the contractual provisions of a financial instrument.

(1) Classification, recognition and measurement of financial assets

According to business mode of financial asset management and contract cash flow characteristics of financial assets, the Company divides financial assets into: financial assets at amortized cost; financial assets measured at the fair value with its changes included in other comprehensive income; financial assets measured at the fair value with its changes included in the current profits and losses.

Financial assets shall be measured at the fair value at the initial recognition. For financial assets measured at the fair value with its changes included in the current profits and losses, the related transaction expenses shall be directly counted into the profits and losses in the current period. For other categories of financial assets, the related transaction expenses thereof shall be recorded in the initial recognition amount. As for accounts receivable or bills receivable produced from promoting products or rendering of service, excluding or taking no account of significant financing components, the Company takes amount of consideration anticipated to be collected as initial recognised amount.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

8. Financial instruments (Continued)

(1) Classification, recognition and measurement of financial assets (Continued)

① **Financial assets at amortized cost**

The business mode of the Company to manage the financial assets targets at collecting the contractual cash flow. In addition, the contractual cash flow characteristics of the financial assets are consistent with the basic lending arrangement, that is, the cash flow generated in the specific date is the payment of the interest based on the principal and outstanding principal amount. This kind of financial assets shall be subsequently measured based on the amortized cost and effective interest method, and the gains or losses arising from the amortization, impairment shall be included in current profit and loss.

② **Financial assets measured at the fair value with its changes included in other comprehensive profits and losses**

Business mode for managing financial assets of the Company takes contract cash flow collected as target and selling as target and contract cash flow characteristics of such financial assets are consistent with basic lending arrangement. The Company calculates such financial assets as per fair value whose change is included in corresponding comprehensive income, but impairment loss or gain, exchange gain or loss and interest income calculated as per actual interest rate method are included in current profits and losses.

Furthermore, the Company designates partial non-tradable equity vehicle investment as financial asset measured with fair value whose change is included in other comprehensive income. The Company includes related dividend income of such financial assets into current profits and losses with the change in fair value included in other comprehensive income. At the time of derecognition of such financial assets, accumulated gain or loss included in other comprehensive income before will be shifted to retained earnings from other comprehensive income but not included in current profits and losses.

③ **Financial assets measured at the fair value with its changes included in the current profits and losses**

The Company classifies financial assets except for above-mentioned financial assets measured with amortized cost and financial assets measured with fair value whose change is included in other comprehensive income into financial assets measured at the fair value with its changes included in the current profits and losses.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

8. Financial instruments (Continued)

(2) Classification, recognition and measurement of financial liabilities

The financial liabilities of the Company are classified by the measurement of the fair value and the change in fair value shall be included in its financial liabilities and other financial liabilities in the current profits and losses at the stage of initial recognition. For financial liabilities measured at fair values and whose variation is included in current profits and losses, relevant transaction expenses shall be included in current profits and losses directly; for other categories of financial liabilities, relevant transaction expenses thereof shall be included in the initially recognized amount.

① *Financial liabilities measured at the fair value with its changes included in the current profits and losses*

Financial liabilities measured at fair value and whose changes are included in current profits and losses include trading financial liabilities (containing derivatives falling in financial liabilities) and those financial liabilities measured at fair value and whose changes are included in current profits and losses at the time of initial recognition.

Trading financial liabilities (including derivatives falling into financial liability) is subject to subsequent measurement as per fair value. Except for related to hedge accounting, the change in fair value is included in current profits and losses.

② *Other financial liabilities*

Other financial liabilities except for financial liabilities formed due to transfer of financial assets failing to comply with derecognition condition or continuously getting involved in transferred financial assets and financial guarantee contract are classified into financial liabilities measured with amortized cost and subject to subsequent measurement based on amortized cost. Gains or losses generated from derecognition or amortization are included in current profits and losses.

(3) Recognition basis and measurement method of financial assets transfer

The derecognition shall be made for financial assets in case of one of the following conditions: (i) the contractual rights which will charge the financial assets' cash flow will be terminated; (ii) the financial assets have been transferred, and the Company has transferred almost all the risks and rewards of ownership of financial assets to the transferee; and (iii) the financial assets have been transferred, and although this Company has neither transferred nor reserved almost all the risks and rewards of ownership of financial assets, it has waived the control on the financial assets.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

8. Financial instruments (Continued)

(3) Recognition basis and measurement method of financial assets transfer (Continued)

If the enterprise neither transfers nor reserves almost all the risks and remunerations of ownership of financial assets, and does not waive the control on the financial assets, it shall comply with the degree of its continued involvement in the transferred financial assets to recognise the related financial assets and recognise relevant liabilities accordingly. The transferred financial assets degree refers to the risk level which is faced by the enterprises due to the financial asset value changes.

If the overall transferring of financial assets can satisfy the conditions of derecognition, the balance difference between the consideration which is caused by transferring the book value of financial assets and the fair value changes which are included in the other comprehensive income shall be included in the current profits and losses.

When the partial transferring of financial assets can satisfy the derecognition conditions, the book value of the transferred financial assets shall be amortized according to the relative fair value between the recognition and failing recognition, moreover, the difference in value between the amortized book value as above and the sum of the consideration caused by the financial assets transferring and the original value which shall be included in fair value changes of other comprehensive income shall be included in the current profits and losses.

The Company will recognise whether almost all risks and remunerations about the financial assets ownership will be transferred after selling the financial assets in the recourse right way or transferring the held financial assets endorsement. When almost all risks and remunerations about the financial assets ownership have been transferred to the transferee, the financial assets shall be subject to derecognition; if almost all risks and remunerations about the financial assets ownership have been retained, the financial assets will not be derecognized. Supposing that almost all risks and remunerations about the ownership of the financial assets have not been transferred and retained, the accounting treatment will be whether the enterprise has retained the control of the assets and carry out the accounting treatment according to the above-mentioned principles.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

8. Financial instruments (Continued)

(4) Derecognition of financial liabilities

In case of current obligation of financial liabilities (or partial financial liabilities) being terminated, derecognition of such financial liabilities (or partial financial liabilities) is conducted by the Company. If the Company (borrower) signs an agreement with the lender to replace original financial liabilities with new financial liabilities and contract terms of new financial liabilities are different from those of original financial liabilities, derecognition of original financial liabilities and recognition of new financial liabilities shall be conducted. In case of material alteration of contract terms of original financial liabilities (partial financial liabilities) by the Company, derecognition of original financial liabilities and recognition of new financial liabilities as per modified terms shall be conducted.

In case of derecognition of financial liabilities (or partial financial liabilities), the Company includes the balance between its book value and payment consideration (including non-cash assets transferred out or borne liabilities) into current profits and losses.

(5) Offset of financial assets and liabilities

When the Company has the legal right to offset the recognised financial assets and financial liabilities and is entitled to perform the aforesaid legal right at the present, and meanwhile when the Company intends to settle or sell off the financial assets and pay off the financial liabilities by the net amount, the financial assets and financial liabilities shall be presented in the balance sheet with the amount after the mutual offset. Besides, the financial assets and financial liabilities are listed in the balance sheet respectively and are not offset with each other.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

8. Financial instruments (Continued)

(6) Determination methods of fair value of financial assets and liabilities

The fair value refers to the price which is caused by selling the assets or transferring the liabilities during the orderly transaction of the market participants on the measurement date. The fair value of the financial instruments that exist in the active market shall be recognised by the quotation in the active market by the Company. The quotations in the active market refer to the prices, which are easily available from the exchanges, brokers, industry associations, pricing service institutions, etc. at a fixed term, and represent the price of market transactions actually occurring in the fair dealing. If there is no active market for financial instruments, the Company uses the valuation techniques to determine its fair value. The valuation technique includes referring prices adopted by the parties who are familiar with the condition and willing to conduct the transaction in the latest market transaction, the current fair value of other substantially same financial instruments, the discounted cash flow method and the option pricing models, etc. In valuation, the Company adopted applicable valuation techniques supported by sufficient utilizable data and other information in current circumstances, selected input values consistent with asset or liability characteristics considered in relevant asset or liability transactions of market participators and prioritized applying relevant observable input values. Unobservable input values shall not be applied unless relevant observable input values are not accessible or feasible.

(7) Equity instrument

Equity instrument refers to the contract which can prove to hold the residual equity in the assets after deducting all liabilities. Issuance (including refunding), repurchase, selling or writing off of instrument by the Company is regarded as handling of changes in equity and transaction expenses related to equity transaction are deducted from the equity. The Company does not recognise the fair value change of equity instruments.

In case of the equity instrument of the Company distributing dividends during the period of existence (including "interest" produced from the tool classified into equity instrument), appropriation of profits processing will be deemed.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

9. Impairment of financial assets

Financial assets with impairment loss recognised by the Company are financial assets measured with amortized cost, debt instrument investment measured as per fair value whose change is included in debt instrument investments and rental receivables under other comprehensive income, mainly including bill receivable, accounts receivable, other receivables, creditors' investment, other creditors' investment and long-term receivables. Moreover, as for contract assets and financial guarantee contract, it's necessary to calculate and withdraw provision for diminution in value and recognize credit impairment losses pursuant to accounting policies set forth in this part.

(1) Recognition method of provision for impairment in value

The Company recognizes credit impairment losses based on expected credit loss, and calculates and withdraws above-mentioned various items.

Credit loss refers to the difference between all contractual cash flows discounted as per the original effective interest rate and receivable from the contract and all cash flows expected to be received by the Company, namely, the present value of a shortage of cash. Wherein, the purchased or underlying financial assets with impairment on credit of the Company shall be discounted as per effective interest rate based on credit adjustment.

The Company evaluates whether credit risk of financial assets has remarkably increased after initial recognition on each balance sheet date. In case of credit risk having remarkably increased after initial recognition, the Company will measure provision for loss as per the amount equivalent to expected credit loss in the whole period of existence. In case of credit risk failing to remarkably increase after initial recognition, the Company will measure provision for loss as per the amount equivalent to expected credit loss in the next 12 months. At the time of evaluating expected credit loss, the Company considers all reasonable and well-founded information, including forward-looking information.

(2) Standard for judging whether credit risk has remarkably increased after initial recognition

In case that probability of default of one financial asset recognised on the balance sheet date in the expected period of existence is obviously higher than that in the expected period of existence recognised at the moment of initial recognition, it means credit risk of such financial asset remarkably increases.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

9. Impairment of financial assets (Continued)

(3) Selection of simplified treatment method

As for receivables and contract assets excluding significant financing components, the Company measures provision for loss as per the amount equivalent to expected credit loss in the whole period of existence.

As for receivables, contract assets and rental receivables including significant financing components, the Company always chooses to measure provision for loss based on the amount equivalent to expected credit loss in the period of existence.

For the financial instrument with a lower credit risk on the balance sheet date, the Company assumes that its credit risks have not increased significantly since the initial recognition, and measures the provision for loss according to the expected credit losses of the future 12 months.

(4) Combinatorial method of appraising future credit risk based on combination

The Company appraises the credit risk of the financial asset item of significantly different credit risks, such as: receivables disputed with the opposite side or involving litigation or arbitration; there have been obvious signs showing that the debtor possibly is not able to perform the repayment obligations of receivable amounts, etc.

Except financial assets of separately appraised credit risk, the Company divides financial assets into different groups based on the account age characteristic and appraises credit risks based on combination.

10. Inventories

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

1. Consumable biological assets

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

10. Inventories (Continued)

2. Other inventories

Other inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditure incurred in bringing the inventories to their present location and condition. Borrowing costs directly related to the production of qualifying inventories are also included in the cost of inventories (see Note IV.15. Borrowing costs). In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

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

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

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

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

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

The Company maintains a perpetual inventory system.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

11. Held-for-sale assets and disposal group

If the Company collects the book value mainly through selling (including substantially commercial non-monetary assets exchange, similarly hereinafter) rather than continuously use as a non-current asset or disposal group, the non-current asset or disposal group shall be divided into held-for-sale. Specific standard refers to meeting the following conditions at the same time: one non-current asset or disposal group can be immediately sold under the current situation pursuant to the convention for selling such asset or disposal group in similar transaction; the Company has made a resolution about sale plan and the commitment of purchase is recognised; it's predicted that selling will be completed within one year. Wherein, the disposal group refers to one group of assets as a whole disposed by selling or in other way in a transaction as well as liabilities directly related to such assets and transferred in the process of such transaction. In case of asset group where disposal group is or asset group portfolio apportioning the goodwill obtained from business merger as per No. 8 Accounting Standards for Business Enterprises. Impairment of Asset, such disposal group shall include goodwill apportioned to disposal group.

If there are non-current assets or disposal groups purchased under agreements to resell during initial measurement or on the balance sheet day based on remeasurement of this Company, if the book value is higher than the net amount by deducting the selling expenses with the fair value, the book value shall be written down and be equal to the net amount by deducting the selling expenses with the fair value. The write-down amount shall be recognised as the loss of depreciation of assets and shall be included in the current profits and losses. At the same time, the impairment reserve of the held-for-sale assets should be calculated and withdrawn. For the disposal group, deduct the book value of the goodwill in the disposal group with the asset depreciation losses recognised, then deduct the book value of each non-current asset in the disposal group conforming to the measurement regulations of Accounting Standards for Business Enterprises No. 42 - non-current Assets Purchased and under Agreements to Resell, Disposal Group and Operation Termination (herein after referred to as "the Standard for Assets Purchased and under Agreements to Resell"). If the net amount by deducting the selling expenses with the fair value of the disposal group purchased and under agreements to resell on the subsequent balance sheet date, the previous write-down amount shall be recovered and shall be reversed within the asset depreciation losses amount of the non-current recognised as per regulation of the Standard for Assets Purchased and under Agreements to Resell after being classified into the category purchased and under agreements to resell. The reverse amount shall be included in the current profits and losses, and the book value shall be added as per the proportion of the book value of each non-current asset in the disposal group applicable to the Standard for Assets Purchased and under Agreements to Resell except for the goodwill. The goodwill book value deducted and the asset depreciation losses of the non-current assets applicable to the measurement regulations of the Standard for Assets Purchased and under Agreements to Resell before its recognition of being classified into the category purchased and under agreements to resell shall not be reversed.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

11. Held-for-sale assets and disposal group (Continued)

Depreciation or amortization in the non-current assets purchased and under agreements to resell or the non-current assets in the disposal group shall not be calculated or withdrawn. Interests of liabilities and other expenses in the disposal group purchased and under agreements to resell shall be recognised continuously.

When the non-current assets or the disposal groups do not continue to be divided into the held-for-sale category because they do not meet the division conditions for the held-for-sale category or the non-current assets are removed from the held-for-sale groups, the lower as follows shall be measured: (1) the amount of the book value before they are divided into the held-for-sale category adjusted according to the depreciation, amortization or impairment which should be recognised in the condition of assuming they are not divided into the held-for-sale category; (2) recoverable amount.

12. Long-term equity investment

The long-term equity investments refer to the long-term equity investments that the Company has control, joint control or major influence on the invested unit. The Company does not have long-term equity investments of controlling, common controlling or significant effects in the invested unit. As for financial assets measured at the fair value with its changes included in the current profits and losses, if such assets are not transactional, the Company may specify these capitals as financial assets which are calculated based on the fair value and whose changes are included in current profits or losses at the time of initial recognition. Relevant accounting policies can be seen in Note IV-8 Financial tools.

Joint control means that the joint control of the Company for certain arrangement in accordance with relevant agreements; activities relevant to the arrangement cannot be decided until obtaining the unanimous approval of participants sharing the control right. The significant impact refers to that the Company has the right to participate in the decision-making of financial and business policy of the invested unit, but can't control or jointly control together with other parties the preparation of these policies.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

12. Long-term equity investment (Continued)

(1) Determination of investment cost

For the long-term equity investments acquired through the business combination under the common control, the shares of merged party's book value of owners' equity in the final controlling party consolidated financial statements obtained on the merger date shall act as the initial investment cost of long-term equity investments. The capital reserves shall be adjusted according to the balance between the initial investment cost of long-term equity investments and cash paid, non-cash assets transferred as well as the book value of debts; if the capital reserves are insufficient to offset, the retained earnings will be adjusted. In the case of issued equity securities treated as consolidation consideration, share of book value of owner's equity of merged party in a combined financial statement of the final controlling party is regarded as initial investment cost of long-term equity investments on the merger date; capital reserve shall be adjusted in accordance with taking total nominal value of issued share as capital stock, and the difference between the initial investment cost of long-term equity investments and total book value of issued shares; if the capital reserves are insufficient to offset, the retained earnings will be adjusted.

The long-term equity investments obtained from the business merger under the non-unitary control will be used as the initial investment cost of long-term equity investments according to the combined cost on the purchase date. The combined cost includes the sum of fair value of assets or liabilities of the purchasing party or the equity securities issued.

The audit, legal service and evaluation consultation fees and other intermediary fees as well as other relevant management fees of the merger party or acquirer for business combination will be included in current profit and loss during the occurrence.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

12. Long-term equity investment (Continued)

(2) Methods for the subsequent measurement and the profit and loss recognition

The long-term equity investments implementing the joint control (except constituting the joint operator) or significant impact upon the invested unit adopts the equity method for accounting. Besides, the Company's financial statement adopts the long-term equity investments accounted by the cost method and implementing the control upon the investee.

① *Long-term equity investment accounted by cost method*

When the cost method is adopted for the accounting, the long-term equity investments shall be valued according to the initial investment cost and the long-term equity investments cost shall be adjusted by increasing or recovering the investment. The current investment income shall be recognized by the cash dividends or profits announced and issued by the invested unit, except the actual price paid when the investment is obtained or the cash dividends or profits which have been declared but not issued in the consideration.

② *Long-term equity investment accounted by equity method*

When the equity method is used for the accounting, and the initial investment cost of the long-term equity investments is more than the fair value share of the investee's identifiable net assets which shall be enjoyed at the time of the investment, the initial investment cost of the long-term equity investments may not be adjusted. In case that the initial investment cost is less than the attributable share of the fair value of the investee's net identifiable assets, the balance shall be included in current profits and losses and the cost of the long-term equity investments shall be adjusted.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

12. Long-term equity investment (Continued)

(2) Methods for the subsequent measurement and the profit and loss recognition (Continued)

② *Long-term equity investment accounted by equity method* (Continued)

Under the equity method, in accordance with the net profit and loss that should be enjoyed or shared and other comprehensive income realized by the invested unit, the investment income and other comprehensive income are determined respectively, and meanwhile the book value of the long-term equity investments shall be adjusted; the portion of the profits or cash dividends declared to be distributed by the invested organization should be calculated, and reduce the book value of the long-term equity investments accordingly. For the change of owner's equity of the invested unit except the net profit and loss, other comprehensive income and distribution of profits, the book value of long-term equity investments shall be adjusted and included in the capital reserve. When the enjoyed shares of the net profit and loss of the investee are recognized, the net profit of the investee shall be determined after the adjustment on the basis of the fair value of all identifiable assets of the investee during the investment. If the accounting policies and accounting period adopted by the invested unit are different from those adopted by the Company, the financial statements of the invested unit shall be adjusted in accordance with the accounting policies and accounting period of the Company to recognize the investment income and other comprehensive income. For the transaction between the Company and associated enterprise or joint ventures, if the assets launched or sold don't constitute the business, the profit and loss for not realizing the internal transaction are used for calculating the part belonging to the Company according to the proportion for the offset, and the profit and loss on investment will be recognized on this basis. However, for the unrealized loss arising from the internal transaction between the Company and the invested unit, if such transaction loss is defined as the impairment loss of the transferred assets, the offset shall not be made.

When recognizing that the net loss of the investee shall be borne, it shall be limited to reducing the book value of long-term equity investments and other long-term equity constituting the net investment in the investee to zero. Besides, if the Company is responsible for bearing the additional loss for the investee, the estimated liabilities will be recognized according to the estimated obligation and included in the current investment loss. If the investee realizes the net profit in the subsequent period, the Company will recover the recognition of income amount after the income amount offsets the unrecognized loss amount.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

12. Long-term equity investment (Continued)

(2) Methods for the subsequent measurement and the profit and loss recognition (Continued)

③ *Acquisition of the minority equity*

When compiling the consolidated financial statements, the Company shall adjust the capital reserve due to the balance between the newly-increased long-term equity investments from the purchase of the minority holding and the net asset shares enjoyed according to the newly-increased shareholding proportion of the subsidiary continuously calculated from the purchase date (or the merger date); in case that the capital reserve is not sufficient to offset, the Company shall adjust the retained earnings.

④ *Disposal of the long-term equity investments*

The parent company partially disposes the long-term equity investments of the subsidiaries in the case of not losing the control rights in consolidated financial statement. The balance between disposal price and subsidiaries' net assets enjoyed corresponding to the disposal of long-term equity investments will be included in the shareholders' equities. Supposing that the parent company loses the control right for the subsidiary due to the partial disposal of the long-term equity investments for the subsidiary, the accounting treatment will be made according to the related accounting policies as specified in the Note 4, 5, (2) "Preparation Method for Consolidated Financial Statement".

As for the disposal of the long-term equity investments under other circumstances, the balance between the book value of the disposed equity and the actually-obtained price shall be included in current profit and loss.

For the long-term equity investments accounted by the equity method, if the residual equity after the disposal shall still be accounted by the equity method, upon the disposal, the part of the other comprehensive income that is originally included in the shareholders' equities shall have the accounting treatment on the same basis of the invested unit's directly disposing the relevant assets or liabilities according to the corresponding proportion. However, the other owners' equity which is recognized according to the investee's other owners' equity changes shall be reckoned in the current profit and loss according to the related proportion, except for the net profit and loss, other comprehensive income and appropriation of profits.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

12. Long-term equity investment (Continued)

(2) Methods for the subsequent measurement and the profit and loss recognition (Continued)

④ *Disposal of the long-term equity investments* (Continued)

For the long-term equity investments accounted with the cost method, the residual equities after disposal are still accounted for with the cost method. Other comprehensive income recognised due to adopting the equity method to make accounting or adopting the financial instrument recognition and measurement standards to make accounting before obtaining control of invested unit, shall be conducted with the accounting treatment on the same basis of the invested unit's directly disposing the relevant assets or liabilities, and shall be carried down to current profit and loss according to the proportion. Except for the net profit and loss, the other comprehensive income and appropriation of profits, the other owners' equities in the invested unit's net assets which are accounted and recognized in the equity method shall be reckoned in the current profit and loss according to the related proportion.

13. Fixed assets

(1) Recognition of fixed assets

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

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self constructed assets is measured in accordance with the policy set out in Note IV.14 "Construction in progress".

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

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

13. Fixed assets (Continued)

(2) Depreciation of various fixed assets

Depreciation of fixed assets is accrued in the service life by adopting the straight-line method from the next month when they reach the expected conditions for use. The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

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

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

(3) Impairment test method and provision method of the impairment reserve of fixed assets

For further details of the impairment test method and the provision method of impairment reserve of fixed asset, please refer to Note IV, 19 "Long-term Asset Impairment".

(4) Identification basis and valuation method of fixed assets under financing leases

Finance leases are the leases that transfer all the risks and rewards related to ownership of assets substantially, and its ownership may be transferred, or may be not in the end. For fixed asset leased with the method of finance leases, depreciation is calculated according to a policy in conformity to that of the fixed asset for private use. If the ownership of the leasing assets can be reasonably recognised upon expiry of the leases term, the depreciation of the leasing assets shall be calculated during the service life thereof; Whereas the ownership of the leasing assets cannot be reasonably recognised at the expiration of the leases term, depreciation of the leased assets shall be calculated and withdrawn within the leases term or the service life thereof, whichever is shorter.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

13. Fixed assets (Continued)

(5) Other explanations

The subsequent expenditures related to fixed asset shall be included in fixed asset cost and the book value of the substitution part shall be derecognised if economic benefits related to such fixed asset may flow in and its cost can be reliably measured. Other subsequent expenditures except for the above said shall be included in the current profits and losses once incurred.

When the fixed asset is disposed or cannot be expected to produce economic interests through use or disposal, the recognition of that asset should be ceased. The balance of the amount left after deducting book value and relevant taxes from the disposal income obtained from the sale, transfer, abandonment or damage of the fixed assets shall be included in current profits and losses.

The Company shall review the service life, expected net residual value and depreciation method of the fixed assets at least by the end of the year. In case of any change, it shall be deemed as changes in accounting estimates.

14. Construction in process

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

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

Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note IV.19 Impairment of long-term asset).

15. Borrowing costs

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

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

15. Borrowing costs (Continued)

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

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

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

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

16. Bearer biological assets

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

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

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

17. Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and provision for impairment (see Note 19. Impairment of long-term assets). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

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

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

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

18. Long-term deferred expenses

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

19. Impairment of long-term assets

For fixed assets, construction in progress, intangible assets, long-term equity investments in subsidiaries, joint ventures and associated enterprises and other noncurrent or nonfinancial assets, the Company judges the existence of depreciation on the balance sheet date. If there are signs of impairment, the recoverable amount shall be estimated and impairment test shall be carried out. As for intangible assets with indefinite goodwill and service life and the intangible assets which have not yet reached the serviceable condition, impairment test shall be conducted every year no matter whether there are signs of impairment.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

19. Impairment of long-term assets (Continued)

If the impairment test result shows that the recoverable amount of assets is lower than the book value thereof, impairment reserve shall be withdrawn according to the difference and it will be included in impairment losses. The recoverable amount shall be the higher one between the net amount of the fair value of the assets minus the disposal expenses and the expected present value of the future cash flow of the assets. The fair value of the asset is determined according to the sales agreement in the fair transaction; if there is no sales agreement but there is an active market of assets, the fair value is determined according to buyer's price of the asset; if the sales agreement and the active market of assets do not exist, and the fair value of assets shall be estimated based on the best information available. The disposal expenses shall include the legal expenses related to the asset disposal, relevant taxes, carriage expenses as well as the direct expenses for achieving the available-for-sale status. The present value of the expected future cash flow of assets shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continued use and final disposal of assets. The asset impairment reserve shall be calculated and recognized on the basis of a single asset. If it is hard to assess the recoverable amount of a single asset, the recoverable amount of the asset group shall be determined according to the asset group including the assets. Asset group refers to the minimum asset portfolio that is capable of independently generating cash inflow.

As for the goodwill that separately listed in financial statements, in the impairment test, the book value of goodwill shall be apportioned to asset group or portfolio that expected to benefit from the synergistic effect of business merger. The test result shows that if the recoverable amount of the asset group or portfolio that includes the apportioned goodwill is less than its book value, corresponding impairment loss shall be recognized. The amount of the impairment loss shall firstly be deducted from the book value of the goodwill of the mentioned asset group or portfolio of asset group, then be deducted from the book value of various other assets in the book value in proportion of various other assets in the asset group or portfolio of asset group except goodwill.

Once the above-mentioned asset impairment losses are determined, the part whose value can be recovered shall not be reversed in subsequent periods.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

20. Fair value measurement

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

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

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

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

21. Employee benefits

(1) Short-term benefits

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

(2) Post-employment benefits

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

21. Employee benefits (Continued)

(3) Termination benefits

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

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

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

22. Provisions

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

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

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

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

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

23. Revenue

Where the contract between the Company and its clients can meet the following conditions at the same time, the revenue shall be recognised when the client owns the relevant control right of the commodity: Each concerned party of the contract has agreed on the contract and promised that they will assume their obligations; The contract has specified rights and obligations of each concerned party related to commodity transfer or labor provision; The contract has specified the payment terms related to commodity transfer; The contract is of the commercial essence, which means that performance of the contract will change the risk, time distribution or amount of future cash flow of the Company; The Company may recover the consideration for which the Company is entitled to obtain for transferred commodities to clients.

On the contract beginning date, the Company identifies the individual performance obligation specified in the contract and amortizes the transaction price to each individual performance obligation based on the relative proportion of the individual sales price of the commodity guaranteed in individual performance obligation. Variable consideration, major financing in the contract, non-cash consideration, consideration for coping with clients and other factors have been taken into account the transaction price.

As for each individual performance obligation in the contract, if one of the following conditions are met, the Company recognises the transaction price which is amortized into the individual performance obligation based on the performance progress within a relevant performance period as the revenue: The client obtains and consumes the economic benefits while the Company fulfills the performance obligation. The client manages to control the assets under construction while the Company fulfills the performance obligation. Commodities produced during the performance period have irreplaceable purposes and the Company is entitled to charge money for the performance accumulated and has been finished until the current time within the whole contract period. The performance progress shall be recognised based on the property of the commodity transferred by virtue of the input method or the output method. When the performance progress cannot be recognised reasonably, if it is predicted that the incurred cost of the Company can be compensated, the income shall be recognised based on the incurred cost amount until the performance progress can be recognised reasonably.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

23. Revenue (Continued)

If one of the above conditions cannot be met, the Company recognises the transaction price amortized to the individual performance obligation at the time when the client obtains the control right of relevant commodities as the revenue. When judging whether the client has obtained the control right of the commodity, the Company can consider the following signs: The enterprise has the current collection right of the commodity, namely the client is responsible for current payment obligation of the commodity; The enterprise has transferred the legal ownership of the commodity to the client, namely the client has possessed the legal ownership of the commodity; The enterprise has transferred the real commodity to the client, namely the client has possessed the real commodity; The enterprise has transferred main risks and remuneration of the commodity to the client, namely the client has obtained the main risks and remuneration related to the ownership of the commodity; The client has accepted the commodity; Other signs indicating that the client has obtained the control right of the commodity.

The operating income of the Company mainly includes the sales revenue of the dairy products. The Company recognises the revenue at the time of performing the performance obligation in the contract, namely the client obtains the control right of relevant commodities. And recognition of the revenue shall also be subject to that other recognition conditions of the following different revenues can be met at the same time, specifically as below:

When meeting general recognition conditions of above-mentioned revenue or the following conditions at the same time, the Company shall recognise revenue from sales of goods:

The sales modes of the Company include direct selling, distribution and dealing. Under the direct sale model, the Company is responsible for arranging for the third party logistics provider to deliver goods to the site designated by the direct selling customers in general, and recognises the goods receiving when the goods are delivered to the direct selling customers. Under the distribution model (mainly adopted in Lanzhou and Xining area), the distributors arranges the goods transport voluntarily and shall voluntarily undertake the loss if the goods are damaged in the transit. The Company recognises the goods receiving when the distributors extract the goods from warehouse. Under the dealing model (mainly adopted in area out of Lanzhou and Xining), if the Company arranges for the third party logistics provider to deliver goods, the Company recognises the goods receiving when the goods are delivered to the dealer; If the dealer voluntarily arranges the transport of goods, the dealer shall voluntarily undertake the loss due to damage of products in the transport, and the Company recognises the goods receiving when the dealer withdraws the goods from the warehouse. The Company measures the sales amount of commodity as per the anticipated consideration that it is entitled to obtain due to commodity transfer to customers.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

24. Government grants

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

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

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

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

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

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

25. Income tax

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

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

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

25. Income tax (Continued)

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

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

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

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

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

26. Leases

Finance leases are the leases that transfers all the risks and rewards related to ownership of assets substantially, and those ownerships may be transferred, or may be not in the end. The operating leases refer to leases other than finance leases.

(1) The Company will record the operating leases business as the lessee

The rental payment of operating leases during each period within the leases term will be included into the relevant cost of assets or current profits and losses on a straight-line basis.

The initial direct costs shall be included into the current profits and losses. The contingent rent shall be included into the current profits and losses when it is actually occurred.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

26. Leases (Continued)

(2) The Company will record the operating leases business as the lessor

The rental income of operating leases during each period within the leasing term will be recognized as the current profits and losses on a straight-line basis. For the initial direct costs with larger amount shall be capitalized when occurring and be included into the current profits and losses according to the same basic installment of recognized rental income in the entire leases term; The other initial direct costs with smaller amount will be included into the current profits and losses when it occurs. The contingent rent shall be included into the current profits and losses when it is actually occurred.

(3) The Company will record the financing leases business as the lessee

On the leases commencement date, a lessee shall record the fair value of the leasing asset or the present value of the minimum leases payments on the lease commencement date, whichever is lower, as the entry value of the leased asset, make the amount of the minimum leases payments as the entry value of long-term account payable, and recognize the balance between the entry value of the leased asset and that of the long-term account payables as unrecognized financing charges. In addition, the initial direct costs directly attributable to the leased item incurred during the process of leases negotiating and signing the leasing agreement shall be included into the asset value of the rent. The balance of the minimum leasing payment deducting unrecognized financial charges is respectively presented as the long-term liability and the long-term liability expired within one year.

The unrecognised financial expense adopts the effective interest method during each leases term to calculate and recognize the current financial expenses. The contingent rent shall be included into the current profits and losses when it is actually occurred.

(4) The Company will record the financing leases business as the lessor

At the commencement date of the leases term, a lessor shall recognize the sum of the minimum leases receipts on the leases commencement date and the initial direct costs as the entry value in an account of the finance leases values receivable, and record the un-guaranteed residual value at the same time; the balance between the sums of the minimum leases receipts, the initial direct expenses and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing incomes. The balance of the receivable finance leases amount deducting unrealized financing incomes is respectively presented as long-term creditor's rights and long-term creditor's rights due in one year.

The unrecognised financial income adopts the effective interest method during each leases term to calculate and recognize the current financial incomes. The contingent rent shall be included into the current profits and losses when it is actually occurred.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

27. Dividend distributions

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

28. Related parties

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

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

29. Segment reporting

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

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

30. Significant accounting estimates and judgments

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

30. Significant accounting estimates and judgments (Continued)

Except for accounting estimates relating to depreciation and amortisation of assets such as fixed assets, intangible assets and long-term deferred expenses (see Notes IV 13, 17 and 18), fair value estimates of biological assets (see Note IV 20) and provision for impairment of various types of assets (see Notes IV 9, 19, Notes VI 2, 4, 5, 9, 13 and Notes XV 1, 2) and recognition of deferred tax assets (see Note VI.15), there are no other significant accounting estimates.

31. Changes in significant accounting policies

(1) Changes in accounting policies

① *Change of accounting policies incurred in the application of New Financial Instruments Standards*

Ministry of Finance issued the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Revised in 2017) (CK (2017) No. 7), Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets (Revised in 2017) (CK (2017) No. 8) and Accounting Standards for Business Enterprises No. 24 - Hedge Accounting (Revised in 2017) (CK (2017) No. 9) on 31 March 2017, and issued the Accounting Standards for Business Enterprises No. 37 - Reporting of Financial Instruments (Revised in 2017) (CK (2017) No. 14) (the above provisions are hereinafter referred to as "New Financial Instrument Standards" collectively) on 2 May 2017. The enterprises required to be listed at home and abroad at the same time and the enterprises which prepare the financial report pursuant to the International Financial Reporting Standards or Accounting Standards for Business Enterprises shall comply with the New Financial Instrument Standards and New Income Standards from 1 January 2018.

After the first Board meeting of the Company passed the resolution on 5 February 2018, the Company adopted the above-mentioned New Financial Instrument Standards from the time as required by the Ministry of Finance.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

31. Changes in significant accounting policies (Continued)

(1) Changes in accounting policies (Continued)

① *Change of accounting policies incurred in the application of New Financial Instruments Standards* (Continued)

All financial assets recognised pursuant to the New Financial Instrument Standards shall be measured as per the amortized cost or fair value subsequently. On the execution date of the New Financial Instrument Standards, the business model of financial assets is evaluated and managed on the basis of existing fact and condition of the Company on that day and the contractual cash flow characteristics of the financial assets are evaluated on the basis of the fact and condition upon the initial recognition of financial assets. The financial assets are divided into three categories: the financial assets measured as per the amortized costs, measured as per the fair value with the change included in other comprehensive incomes, measured as per the fair value with the change included in the current profits and losses. For the equity instrument investment measured as per the fair value with change included in other comprehensive incomes, when such financial assets are derecognised, the accumulative gains or loss included in other comprehensive income previously will be transferred to the retained earnings from other comprehensive income and will not be included in the current profits and losses.

Pursuant to the New Financial Instrument Standards, the Company, on the basis of expected credit loss, calculates and withdraws the impairment reserve of the financial assets measured at the amortized cost, the debt instrument investment measured at fair value with change included in other comprehensive incomes, the leases receivables, contract assets and financial guarantee contract, and recognises the credit impairment loss.

The Company adopted the New Financial Instrument Standards on a retrospective basis, and did not conduct the restatement on the inconsistency between the previous comparative financial statement data involved in the classification and measurement (including the impairment) and the New Financial Instrument Standards.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

31. Changes in significant accounting policies (Continued)

(1) Changes in accounting policies (Continued)

① *Change of accounting policies incurred in the application of New Financial Instruments Standards* (Continued)

A. *Comparative Table of Financial Assets for Recognition and Measurement before and after Application of New Financial Instrument Standards*

31 December 2017 (prior to change)			1 January 2018 (after change)		
Item	Measurement category	Carrying value	Item	Measurement category	Carrying value
Cash at bank and on hand	Amortized cost	747,642,372.75	Cash at bank and on hand	Amortised cost	747,642,372.75
Bills receivable and accounts receivable	Amortised cost	24,403,065.85	Bills receivable and accounts receivable	Amortised cost	24,403,065.85
Other receivables	Amortized cost	13,290,298.02	Other receivables	Amortised cost	13,290,298.02
Available-for-sale financial assets	Measured at fair value with change included in other comprehensive income	33,720,671.00	Other equity instrument investment	Measured at fair value with change included in other comprehensive income	41,819,725.38

B. *Table of Financial Instrument Classification and Book Value Adjustment on the First Application Date*

Item	31 December 2017			1 January 2018
	(prior to change)	Reclassification	Re-measurement	(after change)
Cash at bank and on hand	747,642,372.75			747,642,372.75
Bills receivable and accounts receivable	24,403,065.85			24,403,065.85
Other receivables	13,290,298.02			13,290,298.02
Available-for-sale financial assets	33,720,671.00	-33,720,671.00		
Other equity instruments investment		33,720,671.00	8,099,054.38	41,819,725.38

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

31. Changes in significant accounting policies (Continued)

(1) Changes in accounting policies (Continued)

① *Change of accounting policies incurred in the application of New Financial Instruments Standards* (Continued)

C. *Table of Financial Assets Impairment Provision Adjustment on the First Application Date*

Measurement category	31 December 2017		1 January 2018
	(prior to change)	Reclassification	(after change)
Provision for impairment of accounts receivable	97,704.41		97,704.41
Provision for impairment of other receivables	822,542.94		822,542.94

② *Change of accounting policies incurred in the application of New Income Standards*

Ministry of Finance issued the Accounting Standards for Business Enterprises No. 14 - Income (Revised in 2017) (CK (2017) No. 22) (hereinafter referred to as "New Income Standards") on 5 July 2017. The enterprises listed at home and abroad at the same time and the enterprises which prepare the financial report pursuant to the International Financial Reporting Standards or Accounting Standards for Business Enterprises shall adopt the New Financial Instrument Standards and New Income Standards from 1 January 2018.

After the first Board meeting of the Company passed the resolution on 5 February 2018, the Company adopted the above-mentioned New Income Standards from the time as required by the Ministry of Finance.

For the purpose of applying New Income Standards, the Company re-evaluates the recognition, measurement, accounting and reporting of main contract revenue. Pursuant to the regulations in the New Income Standards, the Company only adjusts the cumulative affected number in contract uncompleted on 1 January 2018. The retained earnings at the beginning of the current adjustment of cumulative affected amount for the first time (namely on 1 January 2018) and the amount of the other relevant items in financial statement are not adjusted in the 2017 Financial Statement.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

31. Changes in significant accounting policies (Continued)

(1) Changes in accounting policies (Continued)

② *Change of accounting policies incurred in the application of New Income Standards* (Continued)

Effect of Application of the New Income Standards on the Company:

Changes	Statement item	1 January 2018 Amount (after change)	31 December 2017 Amount (prior to change)
Advances from customers	Contract liabilities	20,565,928.77	
Advances from customers	Taxes payable	3,496,207.89	
Advances from customers	Advances from customers		24,062,136.66

③ *Other changes in the accounting policies*

On 15 June 2018, the Ministry of Finance issued the Notice on Revising the Format of General Financial Statements of Business Enterprises in 2018 (CK [2018] No. 15), which revised the format of general financial statements of business enterprises. The Company prepared the 2018 annual statement in accordance with this regulation, and made adjustments for the reporting of relevant financial statements in the previous period on a retroactive basis, with the details as follows:

A. Consolidated balance sheet:

Item	Before adjustment	After adjustment
Accounts receivable	24,403,065.85	
Bills receivable and accounts receivable		24,403,065.85
Bills payable	19,492,581.98	
Accounts payable	101,385,124.99	
Bills payable and accounts payable		120,877,706.97
Interests payable	403,694.71	
Other payables	20,848,047.60	21,251,742.31

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

31. Changes in significant accounting policies (Continued)

(1) Changes in accounting policies (Continued)

③ Other changes in accounting policies (Continued)

B. Balance sheet of the parent company

Item	Before adjustment	After adjustment
Accounts receivable	17,719,619.46	
Bills receivable and accounts receivable		17,719,619.46
Bills payable	19,492,581.98	
Accounts payable	52,302,797.03	
Bills payable and accounts payable		71,795,379.01
Interests payable	237,351.61	
Other payables	79,270,119.36	79,507,470.97

C. Consolidated income statement

Item	Before adjustment	After adjustment
Administrative expenses	55,208,809.78	54,293,072.18
R&D expenses		915,737.60

D. Income statement of the parent company

Item	Before adjustment	After adjustment
Administrative expenses	29,181,235.00	28,388,803.88
R&D expenses		792,431.12

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

V. TAXATION

1. Main types of taxes and corresponding tax rates

Tax type	Details of tax rates	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	16%/10% (Note 1)
Urban maintenance and construction tax	Based on business tax and VAT paid	7%/5%/1%
Education surcharges	Based on business tax and VAT paid	3%/2%
Enterprise income tax	Based on taxable profits	15% (Note 2)

Note 1: The taxable sales activity of value-added tax in the Company shall be applicable for 17%/11% tax rate originally. Pursuant to the regulations in Notice of Ministry of Finance and State Administration of Taxation on Adjustment of VAT Tax Rate (CS [2018] No. 32), since 1 May 2018, the applicable tax rate is adjusted as 16%/10%.

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

2. Tax preferences and approvals

(1) VAT

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

V. TAXATION (Continued)

2. Tax preferences and approvals (Continued)

(2) Enterprise income tax

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In the following notes (including notes to major items of financial statements of the Company), unless specifically indicated, “at the beginning of the year” means 1 January 2018, “at the end of the year” means 31 December 2018, “at the end of the previous year” means 31 December 2017, “during the year” means the year of 2018 and “during the previous year” means the year of 2017.

1. Cash at bank and on hand

Item	Closing balance	Opening balance
Cash on hand	43,456.47	11,463.37
Bank deposits	388,263,027.21	736,884,618.39
Other cash at bank and on hand	14,784,697.69	10,746,290.99
Including: earnest money	14,300,079.98	10,746,290.99
Total	403,091,181.37	747,642,372.75
Including: total amount deposited overseas	5,831,301.00	9,995,244.85

Note: Earnest money means restricted cash at bank and on hand.

2. Bills receivable and accounts receivable

Item	Closing balance	Opening balance
Bills receivable	200,000.00	
Accounts receivable	36,474,292.53	24,403,065.85
Total	36,674,292.53	24,403,065.85

(1) Bills receivable

Item	Closing balance	Opening balance
Bank acceptance bills	200,000.00	
Total	200,000.00	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Bills receivable and accounts receivable (Continued)

(1) Bills receivable (Continued)

① Category of bills receivable

Category	Closing balance				
	Balance of carrying value		Provisions for bad and doubtful debts		
	Amount	Percentage (%)	Amount	Percentage of provisions (%)	Carrying value
Bills receivable with single provision for bad and doubtful debts					
Bills receivable with provision for bad and doubtful debts on a group basis	200,000.00	100.00			
Total	200,000.00	100.00			

(2) Accounts receivable

① Category of accounts receivable

Category	Closing balance				
	Balance of carrying value		Provision for bad and doubtful debts		
	Amount	Percentage (%)	Amount	Percentage of provision (%)	Carrying value
Accounts receivable with single provision for bad and doubtful debts	101,421.19	0.27	101,421.19	100.00	
Accounts receivable with provision for bad and doubtful debts on a group basis	37,185,565.75	99.73	711,273.22	1.91	36,474,292.53
Total	37,286,986.94	100.00	812,694.41	2.18	36,474,292.53

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Bills receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

① *Category of accounts receivable* (Continued)

Category	Balance of carrying value		Opening balance		Carrying value
	Amount	Percentage (%)	Provision for bad and doubtful debts		
			Amount	Percentage of provision (%)	
Accounts receivable with single provision for bad and doubtful debts					
Accounts receivable with provision for bad and doubtful debts on a group basis	24,500,770.26	100.00	97,704.41	0.40	24,403,065.85
Total	24,500,770.26	100.00	97,704.41	0.40	24,403,065.85

A. *Accounts receivable with single provision for bad and doubtful debts at the end of the year*

Accounts Receivable (as per the Units)	Closing balance			Reasons for provision
	Accounts receivable	Provision for bad and doubtful debts	Percentage of provisions	
Qinghai Department Store Co., Ltd. (chain store)	101,421.19	101,421.19	100.00	Unrecoverable due to termination of the client's business
Total	101,421.19	101,421.19	—	—

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Bills receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

① *Category of accounts receivable* (Continued)

B. *Accounts receivable with provision for bad and doubtful debts on a group basis*

Ageing	Closing balance	
	Accounts receivable	Provision for bad and doubtful debts
Within 1 year	36,031,452.11	4,632.75
Over 1 year but within 2 years	493,361.40	98,672.29
Over 2 years but within 3 years	105,568.12	52,784.06
Over 3 years	555,184.12	555,184.12
Total	37,185,565.75	711,273.22

② *Provision for bad and doubtful debts in connection with the accounts receivable*

Item	Opening balance	Provision for the year	Recoveries or reversals for the year	Closing balance
Accounts receivable	97,704.41	714,990.00		812,694.41
Total	97,704.41	714,990.00		812,694.41

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Bills receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

③ Five largest accounts receivable by debtor at the end of the year

Name of entity	Nature of amount	Closing balance	Ageing	Percentage of total closing balance of the accounts receivable (%)	Closing balance of the provision for bad and doubtful debts
Entity 1	Payment for goods	10,493,648.21	Within 1 year	28.14	
Entity 2	Payment for goods	2,831,595.70	Within 1 year	7.59	
Entity 3	Payment for goods	2,612,841.65	Within 1 year	7.01	
Entity 4	Payment for goods	2,314,082.52	Within 1 year	6.21	
Entity 5	Payment for goods	2,106,770.22	Within 1 year	5.65	
Total		20,358,938.30		54.60	

3. Prepayments

(1) Category of prepayments

Ageing	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	13,351,970.35	100.00	5,689,626.38	92.79
Over 1 year but within 2 years			442,223.64	7.21
Total	13,351,970.35	100.00	6,131,850.02	100.00

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

The Company's total amount of five largest prepayments by debtor at the end of the year was RMB4,312,565.77, accounted for 32.3% of the total balance of prepayments at the end of the year.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other receivables

Item	Closing balance	Opening balance
Other receivables	12,859,500.92	13,290,298.02
Total	12,859,500.92	13,290,298.02

Other receivables

① Category of other receivables

Category	Closing balance				
	Balance of carrying value		Provision for bad and doubtful debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Other receivables with single provision for bad and doubtful debts	483,306.82	3.54	483,306.82	100.00	
Other receivables with provision for bad and doubtful debts on a group basis	13,167,116.78	96.46	307,615.86	2.34	12,859,500.92
Total	13,650,423.60	100.00	790,922.68	5.79	12,859,500.92

Category	Opening balance				
	Balance of carrying value		Provision for bad and doubtful debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Other receivables with single provision for bad and doubtful debts	989,821.45	7.01	637,669.65	64.42	352,151.8
Other receivables with provision for bad and doubtful debts on a group basis	13,123,019.51	92.99	184,873.29	1.41	12,938,146.22
Total	14,112,840.96	100.00	822,542.94	5.83	13,290,298.02

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other receivables (Continued)

Other receivables (Continued)

① *Category of other receivables* (Continued)

A. *Other receivables at the end of the year with single provision for bad and doubtful debts*

Other receivables (as per Unit)	Closing balance			
	Other receivables	Provision for bad and doubtful debts	Percentage of provisions	Reasons for provision
Lv Jihui	258,306.82	258,306.82	100.00	Cow purchase prepayment, while the creditor's rights have not been fully repaid, cows may be only resold to others, and it is unable to pay the amount in arrears, so a lawsuit has been filed by the Company
Gansu Weiyalong Company	200,000.00	200,000.00	100.00	Unrecoverable
Lanzhou Pulantai Electric Light Source Co., Ltd.	25,000.00	25,000.00	100.00	Unrecoverable
Total	483,306.82	483,306.82	—	—

B. *Other receivables with provision for bad and doubtful debts on a group basis*

Ageing	Closing balance	
	Other receivables	Provision for bad and doubtful debts
Within 1 year	12,498,040.49	28,722.50
Over 1 year but within 2 years	436,036.79	87,207.36
Over 2 years but within 3 years	82,707.00	41,353.50
Over 3 years	150,332.50	150,332.50
Total	13,167,116.78	307,615.86

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other receivables (Continued)

Other receivables (Continued)

② Other receivables with provision for bad and doubtful debts

Item	Opening balance	Provision for the year	Recoveries or reversals for the year	Closing balance
Other receivables	822,542.94		31,620.26	790,922.68
Total	822,542.94		31,620.26	790,922.68

③ Category of other receivables by nature

Nature of accounts	Closing balance of carrying value	Opening balance of carrying value
Amounts due from disposal of cows	2,634,924.37	7,264,704.95
Deposit and earnest money	3,672,734.76	2,827,920.24
Loans to employees	1,884,993.90	2,478,654.02
Others	4,666,847.89	719,018.81
Total	12,859,500.92	13,290,298.02

④ Five largest other receivables by debtor at the end of the year

Name of entity	Nature of amount	Closing balance	Ageing	Percentage of total closing balance of other receivables (%)	Closing balance of provision for bad and doubtful debts
Entity 1	Equipment sales	2,000,000.00	Within 1 year	14.65	
Entity 2	Earnest money	1,381,650.00	Within 1 year	10.12	
Entity 3	Amount prepaid	360,868.50	Within 1 year	2.64	
Entity 4	Earnest money	250,000.00	Within 1 year	1.83	
Entity 5	Working capital	215,000.00	Within 1 year	1.58	
Total	—	4,207,518.50	—	30.82	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Inventories

(1) Category of inventories

Item	Closing balance		
	Balance of carrying value	Provision for depreciation	Carrying value
Raw materials	76,892,777.36	436,433.73	76,456,343.63
Commodities in stock	10,401,650.46		10,401,650.46
Consumable biological assets	5,211.84		5,211.84
Commodities shipped	2,057,309.73		2,057,309.73
Total	89,356,949.39	436,433.73	88,920,515.66

Item	Opening balance		
	Balance of carrying value	Provision for depreciation	Carrying value
Raw materials	59,101,631.42		59,101,631.42
Commodities in stock	11,974,866.39		11,974,866.39
Consumable biological assets	1,582.10		1,582.10
Commodities shipped			
Total	71,078,079.91		71,078,079.91

(2) Provision for depreciation of inventories

Item	Opening balance	Increase for the year		Decrease for the year		Closing balance
		Provision	Others	Reversals or write-off	Others	
Raw materials		436,433.73				436,433.73
Total		436,433.73				436,433.73

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Asset held for sale

Item	Closing balance	Opening balance
Fixed assets		2,152,380.47
Intangible assets		4,306,121.25
Total		6,458,501.72

In December 2017, the Company signed an agreement with a third party, pursuant to which it proposed to dispose of certain land use right and the land attachments as a whole. The contractual price was RMB10,300,000.00. On 31 December 2018, the assets handover has been completed.

7. Other current assets

Item	Closing balance	Opening balance
Input VAT of invoice not yet received	2,720,671.76	3,087,413.98
Cost of return receivable	11,403.51	
Total	2,732,075.27	3,087,413.98

8. Other equity instrument investment

Item	Closing balance	Opening balance	Dividend income recognised during the year	Reasons for designation	Accumulative profit or loss during the year transferred from other comprehensive income to retained earnings	
					Amount	Reasons
Xi'an Dongfang Diary Co., Ltd.		41,775,254.38			6,884,196.22	Further acquisition of equity, as a result, the acquired enterprise becomes a wholly-owned subsidiary
Gansu Yuzhong Rural Cooperative Bank	44,471.00	44,471.00				
Total	44,471.00	41,819,725.38			6,884,196.22	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Fixed assets

Item	Closing balance	Opening balance
Fixed assets	939,220,755.53	625,799,144.70
Disposal of fixed assets		
Total	939,220,755.53	625,799,144.70

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Fixed assets (Continued)

(1) Fixed assets

① Details of fixed assets

Item	Houses and buildings	Mechanical equipments	Transportation equipments	Other equipments	Total
I. Original carrying value					
1. Opening balance	537,766,031.00	334,804,368.73	8,355,774.21	12,783,933.84	893,710,107.78
2. Increase for the year	302,001,314.41	147,011,550.65	2,274,400.39	18,974,388.44	470,261,653.89
(1) acquisition	54,001,850.88	46,997,944.88	223,575.61	5,914,223.60	107,137,594.97
(2) transferred from construction in progress	53,018,111.53	836,090.00			53,854,201.53
(3) increase from business combination	194,981,352.00	99,177,515.77	2,050,824.78	13,060,164.84	309,269,857.39
3. Decrease for the year	7,327,743.80	6,611,315.39	461,592.82	43,694.87	14,444,346.88
(1) Disposal or scrapping	4,641,915.26	6,611,315.39	461,592.82	43,694.87	11,758,518.34
(2) Other decrease	2,685,828.54				2,685,828.54
4. Closing balance	832,439,601.61	475,204,603.99	10,168,581.78	31,714,627.41	1,349,527,414.79
II. Accumulative depreciation					
1. Opening balance	98,846,505.81	153,556,454.13	6,095,090.47	9,412,912.67	267,910,963.08
2. Increase for the year	58,921,383.79	77,537,684.21	2,073,602.32	10,618,131.77	149,150,802.09
(1) provisions	17,944,581.27	29,380,180.89	664,278.95	3,832,790.92	51,821,832.03
(2) Business combination	40,976,802.52	48,157,503.32	1,409,323.37	6,785,340.85	97,328,970.06
3. Decrease for the year	4,438,158.19	1,842,190.63	438,513.18	36,243.91	6,755,105.91
(1) Disposal or scrapping	4,438,158.19	1,842,190.63	438,513.18	36,243.91	6,755,105.91
(2) Other decrease					
4. Closing balance	153,329,731.41	229,251,947.71	7,730,179.61	19,994,800.53	410,306,659.26
III. Impairment provision					
1. Opening balance					
2. Increase for the year					
(1) provisions					
3. Decrease for the year					
(1) Disposal or scrapping					
4. Closing balance					
IV. Carrying value					
1. Closing balance of carrying value	679,109,870.20	245,952,656.28	2,438,402.17	11,719,826.88	939,220,755.53
2. Opening balance of carrying value	438,919,525.19	181,247,914.60	2,260,683.74	3,371,021.17	625,799,144.70

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Fixed assets (Continued)

(1) Fixed assets (Continued)

② Details of fixed assets leased through financial leasing

Item	Original carrying value	Accumulative depreciation	Impairment provision	Carrying value
270 automats	6,982,424.62	1,326,716.40		5,655,708.22
Ecolean filling machine	8,861,939.40	644,706.09		8,217,233.31
Roofing type carton filling equipment	1,282,051.28	284,200.00		997,851.28
Total	17,126,415.30	2,255,622.49		14,870,792.81

③ Details of fixed assets without the certificate of title

Item	Carrying value	Reasons for failure of obtaining the certificate of title
Lanzhou Zhuangyuan Office Building	54,278,877.13	In progress
Xi'an Dongfang Office Building	16,105,695.21	In progress
9 Apartments at Qinghai Lake	3,526,956.81	In progress
Total	73,911,529.15	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Construction in progress

(1) Details of construction in progress

Item	Closing balance			Opening balance		
	Balance of carrying value	Impairment provision	Carrying value	Balance of carrying value	Impairment provision	Carrying value
Office Building of the Chamber of Commerce Building				30,266,741.49		30,266,741.49
Full-automatic CIP cleaning				306,090.00		306,090.00
Four cups loader				320,000.00		320,000.00
Central plant project construction payment (construction project with the daily processing capacity of 600 tons of raw milk)	14,491,550.99		14,491,550.99	950,039.60		950,039.60
Prepack automatic case packer	590,000.00		590,000.00			
Equipment for project with the daily processing capacity of 2,000 tons of sewage	1,547,850.00		1,547,850.00			
Qinghai Shengya Plateau Pasture renovation and expansion project				3,853,746.71		3,853,746.71
Lanzhou Ruixing Pasture newly built lactation cow house	6,593,725.44		6,593,725.44	2,583,725.44		2,583,725.44
Wuwei Ruida Pasture Co., Ltd. technical renovation project	8,500,000.00		8,500,000.00	396,900.00		396,900.00
Linxia Ruiyuan Pasture renovation and expansion project	2,092,663.00		2,092,663.00	1,588,113.83		1,588,113.83
Duoxian Animal Husbandry sewage treatment project	2,880,000.00		2,880,000.00			
Dongfang Duoxian preliminary construction expenses	804,495.00		804,495.00			
Ruijia Pasture construction project	170,000.00		170,000.00			
Qinghai Lake Dairy boiler equipment				210,000.00		210,000.00
Total	37,670,284.43		37,670,284.43	40,475,357.07		40,475,357.07

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Construction in progress (Continued)

(2) Changes to important construction in progress of the year

Name of Project	Amount of Budget	Opening balance	Increase of the year	Amount of fixed assets transferred during the year	Other decrease during the year	Closing balance
Office Building of Chamber of Commerce Building		30,266,741.49	22,751,370.04	53,018,111.53		
Central plant project construction payment (construction project with the daily processing capacity of 600 tons of raw milk)	305,311,400.00	950,039.60	67,325,074.87		53,783,563.48	14,491,550.99
Total	305,311,400.00	31,216,781.09	90,076,444.91	53,018,111.53	53,783,563.48	14,491,550.99

Name of Project	Percentage of accumulative project investment accounting for the budget (%)	Project progress	Accumulative amount of interests capitalization	Including: amount of interests capitalization of the year	Interests capitalization rate of the year (%)	Source of funds
Office Building of Chamber of Commerce Building						
Central plant project construction payment (construction project with the daily processing capacity of 600 tons of raw milk)	4.75%	4.75%				Self-owned funds
Total	4.75%	4.75%				

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Bearer biological assets

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

(1) The number of cows held by the Company as at the date of the statements is as follows:

Unit: Heads

Category	Closing balance	Opening balance
Calves	2,069	723
Heifers	2,839	3,446
Milkable cows	5,196	2,803
Total	10,104	6,972

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

(2) The Company is mainly subject to the following operating risks in respect of the bearer biological assets:

① **Regulatory and environmental risks**

The Company is obliged to comply with the laws and regulations in effect at the place of the pasture. The Company has already formulated the environmental policies and procedures specific to the compliance with the local environment and other laws. The management has conducted regular review to identify the environmental risk and ensure that those regulations formulated shall sufficiently manage such risks.

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

The Company's biological assets are subject to the destruction risks from the climate changes, disease and other natural forces. The Company has already taken various measures to monitor and mitigate such risk, including regular review, disease control, investigation and insurance.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Bearer biological assets (Continued)

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

		Calves	Heifers	Milkable Cows	Total
31 December 2017		7,189,600.00	78,903,700.00	89,722,504.71	175,815,804.71
Plus: cows purchasing costs		1,354,400.00	20,837,400.00	33,688,100.00	55,879,900.00
Breeding costs	Note 1	9,816,523.99	37,435,468.40	117,603,775.60	164,855,767.99
Transfer among group of cows					
Transfer-in			5,835,693.03	58,441,238.51	64,276,931.54
Transfer-out		-5,835,693.03	-58,441,238.51		-64,276,931.54
Transferred to inventories at the time of milking				-99,456,976.04	-99,456,976.04
Decrease due to elimination and sales		-2,061,255.09	-3,697,191.79	-21,207,013.08	-26,965,459.96
Profit and loss from fair value change	Note 2	10,557,424.13	-12,211,431.13	1,828,970.30	174,963.30
31 December 2018		21,021,000.00	68,662,400.00	180,620,600.00	270,304,000.00

Note 1: The cows breeding costs mainly include the feed costs, labour costs, depreciation and amortization expenses and the amortization of public fees.

Note 2: The profit and loss from fair value change consists of two parts: loss arising from changes in fair value less costs to sell of bearer biological assets, and gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest.

The Company has already hired certain independent and professional evaluators to conduct evaluation on the fair value of biological assets as at the date of balance sheet. Methods for valuation as adopted for the purpose of determination of the fair value and main parameters of the valuation model are disclosed in Note X. Disclosure of fair value.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Intangible assets

Item	Land use right	Computer software	Total
I. Original carrying value			
1. Opening balance	20,060,100.16	3,073,964.75	23,134,064.91
2. Increase for the year	54,124,468.34	1,229,052.88	55,353,521.22
(1) Acquisition	54,124,468.34	1,229,052.88	55,353,521.22
3. Decrease for the year			
(1) Disposal			
4. Closing balance	74,184,568.50	4,303,017.63	78,487,586.13
II. Accumulative amortization			
1. Opening balance	1,809,403.22	753,113.47	2,562,516.69
2. Increase for the year	735,739.92	548,885.04	1,284,624.96
(1) Provision	735,739.92	548,885.04	1,284,624.96
3. Decrease for the year	79,970.06		79,970.06
(1) Disposal	79,970.06		79,970.06
4. Closing balance	2,465,173.08	1,301,998.51	3,767,171.59
III. Impairment provision			
1. Opening balance			
2. Increase for the year			
(1) Provision			
3. Decrease for the year			
(1) Disposal			
4. Closing balance			
IV. Carrying value			
1. Carrying value at the end of the year	71,719,395.42	3,001,019.12	74,720,414.54
2. Carrying value at the beginning of the year	18,250,696.94	2,320,851.28	20,571,548.22

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Goodwill

(1) Original Carrying value of goodwill

Name of invested entity or item resulting in goodwill	Opening balance	Increase for the year	Decrease for the year	Closing balance
		Resulting from business combination	Disposal	
Xi'an Dongfang Dairy Co., Ltd.		58,690,507.80		58,690,507.80
Total		58,690,507.80		58,690,507.80

For the explanation of goodwill, please refer to Note VII. (1) Business combination not under the common control.

(2) Impairment provisions for goodwill

The Company shall recognize Xi'an Dongfang Dairy Co., Ltd. as an asset group.

At the end of the Reporting Year, the Company conducted an impairment test on the goodwill, indicating that the balance of carrying value of asset group accepting such test is lower than the recoverable amount estimated by such asset group, without any indicators of impairment.

The recoverable amount of goodwill is determined based on the future cash flow estimated by the asset group. The future cash flow is determined based on the financial budget of 2019 to 2023 as approved by the management. The cash flow beyond 5 years of Xi'an Dongfang Dairy Co., Ltd. as an asset group is continuously calculated as per the number of budget in 2023.

The discount rate adopts the Company's interest pre-tax weighted average fund cost rate. Including, the debt cost rate adopts the Company's loan interest rate and the equity cost determination is subject to the capital asset pricing model. The equity cost takes the synthetic income rate in Shenzhen and Shanghai as the risk return rate, ten-year bond rate as non-risk return rate, taking the operating risk arising from the asset group income composition into consideration.

While estimating the future cash flow, other key presumptions are used: previous performance of such asset group as well as the management's estimates about the market development and the estimated sales and gross profit. The management considers that any reasonable change in the aforesaid presumptions will not result in the situation that the carrying value of Xi'an Dongfang Dairy Co., Ltd. as an asset group exceeds its recoverable amount.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Long-term deferred expenses

Item	Opening balance	Increase of the year	Amount of amortization of the year	Other decrease	Closing balance
Office building renovation expenses		5,825,242.72	582,524.27		5,242,718.45
Land lease fee	979,778.46	2,233,576.80	1,133,943.05		2,079,412.21
Others	649,811.32	1,001,268.28	201,596.92	649,811.32	799,671.36
Total	1,629,589.78	9,060,087.80	1,918,064.24	649,811.32	8,121,802.02

15. Deferred income tax assets/deferred income tax liabilities

(1) Breakdown of deferred income tax assets

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Impairment provisions on assets	1,538,548.20	230,782.23	722,672.50	108,400.88
Deductible losses	19,500,000.00	2,925,000.00	6,863,465.91	1,029,519.89
Fixed assets depreciation	2,721,901.53	408,285.23	3,857,213.56	578,582.03
Government grants	25,821,350.03	3,873,202.50	21,075,000.00	3,161,250.00
Total	49,581,799.76	7,437,269.96	32,518,351.97	4,877,752.80

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Deferred income tax assets/deferred income tax liabilities (Continued)

(2) Breakdown of deferred income tax liabilities

Item	Closing balance		Opening balance	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Value added in assets evaluation on business combination not under the common control	33,884,707.47	5,082,706.12		
Change in fair value of available-for-sale financial assets included in other comprehensive income	8,099,054.40	1,214,858.16	8,099,054.40	1,214,858.16
Total	41,983,761.87	6,297,564.28	8,099,054.40	1,214,858.16

Note: As for the value added in assets evaluation on business combination not under the common control, since Shaanxi Duoxian Animal Husbandry Co., Ltd. is exempted from the income tax, no deferred income tax liabilities are recognised.

16. Other non-current assets

Item	Closing balance	Opening balance
Advance payments to farmers		8,066,250.06
Prepayment for cows purchased	74,070,000.00	20,670,000.00
Purchase of land	20,200,000.00	
Total	94,270,000.00	28,736,250.06

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Short-term loans

(1) Category of short-term loans

Item	Closing balance	Opening balance
Pledged loan		
Mortgaged loan	220,000,000.00	310,000,000.00
Guaranteed loan	17,000,000.00	56,000,000.00
Credit loan	200,000,000.00	40,000,000.00
Total	437,000,000.00	406,000,000.00

Note: As of 31 December 2018, certain mortgaged loan of RMB100,000,000.00 has been obtained from Bank of China Co., Ltd., Lanzhou City Jinchang Road Sub-branch, for which the Company has provided its fixed assets as the mortgage. For details of such mortgaged loan, please refer to Note VI. 50. Assets with restricted ownership or use right.

18. Bills payable and accounts payable

Category	Closing balance	Opening balance
Bills payable	30,545,185.82	19,492,581.98
Accounts payable	164,947,220.90	101,385,124.99
Total	195,492,406.72	120,877,706.97

(1) Details of bills payable

Category	Closing balance	Opening balance
Bank acceptance bill	30,545,185.82	19,492,581.98
Total	30,545,185.82	19,492,581.98

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Bills payable and accounts payable (Continued)

(2) Details of accounts payable

Item	Closing balance	Opening balance
Within 1 year (inclusive of 1 year)	158,658,794.12	92,041,617.19
1~2 years (inclusive of 2 years)	3,149,078.71	5,195,443.88
2~3 years (inclusive of 3 years)	2,588,638.81	4,148,063.92
Over 3 years	550,709.26	
Total	164,947,220.90	101,385,124.99

19. Contractual liabilities

Item	Closing balance	Opening balance
Accounts received in advance	25,332,847.16	20,565,928.77
Goods replenishment payable	1,286,323.35	
Total	26,619,170.51	20,565,928.77

20. Employee benefits payable

(1) List of employee benefits payable

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
I. Short-term benefits	5,854,469.50	48,819,106.55	51,536,236.56	3,137,339.49
II. Post-employment benefits - defined benefits plan	331,593.44	4,177,979.86	4,509,573.30	
III. Dismissal benefit		69,582.20	69,582.20	
IV. Other benefits due within one year				
Total	6,186,062.94	53,066,668.61	56,115,392.06	3,137,339.49

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Employee benefits payable (Continued)

(2) List of short-term benefits

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Wages, bonus, subsidies and allowances	5,519,167.45	43,868,426.05	46,287,794.14	3,099,799.36
2. Employees benefits	50,000.00	1,388,136.06	1,438,136.06	
3. Social insurance fees	91,290.05	1,882,201.26	1,973,491.31	
Including: medical insurance fees	91,077.46	1,525,134.98	1,616,212.44	
Work-related injuries insurance fees	157.84	143,505.22	143,663.06	
Maternity insurance fees	54.75	213,561.06	213,615.81	
4. Housing provident fund	189,012.00	1,252,540.50	1,441,552.50	
5. Trade union funds and employees education funds	5,000.00	427,802.68	395,262.55	37,540.13
6. Short-term paid absence from work				
7. Short-term profit sharing plan				
Total	5,854,469.50	48,819,106.55	51,536,236.56	3,137,339.49

(3) List of defined benefit plan

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Basic pension insurance	319,352.89	4,011,213.27	4,330,566.16	
2. Unemployment insurance fees	12,240.55	166,766.59	179,007.14	
3. Enterprise annuity payment				
Total	331,593.44	4,177,979.86	4,509,573.30	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Taxes payable

Item	Closing balance	Opening balance
VAT	6,329,961.24	4,976,066.83
Enterprise income tax	5,497,369.19	6,922,182.62
Deduction and payment of individual income tax	30,699,111.97	
Others	588,148.77	272,712.50
Total	43,114,591.17	12,170,961.95

Note: Deduction and payment of the individual income tax means the deduction of individual income tax of the shareholder who is a natural person from the consideration for payment of the shares acquisition over the current period.

22. Other payables

(1) Presented by nature of payment

Item	Closing balance	Opening balance
Other payables	41,231,587.44	20,848,047.60
Including: government grants charged but not satisfying the ancillary conditions	3,881,720.00	3,981,720.00
Deposit due to the third party	13,964,207.52	7,958,721.42
Advertising fee payable		1,006,807.22
Professional service fee payable	1,630,768.23	2,200,000.00
Shares acquisition price payable	17,453,800.00	
Others	4,301,091.69	5,700,798.96
Interests payable	367,508.92	403,694.71
Total	41,599,096.36	21,251,742.31

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Other payables (Continued)

(2) Other important payables with the ageing of over 1 year

Item	Closing balance	Reasons for outstanding payment or carryforward
Entity 1	100,000.00	Trade union funds
Entity 2	100,000.00	Logistic deposit
Entity 3	100,000.00	Logistic deposit
Entity 4	100,000.00	Earnest money
Entity 5	100,000.00	Logistic deposit
Total	500,000.00	

(3) Details of interests payable

Item	Closing balance	Opening balance
Interests of long-term loan of which interests are paid by installments and principal is repaid on the due date	8,234.72	
Interests payable for short-term loan	359,274.20	403,694.71
Total	367,508.92	403,694.71

23. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Long-term loan due within 1 year	24,240,372.42	15,120,372.33
Long-term payables due within 1 year	4,141,586.93	1,908,641.54
Deferred earnings due within 1 year	5,370,014.15	3,025,470.00
Total	33,751,973.50	20,054,483.87

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Long-term loans

Item	Closing balance	Opening balance
Mortgaged loan	21,559,672.87	9,000,000.00
Guaranteed loan	42,240,000.00	32,680,043.93
Credit loan		
Less: long-term loan due within 1 year (Note VI, Item 23)	24,240,372.42	15,120,372.33
Total	39,559,300.45	26,559,671.60

Note: As of 31 December 2018, the balance of carrying value of long-term loans borrowed by Qinghai Lake Dairy Co., Ltd. as a subsidiary of the Company is RMB5,000,000.00, for which Qinghai Tiancheng Credit Guarantee Co., Ltd. provides joint and several liabilities guarantee, concludes the Entrusted Guarantee Contract and then Mortgage Counter-guarantee Contract providing mortgage counter-guarantee by virtue of the Company's land use right, properties and mechanical equipment totaling RMB64,528,000, for the details please refer to Note VI. 50. Assets with restricted ownership or use right.

25. Long-term payables

(1) Long-term payables

Item	Closing balance	Opening balance
Financial leasing payment payable	2,360,888.31	1,394,555.79
Total	2,360,888.31	1,394,555.79

(2) Breakdown of long-term accounts payable

Item	Closing balance	Opening balance
Financing leasing payment payable	6,797,811.77	3,303,197.33
Less: financing expenses not recognized	295,336.53	
Less: part of the payment becoming due within one year (Note VI, item 23)	4,141,586.93	1,908,641.54
Balance of long-term payables	2,360,888.31	1,394,555.79

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Estimated liabilities

Item	Opening balance	Closing balance	Reasons
Returns payment payable		11,403.51	Accrued returns payment
Total		11,403.51	—

27. Government grants

(1) General information of governmental grants

Category	Amounts	Presented item	Amount included in profit or loss of the period
Dairy farming project	492,060.00	Deferred income	4,305,087.26
Diary product production project	4,394,200.00	Deferred income	778,166.67
Biogas project	1,700,000.09	Deferred income	1,159,077.47
Others	2,646,365.91	Financial expenses, other income and non-operating income	7,980,398.86
Total	9,232,626.00		14,222,730.26

(2) Refund of government grants

Nil.

28. Deferred income

Item	Opening balance	Increase of the year	Decrease of the year	Closing balance	Reasons for Generation
Government grants	44,016,861.67	3,192,060.00	7,080,333.56	40,128,588.11	Government grants
Less: non-current liabilities due within one year (Note VI, Item 23)	3,025,470.00	2,344,544.15		5,370,014.15	
Total	40,991,391.67	847,515.85	7,080,333.56	34,758,573.96	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Deferred income (Continued)

Including: projects involving government grants:

Item of grants	Opening balance	Increase of grants for the year	Amount included in non-operating income for the year	Amount included in other income for the year	Other changes	Closing balance	Related to assets/revenue
Dairy farming project	26,631,577.83	492,060.00		4,305,087.26		22,818,550.57	Related to assets
Diary product production project	7,654,666.64			778,166.67		6,876,499.97	Related to assets
Biogas products	4,032,962.10	1,700,000.00		1,159,077.47		4,573,884.63	Related to assets
Others	5,697,655.10	1,000,000.00		838,002.16		5,859,652.94	Related to assets
Total	44,016,861.67	3,192,060.00		7,080,333.56		40,128,588.11	—

29. Share capital

Item	Opening balance	Increase and decrease for the year (+,-)				Subtotal	Closing balance
		Issuing new shares	Grant of shares	Conversion of reserve funds into shares	Others		
RMB ordinary shares	105,370,000.00						105,370,000.00
RMB social public shares	46,840,000.00						46,840,000.00
H shares	35,130,000.00						35,130,000.00
Total	187,340,000.00						187,340,000.00

30. Capital reserve

Item	Opening balance	Increase of the year	Decrease of the year	Closing balance
Capital premium		508,790,782.09		508,790,782.09
Total		508,790,782.09		508,790,782.09

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Other comprehensive income

Item	Opening balance	Opening balance after adjustments	Amount incurred for the year				After-tax attributable to minority shareholders	Closing balance
			Amount incurred prior to income tax for the year	Less: included in other comprehensive income in previous period and transferred to retained earnings over the current period	Less: income tax expenses	After-tax attributable to parent company		
I. Reclassified other comprehensive income into profit and loss								
Profit and loss arising from changes in fair value of available-for-sale financial assets (original financial instrument rules)	6,884,196.22	6,884,196.22		6,884,196.22				
Total other comprehensive income	6,884,196.22	6,884,196.22		6,884,196.22				

32. Surplus reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Statutory surplus reserve	32,051,090.62	5,143,313.65		37,194,404.27
Total	32,051,090.62	5,143,313.65		37,194,404.27

Note: In accordance with the Company Law and the Articles of Association, the Company withdraw 10% of its net profit as the statutory surplus reserve. Where the accumulative amount of statutory surplus reserve reaches more than 50% of the Company's registered capital, no profit shall be withdrawn.

After withdrawing the statutory surplus reserve, the Company may withdraw any amount of surplus reserve. Upon approval, such surplus reserve is used to cover the loss of the previous year or increase the share capital.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Retained earnings

Item	Closing balance	Opening balance
Retained earnings at the end of the previous year prior to the adjustments	399,483,322.01	345,404,214.95
Total amount of retained earnings at the beginning of the year of adjustment (“+” for increase, “-” for decrease)		
Retained earnings at the beginning of the year after the adjustment	399,483,322.01	345,404,214.95
Add: net profit attributable to the shareholders of the parent company during the year	63,533,162.18	68,351,885.17
Less: withdrawal of statutory surplus reserve	5,143,313.65	3,847,678.11
Withdrawal of discretionary surplus reserve		
Withdrawal of general risk allowance		
Ordinary share dividends payable	13,675,820.00	10,425,100.00
Ordinary share dividends changed into share capital		
Others	6,884,196.22	
Retained earnings at the end of the year	451,081,546.76	399,483,322.01

On 20 June 2018, the Company passed the resolutions at the general meeting of 2017 that cash dividend of RMB0.73 (including tax) for every 10 shares are paid to all shareholders with the distributable profit realized in 2017, being cash distribution of RMB13,675,820.00 in total.

34. Operating income and costs

(1) Operating income and costs

Category	Amount incurred for the year		Amount incurred in the previous year	
	Income	Costs	Income	Costs
Principal business	631,743,770.88	428,573,227.92	592,163,054.22	409,551,575.47
Other business	25,988,326.14	16,822,070.97	36,210,982.99	25,856,788.54
Total	657,732,097.02	445,395,298.89	628,374,037.21	435,408,364.01

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Taxes and surcharges

Item	Amount incurred for the year	Amount incurred in the previous year
Urban maintenance and construction tax	1,256,166.30	1,258,599.67
Educational surcharges	1,176,071.24	1,293,624.80
Others	2,576,305.83	1,026,276.98
Total	5,008,543.37	3,578,501.45

Note: For details of standards for charging various taxes and surcharges, please refer to Note V. Taxation.

36. Selling expenses

Item	Amount incurred for the year	Amount incurred in the previous year
Staff cost	16,954,153.71	17,233,088.22
Freight and miscellaneous charges	23,936,031.18	15,461,305.53
Low cost and short-lived consumable items	10,963,158.40	12,321,905.66
Travel expenses	3,135,213.16	7,142,875.31
Promotional fees	6,745,834.88	6,598,305.81
Rents and property management fees	2,621,823.70	2,799,434.75
Depreciation and amortization	2,371,067.39	2,477,951.37
Others	17,255,822.89	7,521,306.87
Total	83,983,105.31	71,556,173.52

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Administrative expenses

Item	Amount incurred for the year	Amount incurred in the previous year
Staff cost	14,726,755.25	15,834,732.01
Maintenance fees	11,186,873.50	12,547,568.05
Professional service fees	4,854,717.22	8,975,821.55
Travel expenses	2,155,430.43	3,248,425.91
Depreciation and amortization	4,865,508.33	3,245,164.65
Administrative expenses	3,391,191.84	4,507,243.67
Auditor fees -audit services	1,984,026.76	2,200,000.00
Business entertainment expenses	519,266.73	1,307,127.83
Others	5,026,955.81	2,426,988.51
Total	48,710,725.87	54,293,072.18

38. Research and development expenses

Item	Amount incurred for the year	Amount incurred in the previous year
Research and development of new products	4,371,584.52	915,737.60
Total	4,371,584.52	915,737.60

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Financial expenses

Item	Amount incurred for the year	Amount incurred in the previous year
Interest expenses from loans and payables	23,555,745.80	12,183,844.03
Including: interest expenses	24,136,245.80	20,786,244.03
Interest subsidies for policy-related preferential loans	-580,500.00	-8,602,400.00
Less: borrowing costs capitalized		1,039,200.10
Interest income from deposits	3,541,023.80	2,263,128.18
Net exchange losses/(gains)	-263,581.13	851,924.51
Others	1,449,625.81	1,406,622.62
Total	21,200,766.68	11,140,062.88

40. Asset impairment loss

Item	Amount incurred for the year	Amount incurred in the previous year
Loss on inventories depreciation	436,433.73	
Loss on bad debts		-799,557.21
Total	436,433.73	-799,557.21

41. Credit impairment loss

Item	Amount incurred for the year	Amount incurred in the previous year
Loss on bad debts in bills receivable and accounts receivable	159,207.52	
Including: loss on bad debts in bills receivable		
Loss on bad debts in accounts receivable	159,207.52	
Other losses on bad debts in accounts receivable	45,309.20	
Total	204,516.72	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42. Other income

Item	Amount incurred for the year	Amount incurred in the previous year	Amount included in non-recurring profit or loss for the year
Government grants	13,437,230.26	10,786,929.40	13,437,230.26
Total	13,437,230.26	10,786,929.40	13,437,230.26

43. Gains from changes in fair value

Source of gains from changes in fair value	Amount incurred for the year	Amount incurred in the previous year
1. Bearer biological assets		
Including: loss arising from changes in fair value less costs to sell of bearer biological assets	-9,036,609.17	-856,494.49
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	9,211,572.47	8,858,370.37
Total	174,963.30	8,001,875.88

The Company's bearer biological assets are the cows. On the date of balance sheet, the Company hired certain qualified and professional assets valuer to determine the fair value of these cows. Any change over each period is included in the profit or loss of the current period.

The agricultural products received by the Company from the bearer biological assets are the raw milk. At the time of harvest, the fair value of such agricultural products less the selling expenses (subject to the quotation in the local market) is recognized as the initial costs of the inventory. Any profit or loss (that is, the fair value of agricultural products at the time of harvest less the selling expenses and farming costs) generated from the recognition based on such fair value on the date of harvest shall be recognized in the income statement. Thereafter, during the sales, the inventory amount initially recognized based on such fair value is transferred to selling costs.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Gains from disposal of assets

Item	Amount incurred for the year	Amount incurred in the previous year	Amount included in non-recurring profit or loss for the year
Gains from disposal of fixed assets	2,636,907.21	-276,141.49	2,636,907.21
Total	2,636,907.21	-276,141.49	2,636,907.21

45. Non-operating income

Item	Amount incurred for the year	Amount incurred in the previous year	Amount included in non-recurring profit or loss for the year
Government grants irrelevant to the Company's daily activities	205,000.00		205,000.00
Default compensation	3,000.00		3,000.00
Income from selling cow dung	725,606.83	377,214.00	725,606.83
Others	2,125,635.41	170,911.75	2,125,635.41
Total	3,059,242.24	548,125.75	3,059,242.24

46. Non-operating expenses

Item	Amount incurred for the year	Amount incurred in the previous year	Amount included in non-recurring profit or loss for the year
Loss on destruction and scrapping of non-current assets	1,068,895.05		1,068,895.05
External donations expenses	1,313,500.00	286,583.66	1,313,500.00
Fines expenses	49,074.00		49,074.00
Other expenses	113,186.62		113,186.62
Total	2,544,655.67	286,583.66	2,544,655.67

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Income tax expense

(1) Income tax expenses table

Item	Amount incurred of the year	Amount incurred in the previous year
Income tax expenses for the current period	-871,541.87	3,473,399.48
Deferred income tax expenses	2,523,188.96	-769,395.99
Total	1,651,647.09	2,704,003.49

(2) Reconciliation of accounting profit and income tax expenses

Item	Amount incurred of the year
Total amount of profit	65,184,809.27
Income tax expenses calculated based on statutory/applicable tax rate	16,296,202.32
Effect of application of different tax rates on subsidiaries	-114,138.31
Effect of adjustment of income tax for the prior period	
Effect of non-taxable income	-15,915,559.31
Effect of non-deductible costs, expenses and losses	1,385,142.39
Effect of using deductible losses on unrecognized deferred income tax assets for the prior period	
Effect of deductible temporary difference or deductible losses of unrecognized deferred income tax assets at the end of the year	
Changes in the balance of deferred income tax assets/liabilities at the beginning of the year arising from the adjustment of tax rates	
Income tax expenses	1,651,647.09

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Cash flow statement items

(1) Proceeds from other operating activities

Item	Amount incurred of the year	Amount incurred in the previous year
Loans received from farmers and employees	9,692,947.02	7,952,419.18
Earnest money	3,843,318.13	1,697,801.95
Accounts payable received from E-commerce platform	6,168,354.15	
Government grants	9,232,626.00	2,054,000.00
Others	15,823,576.16	16,871,549.48
Total	44,760,821.46	28,575,770.61

(2) Payment for other operating activities

Item	Amount incurred of the year	Amount incurred in the previous year
Office travelling expenses	3,601,557.73	16,205,672.72
Maintenance fees	5,175,333.21	13,210,825.97
Freight and miscellaneous charges	16,199,077.56	15,461,305.53
Professional service fees	4,480,071.75	10,478,455.82
Promotional fees	2,960,399.08	7,779,876.35
Others	38,981,996.48	28,267,049.93
Total	71,398,435.81	91,403,186.32

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Cash flow statement items (Continued)

(3) Proceeds relating to other investing activities

Item	Amount incurred of the year	Amount incurred in the previous year
Recovery of earnest money	10,746,290.99	18,247,547.14
Interests income from bank deposits	2,630,940.83	2,263,128.18
Total	13,377,231.82	20,510,675.32

(4) Payments relating to other investing activities

Item	Amount incurred of the year	Amount incurred in the previous year
Increase in pledged deposit	14,300,079.98	24,993,838.13
Total	14,300,079.98	24,993,838.13

(5) Payments relating to other financing activities

Item	Amount incurred of the year	Amount incurred in the previous year
Listing expenses		11,723,265.00
Cash paid relating to finance leases	4,750,247.44	4,800,047.83
Total	4,750,247.44	16,523,312.83

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49. Supporting information about cash flow statement

(1) Supporting information of cash flow statement

Supporting Information	Amount of the year	Amount incurred in the previous year
1. Adjustment of net profit to cash flow of business activities		
Net profit	63,533,162.18	68,351,885.17
Plus: asset impairment loss	640,950.45	-799,557.21
Fixed assets depreciation, oil and gas assets consumption and bearer biological assets depreciation	51,821,832.03	43,223,905.86
Intangible assets amortization	1,284,624.96	723,422.81
Long-term deferred expenses amortization	1,918,064.24	482,674.97
Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-2,636,907.21	276,141.49
Loss on scrapping of fixed assets ("-" for gains)	1,068,895.05	
Loss on changes to the fair value of bearer biological assets less selling expenses ("-" for gains)	9,036,609.17	856,494.49
Financial expenses ("-" for gains)	23,555,745.80	18,335,840.26
Loss on investment ("-" for gains)		
Decrease of deferred income tax assets ("-" for increase)	-2,559,517.16	-769,395.99
Increase of deferred income tax liabilities ("-" for decrease)	6,297,564.28	
Decrease of inventories ("-" for increase)	-17,842,435.75	3,978,070.99
Decrease of operating items receivable ("-" for increase)	-19,060,549.91	-11,381,851.75
Increase of operating items payable ("-" for decrease)	-20,415,604.67	14,373,049.65
Others	7,080,333.56	7,523,653.33
Net amount of cash flow generated from operation activities	103,722,767.02	145,174,334.07
2. Major investment and financing activities irrelevant to cash income and expenses		
Conversion of debts into capital		
Convertible corporate bonds to become due within one year		
Acquisition of fixed assets under finance leases		
3. Net changes to cash and cash equivalents		
Balance of cash at the end of the year	388,791,101.39	736,896,081.76
Less: balance of cash at the beginning of the year	736,896,081.76	273,352,017.83
Plus: balance of cash equivalents at the end of the year		
Less: balance of cash equivalents at the beginning of the year		
Net increase of cash and cash equivalents	-348,104,980.37	463,544,063.93

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49. Supporting information about cash flow statement (Continued)

(2) Composition of cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash		
Including: cash on hand	43,456.47	11,463.37
Bank deposits immediately available for payment	388,263,027.21	736,884,618.39
Other cash at bank and on hand as immediately available for payment	484,617.71	
Amount available for payment and deposited in the Central Bank		
II. Cash equivalents		
Including: debenture investment to become due within 3 months		
III. Balance of cash and cash equivalents at the end of the year	388,791,101.39	736,896,081.76
IV. Use of restricted cash and cash equivalents by the Parent Company or the subsidiaries of the Company	14,300,079.98	10,746,290.99

50. Assets with restricted ownership or use right

Item	Carrying value at the end of the year	Reasons for restriction
Cash at bank and on hand	14,300,079.98	Bills earnest money
Fixed assets	319,463,744.47	Long-term and short-term mortgage loan
Intangible assets	5,666,861.95	Long-term mortgage loan
Total	339,430,686.40	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VII. CHANGES OF SCOPE OF CONSOLIDATION

1. Consolidation of enterprise not under the common control

(1) Business combination not under the common control occurred during the year

Unit: ten thousand yuan

Name of the party being acquired	Time of acquisition of equity	Costs of acquisition of equity	Percentage of equity acquired (%)	Mode of acquisition of equity	Date of acquisition	Basis for determination of date of acquisition	Income of the party being acquired from the date of acquisition to the end of the year	Net Profit of the party being acquired from the date of acquisition to the end of the year
Xi'an Dongfang Dairy Co., Ltd.	2018-10-31	24,900.00	82.00	Acquisition	2018-10-31	Acquisition of the control right entitled by the acquiring party	3,484.28	442.36

(2) Consolidation costs and goodwill

Item	Xi'an Dongfang Dairy Co., Ltd.
Consolidation costs	
— cash	249,000,000.00
— fair value on the date of acquisition of the equity held prior to the date of acquisition	41,775,254.38
Total consolidation costs	290,775,254.38
Less: shares of fair value of identifiable net assets acquired	232,084,746.58
Amount of goodwill or consolidation costs that are less than the shares of fair value of identifiable nets assets acquired	58,690,507.80

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VII. CHANGES OF SCOPE OF CONSOLIDATION (Continued)

1. Consolidation of enterprise not under the common control (Continued)

(2) Consolidation costs and goodwill (Continued)

Goodwill of RMB58,690,507.80 is generated from this acquisition. That is mainly due to: as a leading diary enterprise in Gansu Province, the Company gained advantages to launch its products into Shaanxi markets, increase the income scale, strengthen its overall powers and expand the coordination effects after acquiring Xi'an Dongfang Diary Co., Ltd.

Determination of the fair value of consolidation costs:

Based on the results of evaluation on 100% equity held by Xi'an Dongfang Diary Co., Ltd. on the base date of valuation (31 March 2018) as indicated in Report on Evaluation of Equity Value Held by Shareholders of Xi'an Dongfang Diary Co., Ltd to be Acquired by Lanzhou Zhuangyuan Pasture Co., Ltd. (YPB ZI [2018] No. 126) issued by Beijing APVCHINA Assets Evaluation Co., Ltd., who possesses of certain securities and futures business evaluation qualifications, it is finally identified that the trading price of the subject assets, 82% equity of Xi'an Dongfang Diary Co., Ltd, is RMB249,000,000.00.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VII. CHANGES OF SCOPE OF CONSOLIDATION (Continued)

1. Consolidation of enterprise not under the common control (Continued)

(3) Assets and liabilities identifiable by the party acquired on the date of acquisition

Item	Xi'an Dongfang Dairy Co., Ltd.	
	Date of acquisition	Date of acquisition
	Fair value	Carrying value
Assets:		
Cash at bank and on hand	3,766,021.35	3,766,021.35
Accounts receivable	14,489,730.79	14,489,730.79
Prepayments	4,743,512.07	4,887,507.27
Other receivables	4,816,912.55	4,816,912.55
Inventories	16,691,650.90	16,691,650.90
Other current assets	1,186,212.86	1,186,212.86
Fixed assets	211,940,887.33	170,659,406.85
Construction in progress	3,684,495.00	3,684,495.00
Bearer biological assets	55,879,900.00	35,356,717.62
Intangible assets	695,441.96	698,192.06
Long-term deferred expenses	633,086.46	1,481,305.62
Deferred income tax assets	19,101.81	19,101.81
Other non-current assets	46,046,560.00	46,046,560.00
Liabilities:		
Loan	44,930,000.00	44,930,000.00
Accounts payable	39,231,818.26	39,231,818.26
Bills payable	2,945,155.90	2,945,155.90
Advances from customers	1,421,579.95	1,421,579.95
Taxes payable	1,667,205.28	1,667,205.28
Interests payable	168,743.75	168,743.75
Other accounts payable	10,742,886.17	10,742,886.17
Non-current liabilities to become due within 1 year	21,920,000.00	21,920,000.00
Other current liabilities	828,384.09	828,384.09
Long-term payables	3,514,886.68	3,514,886.68
Deferred income tax liabilities	5,138,106.42	
Net assets	232,084,746.58	176,413,154.60
Less: minority shareholders' equity		
Net assets acquired	232,084,746.58	176,413,154.60

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VII. CHANGES OF SCOPE OF CONSOLIDATION (Continued)

1. Consolidation of enterprise not under the common control (Continued)

(4) Gains or losses generated from re-measurement of equity held prior to the date of acquisition based on the fair value

Name of the party acquired	Carrying value of equity held prior to the date of acquisition as incurred on the date of acquisition	Fair value of equity held prior to the date of acquisition as incurred on the date of acquisition	Gains or losses generated from re-measurement of equity held prior to the date of acquisition based on the fair value	Methods	Amount of other comprehensive income related to equity held prior to the date of acquisition transferred to investment earnings
				for determination and main presumptions of fair value of equity held prior to the date of acquisition as incurred on the date of acquisition	
Xi'an Dongfang Diary Co., Ltd.	33,676,200.00	41,775,254.38	8,099,054.38	By reference to the fair value of newly increased equity as at 31 March 2018	

On 31 October 2018, the Company acquired 82% equity of Xi'an Dongfang Diary Co., Ltd. to cause it to become the Company's wholly-owned subsidiary. The original shareholders commit to the Company that the net profit (subject to the net profit attributable to the parent company after a deduction of non-recurring profit or loss) in 2018, 2019 and 2020 will not be lower than RMB18,000,000.00, RMB22,000,000.00 and RMB25,000,000.00. During the period of commitments, the accumulative net profit of Xi'an Dongfang Diary Co., Ltd. as of the end of the current period is lower than the one committed, so the person who has committed for its performance should make compensation to the Company in cash.

When the performance commitment period expires, the Company will hire certain accounting firm acceptable to both parties and having the securities and futures business license to conduct impairment test on the subject assets and issue the Impairment Test Report. If the amount of impairment on subject assets at the end of the period exceeds the amount of compensation made, the person who has committed for its performance shall separately make compensation to the Company in cash.

In 2018, Xi'an Dongfang achieves the net profit of RMB19,479,921.66. On the date of acquisition, such performance commitment contingent consideration is zero, and the change in contingent fair value at the end of the period is zero.

2. Changes of the scope of consolidation resulted from other reasons

The Company established Gansu Ruijia Pasture Co., Ltd. through investment in which the Company holds 100.00% shares during the period. Such company will be included in the scope of consolidation.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the Company's companies

Name of Subsidiary	Principal Place of Business	Place of Registration	Nature of Business	Shareholding Percentage (%)		Mode of Acquisition
				Direct	Indirect	
Qinghai Qinghai Lake Dairy Co., Ltd.	Xining City, Qinghai Province	Xining City, Qinghai Province	Dairy products production and sales	100.00		Establishment through investment
Xi'an Dongfang Dairy Co., Ltd.	Xi'an City, Shaanxi Province	Xi'an City, Shaanxi Province	Dairy products production and sales	100.00		Acquisition
Qinghai Shengyuan Pasture Co., Ltd.	Huangyuan County, Xining City, Qinghai Province	Huangyuan County, Xining City, Qinghai Province	Cows farming	100.00		Establishment through investment
Qinghai Shengya Plateau Pasture Co., Ltd.	Huangzhong County, Xining City, Qinghai Province	Huangzhong County, Xining City, Qinghai Province	Cows farming	100.00		Establishment through investment
Yuzhong Rui Feng Pasture Co., Ltd.	Yuzhong County, Lanzhou City, Gansu Province	Yuzhong County, Lanzhou City, Gansu Province	Cows farming	100.00		Establishment through investment
Linxia County Ruiyuan Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu Province	Linxia County, Linxia Prefecture, Gansu Province	Cows farming	100.00		Establishment through investment
Linxia County Rui'an Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu Province	Linxia County, Linxia Prefecture, Gansu Province	Cows farming	100.00		Establishment through investment
Wuwei Ruida Pasture Co., Ltd.	Wuwei City, Gansu Province	Wuwei City, Gansu Province	Cows farming	100.00		Establishment through investment
Ningxia Zhuangyuan Pasture Co., Ltd.	Wuzhong City, Hui Autonomous Region, Ningxia	Wuzhong City, Hui Autonomous Region, Ningxia	Cows farming	100.00		Establishment through investment
Lanzhou Ruixing Animal Husbandry Co., Ltd.	Yongdeng County, Lanzhou City, Gansu Province	Yongdeng County, Lanzhou City, Gansu Province	Cows farming	100.00		Establishment through investment
Gansu Ruijia Animal Husbandry Co., Ltd.	Jinchang City, Gansu Province	Jinchang City, Gansu Province	Cows farming	100.00		Establishment through investment

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company's financial instruments mainly include the equity investment, loans, accounts receivable and accounts payable, for details of these financial instruments please refer to Note VI. For risks related to these financial instruments and the risk management policies adopted by the Company for the purpose of mitigating such risks, please see below. The Company's management shall manage and monitor these risk exposures to ensure that the aforesaid risks may be controlled within the restricted scope.

(I) Risk management objectives and policies

The Company implements risk management to keep proper balance between the risks and gains and attempt to reduce the adverse influences of these financial risks on its financial performance. Based on such risk management objective, the Company has already worked out the risk management policy to identify and analyze its risk, set appropriate acceptable level of risk and design corresponding internal control process to monitor its risk level. The Company will also regularly review these risk management policies and internal control system so as to adapt to the market situations or changes to its business activities. The Company's internal auditing department will also regularly or at any time check whether the implementation of its internal control system is in compliance with the risk management policy.

1. Credit risk

On 31 December 2018, the biggest credit risk exposure resulting in the Company's financial loss mainly results from the failure by the other party to the contract to perform the obligations, thus, the Company suffers from any loss on the financial assets and has to provide the financial guarantee, specifically including the cash at bank and on hand and the accounts receivable.

In order to reduce the credit risk, the Company's management will sustainably monitor these credit risk exposures.

The Company's cash at bank and on hand other than the cash is mainly deposited in the banks with higher credit rating, therefore, the management considers that there is no existence of higher credit risk and expects no loss to the Company arising from the default of the other party.

As for the accounts receivable, the Company's management has already worked out the credit policy based on the actual situations and conduct credit evaluation on the customers to determine the credit limit and period. The credit evaluation depends on the customer's financial status. The accounts receivable will become due 30 days after the statement of accounts is issued or no later than 1 year. The debtor with overdue accounts receivable will be required to first repay any and all of the outstanding balance and then can obtain the further credit limit. Generally, the Company will not request the customer for provision of any mortgaged item. In addition, the Company will review the recovery of each accounts receivable on the date of each balance sheet to ensure the sufficient provision for bad and doubtful debts based on the estimated credit loss on such assets. Therefore, the Company's management considers that its credit risk has already been significantly reduced.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

1. Credit risk (Continued)

The Company's credit risk is mainly affected by the characteristic of each customer but not the industry or country and region of such customer. Therefore, the significant credit risk mainly results from the significant accounts receivable by the Company from the individual customer. On the date of balance sheet, the accounts receivable from the Company's top 5 customers account for 0.00% (0.00% in 2017) of the total amount of accounts receivable by the Company; in addition, those accounts receivable by the Company that have not become overdue or been impaired mainly involve multiple customers without default records in recent times.

As for other receivables, the Company's management will implement management based on the nature of the receivables. With respect to the credit risk in connection with other receivables, the Company has already taken the net amount after loss on impairment into consideration and listed in the balance sheet.

The Company's largest credit risk exposure is the book amount of each financial asset listed in the balance sheet.

The Company has adopted the necessary policy to ensure that all the sale customers keep good credit records. Except for those items listed in the following table, the Company does not have any other significant credit concentration risks.

Item	Amount at the end of the year	Amount at the beginning of the year
Accounts receivable	101,421.19	
Other receivables	483,306.82	989,821.45
Total	584,728.01	989,821.45

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

2. Liquidity risk

Liquidity risk means while performing the obligations by way of settlement in cash or other financial assets, the enterprise suffers from the risk of lack of funds. While managing the liquidity risk, the Company keeps and monitors the cash and cash equivalent which the management considers sufficient to meet its business demands and reduces the impacts of fluctuations of the cash flow. The Company's management monitors the use of bank loans and ensures to comply with the loan agreement. Meanwhile, it obtains the commitments from major financial institutions for provision of sufficient reserve funds so as to satisfy the short- and long-term requirements for the current funds.

The Company and each of its subsidiary are responsible for their respective cash management work, including the cash surplus short-term investment and loan financing to meet the requirements for projected cash payable (if the amount of loan exceeds the upper limit authorized by certain presupposition, approval should be obtained from the Company's Board of Directors).

Based on the maturity period of the remaining contract obligations not discounted, the financial liabilities held by the Company are analyzed as follows:

Item	Carrying value on the date of balance sheet	Over 2 years			
		Within 1 year	Over 1 year but within 2 years	but within 5 years	Over 5 years
Short-term loan	437,000,000.00	437,000,000.00			
Bills payable	30,545,185.82	30,545,185.82			
Accounts payable	164,947,220.90	164,947,220.90			
Interests payable	367,508.92	367,508.92			
Other payables	41,242,990.95	23,789,190.95		17,453,800.00	
Long-term loans	63,799,672.87	24,240,372.42	20,740,372.42	6,361,117.26	12,457,810.77
Long-term payables	6,797,811.77	4,141,586.93	2,656,224.84		
Total	744,700,391.23	685,031,065.94	23,396,597.26	23,814,917.26	12,457,810.77

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

X. FAIR VALUE DISCLOSURE

The following table includes the fair value information of the Company's assets and liabilities sustainably measured by the fair value on each date of balance sheet at the end of the period of such report and the level of such measurement. The level of fair value measurement results depends on the input at the lowest level that significantly affects the fair value in general. Three levels of input are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

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

Item	Fair Value at the end of the year			
	Fair value measurement at	Fair value measurement at	Fair value measurement at	Total
	Level 1	Level 2	Level 3	
Sustainable fair value measurement			270,304,000.00	270,304,000.00
Bearer biological assets			270,304,000.00	270,304,000.00

Item	Fair Value at the Beginning of the year			
	Fair value measurement at	Fair value measurement at	Fair value measurement at	Total
	Level 1	Level 2	Level 3	
Sustainable fair value measurement			175,815,804.71	175,815,804.71
Bearer biological assets			175,815,804.71	175,815,804.71

The carrying value of consumable biological assets on each date of balance sheet during the report period is relatively small, which is approximate to the fair value.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

X. FAIR VALUE DISCLOSURE (Continued)

2. Qualitative and quantitative information over the valuation technology and important parameters adopted by the evaluation on fair value of bearer biological assets

Quantitative information over fair value measurement at Level 3:

Category	Methods for valuation	Key unobservable input	Relationship between the key unobservable input and fair value measurement
Calves and heifers	The fair value of 14-month old heifer is calculated by reference to the market price of the active transaction market.	The average market price of 14-month old domestic heifer this year is RMB18,800 (RMB18,800 in 2017); and the average market price of 14-month old imported heifer is RMB20,400 (RMB20,800 in 2017)	When the market price is increased, it is estimated that the fair value will be increased.
Milkable cows	The fair value of milkable cows is determined according to the multi-period-excess-earnings and based on the discounted future cash flow generated by the milkable cows.	As for the quantity of milkable cows, it is assumed that the existing number of milkable cows is decreased at the end of the related period arising from the rejection rate due to natural or unnatural factors (including disease, difficult delivery, low milk production or end of all the gestation periods), it is estimated that the overall rejection rate this year will be 5.0%~100% as increase of the gestation period (5%~100% in 2017)	It is estimated that when the rejection rate is increased, the fair value will be decreased.
		Each milkable cow has 5~6 gestation periods to the maximum extent. It is estimated that in the self-operated pastures of 5 wholly-owned subsidiaries, within each gestation period of this year, each cow will averagely produce 5.61~10.95 tons of raw milk (6.32~9.08 tons in 2017), depending on the number of times during the gestation period and the individual health status.	It is estimated that when the production volume of raw milk is increased, the fair value will be increased.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

X. FAIR VALUE DISCLOSURE (Continued)

2. Qualitative and quantitative information over the valuation technology and important parameters adopted by the evaluation on fair value of bearer biological assets (Continued)

Quantitative information over fair value measurement at Level 3 (Continued):

Category	Methods for valuation	Key unobservable input	Relationship between the key unobservable input and fair value measurement
		It is estimated in this year that the future local market price of each ton of the raw milk is RMB3,994 (RMB3,931 in 2017)	It is estimated that when the future local market price of the raw milk is increased, the fair value will be increased.
		Calculated as per the capital asset pricing model, the discount rate of this year is 11.38% (12.41% in 2017)	When the discount rate is increased, it is estimated that the fair value will be decreased.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XI. RELATED PARTIES AND RELATED TRANSACTIONS

1. Parent company of the Company

The Company has no parent company, and its ultimate controlling party is a natural person, Mr. Ma Hongfu.

2. Subsidiary of the Company

For details please refer to Note VIII, Item 1-Interest in the Subsidiaries.

3. Other related parties

Name of other related parties	Relationship between other related parties and the Company
Linxia County Ruihua Pasture Co., Ltd.	Entity under the common control of spouses of family members of the controlling shareholder, Ma Hongfu
Hu Keliang	Shareholder holding more than 5% equity in the Company in 2016

4. Related transactions

(1) Related transactions such as purchase and sales of commodities and provision and acceptance of labor service

① Purchase of commodities or acceptance of labor service

Related parties	Contents of related transactions	Amount incurred of the year	Amount incurred in the previous year
Xi'an Dongfang Diary Co., Ltd.	Commodities purchase	838,760.75	
Total		838,760.75	

② Sales of commodities or provision of labor service

Related parties	Contents of related transactions	Amount incurred of the year	Amount incurred in the previous year
Xi'an Dongfang Diary Co., Ltd.	Sales of commodities		2,599,350.00
Total			2,599,350.00

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XI. RELATED PARTIES AND RELATED TRANSACTIONS (Continued)

4. Related transactions (Continued)

(2) **Affiliated guarantee**

None

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

Item	Amount incurred of the year	Amount incurred in the previous year
Remuneration of key management personnel	2,835,436.80	2,950,915.94

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XI. RELATED PARTIES AND RELATED TRANSACTIONS (Continued)

4. Related transactions (Continued)

(4) Remuneration of directors and supervisors

Category of personnel	Amount incurred for the year				Total
	Directors and Supervisors Fees	Wages, housing subsidies, other subsidies and physical benefits	Discretionary bonus	Retirement benefits	
Executive directors					
Mr. Ma Hongfu		360,000.00			360,000.00
Mr. Wang Guofu		360,000.00			360,000.00
Mr. Chen Yuhai		364,000.00			364,000.00
Mr. Yanbin (resigned at the time of directors re-election)		120,000.00			120,000.00
Ms. Zhang Qianyu		180,000.00			180,000.00
Non-executive directors					
Mr. Ye Jiancong					
Mr. Song Xiaopeng					
Independent non-executive directors					
Ms. Liu Zhijun	27,498.00				27,498.00
Ms. Xin Shihua	4,998.00				4,998.00
Mr. Zhao Xinming	22,500.00				22,500.00
Mr. Huang Chuheng	101,569.40				101,569.40
Supervisors					
Mr. Wei Lin	27,498.00				27,498.00
Ms. Du Wei	145,853.90				145,853.90
Mr. Pan Jin					
Mr. Sun Chuang	—				
Total	329,917.30	1,384,000.00			1,713,917.30

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XI. RELATED PARTIES AND RELATED TRANSACTIONS (Continued)

5. Amounts due from/due to related parties

Items receivable

Name of item	Closing balance		Opening balance	
	Balance of carrying value	Provision for bad and doubtful debts	Balance of carrying value	Provision for bad and doubtful debts
Accounts receivable: Xi'an Dongfang Dairy Co., Ltd.			650,000.00	
Total			650,000.00	

XII. COMMITMENTS AND CONTINGENT MATTERS

(1) Capital commitments

Item	Closing balance	Opening balance
Capital commitments contracted but not recognized in the financial statement	56,872,530.10	30,479,999.95
Total	56,872,530.10	30,479,999.95

XIII. MATTERS AFTER THE DATE OF BALANCE SHEET

1. Profit distribution in 2018

On 30 January 2019, the Company held the 14th meeting of the third Board of Directors and passed through voting the Proposal on Profit Distribution in 2018. According to the resolutions adopted at the 14th meeting of the third Board of Directors, based on 187,340,000 shares as of 31 December 2018, cash dividend of RMB0.68 (tax-inclusive) for every 10 shares is issued to all shareholders with the distributable profit realized in 2018, being cash distribution of RMB12,739,120.00 in total. During this profit distribution, no bonus share is distributed, and no capital reserve is converted into the share capital.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XIII. MATTERS AFTER THE DATE OF BALANCE SHEET (Continued)

2. Changes in accounting policies

On 7 December 2018, the Ministry of Finance issued CK [2018] No. 35 Notice on Revision and Printing of Accounting Standards for Business Enterprise No. 21-Lease, requiring the enterprise concurrently listed in the country and overseas and the enterprise listed overseas and preparing the financial statements according to the internal financial report standards or accounting standards for business enterprise to implement such Notice since 1 January 2019. Based on the accumulative number of impacts by the initial implementation of these standards, the Company shall adjust the earnings retained at the beginning of the year in which these standards are initially implemented and other items contained in the financial statements, without any adjustment to the information existing during the comparable period. As for the financing lease existing on the date of initial implementation by the Group, only the assets and liabilities are changed, which will not affect the net assets, total amount of assets, total amount of liabilities and other indicators. As for the operating lease existing on the initial date of implementation by the Group, it mainly refers to the land of leasing farmers, the usage right assets and lease liabilities are recognized according to the new standards, and such change will not significantly affect the Company's financial statements.

3. Changes in accounting estimates

On 2 January 2019, the Company held the 13th meeting of the 3rd Board of Directors and the 8th meeting of the 3rd Board of Supervisors and passed the Proposal on Change in Accounting Estimates for the Depreciation Life of Fixed Assets that would be implemented since 1 January 2019. In order to better fairly reflect the Group's financial status and operating results, after the review of service life of newly built house building, the depreciation life of such newly built houses and buildings is identified as 50 years, therefore, the accounting policy shall change from 30 years to 30~50 years. According to the Accounting Standards for Business Enterprises No. 28-Change in Accounting Policies and Accounting Estimates and Errors Correction, the perspective method is applicable to such change in accounting estimates, without any impacts on the financial status, operating results and cash flow of the previous years and any traceable adjustment to the financial data disclosed.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XIV. OTHER IMPORTANT MATTERS

1. Segment reporting

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

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

(1) Profit or loss, assets and liabilities of reportable segments

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

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

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XIV. OTHER IMPORTANT MATTERS (Continued)

1. Segment reporting (Continued)

(1) Profit or loss, assets and liabilities of reportable segments (Continued)

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

Item	Dairy farming Segment		Dairy Products Production Segment		Elimination among Segments		Total	
	Incurring in the year	Incurring in previous year	Incurring in the year	Incurring in previous year	Incurring in the year	Incurring in previous year	Incurring in the year	Incurring in previous year
Operating income from external customers	21,997,241.20	43,763,453.60	635,734,855.82	584,610,583.61			657,732,097.02	628,374,037.21
Inter-segment operating income	143,146,813.40	145,728,587.48	9,288,680.53	134,237.22	-152,435,493.93	-145,862,824.70	—	
Depreciation and amortization	15,029,166.14	14,705,872.08	27,847,658.82	29,724,131.56			42,876,824.96	44,430,003.64
Interests income	477,020.70	693,801.83	3,064,003.10	1,569,326.35			3,541,023.80	2,263,128.18
Interests expense	121,061.50		23,434,684.30	11,144,643.93			23,555,745.80	11,144,643.93
Total amount of profit/(losses)	26,125,425.17	35,769,134.70	39,059,384.10	35,286,753.96			65,184,809.27	71,055,888.66
Income tax expense			1,651,647.09	2,704,003.49			1,651,647.09	2,704,003.49
Net profit/(losses)	26,125,425.17	35,769,134.70	37,407,737.01	32,582,750.47			63,533,162.18	68,351,885.17
Total assets	732,378,926.01	689,158,133.96	1,866,161,393.28	1,556,154,458.20	-550,431,277.91	-441,594,891.57	2,048,109,041.38	1,803,717,700.59
Total liabilities	757,550,058.73	474,006,442.08	656,583,527.44	643,640,955.36	-550,431,277.91	-441,594,891.57	863,702,308.26	676,052,505.87
Other items								
Additions on non-current assets	324,822,456.62	28,300,531.32	234,030,930.32	15,806,586.44			558,853,386.94	44,107,117.76

(2) Geographic information

As the Company's revenue is derived from customers located in the Mainland of China and non-current assets are mainly taken from and wholly located in Mainland China and all the branches are managed on a national basis due to their similar customer classifications or classification and similar regulatory environment in all regions, no information has been provided to the management of the Group by geographical area in mainland China.

(3) Major customers

In 2018 and 2017, there is no case in which revenue to a single customer exceeds 10% of the total revenue of the Company.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XIV. OTHER IMPORTANT MATTERS (Continued)

2. Draft restricted share incentive plan

On 28 September 2018, the Company held the 10th meeting of the 3rd Board of Directors and passed the Proposal on 2018 Restricted Share Incentive Plan (Draft) of Lanzhou Zhuangyuan Pasture Co., Ltd. and Its Summary, Proposal on Measures for the Administration of Assessment on 2018 Restricted Share Incentive Plan of Lanzhou Zhuangyuan Pasture Co., Ltd., Proposal on Applying the Board of Shareholders to Authorize the Board of Directors to Deal with the Equity Incentive Issues and the Proposal on Holding the Group's 3rd Extraordinary Shareholders' Meeting in 2018; and on the same day, the Group held the 6th meeting of the 3rd Board of Supervisors and passed the Proposal on 2018 Restricted Share Incentive Plan (Draft) of Lanzhou Zhuangyuan Pasture Co., Ltd. and Its Summary, Proposal on Measures for the Administration of Assessment on 2018 Restricted Share Incentive Plan of Lanzhou Zhuangyuan Pasture Co., Ltd. and the Proposal on Review of List of Incentive Objects of the Group's 2018 Restricted Share Incentive Plan; as of the date of issuance of this report, such equity incentive plan is to be discussed by the Board of Shareholders.

3. There exists uncompleted policy relocation in the subsidiary

On 13 March 2018, according to NZF [2016] No. 77 Notice on the 13th Five-year Plan for Ningxia Ecological Protection and Construction issued by Ningxia Autonomous Region, Ningxia Zhuangyuan Pasture Co., Ltd. as the Company's wholly-owned subsidiary was listed in the livestock and poultry farming prohibited area and required for relocation. The Financial Bureau of Litong District, Wuzhong City entrusted certain evaluation agency to conduct an evaluation on the tangible assets involved in the relocation of Ningxia Zhuangyuan Pasture Co. Ltd, but the Group considered the evaluation report contained omission and incorrect evaluation, adopts lower evaluation standards and implemented illegal procedures and thus required for re-evaluation. In August 2018, the Group submitted to the Financial Bureau of Litong District, Wuzhong City the Letter of Communication about Policy Relocation of Ningxia Zhuangyuan Pasture Co., Ltd. Upon receipt of the Group's objection application and letter of communication, the Financial Bureau of Litong District, Wuzhong City has already organized re-evaluation, but until now no re-evaluation results have been issued.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Bills receivable and accounts receivable

Item	Closing balance	Opening balance
Bills receivable	200,000.00	—
Accounts receivable	23,220,606.04	17,719,619.46
Total	23,420,606.04	17,719,619.46

(1) Bills receivable

Item	Closing balance	Opening balance
Bank acceptance bill	200,000.00	
Total	200,000.00	

① Category of bills receivable

Category	Closing balance				Carrying value
	Balance of carrying value		Provision for bad and doubtful debts		
	Amount	Percentage (%)	Amount	Percentage of provisions (%)	
Bills receivable with single provision for bad and doubtful debts					
Bills receivable with provision for bad and doubtful debts on a group basis	200,000.00	100.00			
Total	200,000.00	100.00			

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

1. Bills receivable and accounts receivable (Continued)

(2) Accounts receivable

① Category of accounts receivable

Category	Closing balance				
	Balance of carrying value		Provision for bad and doubtful debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provisions (%)	
Accounts receivable with single provision for bad and doubtful debts					
Accounts receivable with provision for bad and doubtful debts on a group basis	23,250,323.51	100.00	29,717.47	0.13	23,220,606.04
Total	23,250,323.51	100.00	29,717.47	0.13	23,220,606.04

Category	Opening balance				
	Balance of carrying value		Provision for bad and doubtful debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provisions (%)	
Accounts receivable with single provision for bad and doubtful debts					
Accounts receivable with provision for bad and doubtful debts on a group basis	17,810,134.19	100.00	90,514.73	0.51	17,719,619.46
Total	17,810,134.19	100.00	90,514.73	0.51	17,719,619.46

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

1. Bills receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

① *Category of accounts receivable* (Continued)

A. *Accounts receivable with provision for bad and doubtful debts on a group basis*

Ageing	Closing balance	
	Accounts receivable	Provision for bad and doubtful debts
Within 1 year	23,101,736.18	
Over 1 year but within 2 years	148,587.33	29,717.47
Over 2 years but within 3 years		
Over 3 years		
Total	23,250,323.51	29,717.47

② *Accounts receivable with provision for bad and doubtful debts*

Item	Opening balance	Povisions of the year	Recoveries or Reversals of the year	Closing balance
Accounts receivable	90,514.73		60,797.26	29,717.47
Total	90,514.73		60,797.26	29,717.47

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

1. Bills receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

③ *Accounts receivable of top 5 balances at the end of the year as gathered based on the parties in arrear*

Name of entity	Nature of amount	Closing balance	Ageing	Percentage of total closing balance of the accounts receivable (%)	Closing balance of the provision for bad and doubtful debts
Customer 1	Payment	6,606,918.32	Within 1 year	28.42	
Customer 2	Payment	2,831,595.70	Within 1 year	12.18	
Customer 3	Payment	2,314,082.52	Within 1 year	9.95	
Customer 4	Payment	2,106,770.22	Within 1 year	9.06	
Customer 5	Payment	1,112,563.65	Within 1 year	4.79	
Total		14,971,930.41		64.40	

2. Other receivables

(1) Other receivables

Item	Closing balance	Opening balance
Other receivables	493,110,386.83	394,958,085.86
Total	493,110,386.83	394,958,085.86

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

2. Other receivables (Continued)

(1) Other receivables (Continued)

① Category of other receivables

Category	Closing balance				
	Book balance		Provision for bad and doubtful debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Other receivables with single provision for bad and doubtful debts	483,306.82	0.10	483,306.82	100.00	
Other receivables with provision for bad and doubtful debts on a group basis	493,123,724.19	99.90	13,337.36	0.00	493,110,386.83
Total	493,607,031.01	100.00	496,644.18	0.10	493,110,386.83

Category	Opening balance				
	Book balance		Provision for bad and doubtful debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Other receivables with single provision for bad and doubtful debts	446,100.00	0.11	346,795.00	77.74	99,305.00
Other receivables with provision for bad and doubtful debts on a group basis	394,929,106.10	99.89	70,325.24	0.02	394,858,780.86
Total	395,375,206.10	100.00	417,120.24	0.11	394,958,085.86

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

2. Other receivables (Continued)

(1) Other receivables (Continued)

① Category of other receivables (Continued)

A. Other receivables with single provision for bad and doubtful debts at the end of the year

Other receivables (as per the Unit)	Closing balance			Reasons for provision
	Other receivables	Provision for bad and doubtful debts	Percentage of provision (%)	
Lv Jihui	258,306.82	258,306.82	100.00	Cow purchase payment prepaid, while the creditor's rights have not been fully repaid, cows may be only resold to others, and it is unable to pay the amount in arrears, so a lawsuit has been filed by the Group
Gansu Weiyalong Company	200,000.00	200,000.00	100.00	Unrecoverable
Lanzhou Pulantai Electric Light Source Co., Ltd.	25,000.00	25,000.00	100.00	Unrecoverable
Total	483,306.82	483,306.82	—	—

B. Other receivables with provision for bad and doubtful debts on a group basis

Ageing	Closing balance	
	Other receivables	Provision for bad and doubtful debts
Within 1 year	493,057,037.40	
Over 1 year but within 2 years	66,686.79	13,337.36
Over 2 years but within 3 years		
Over 3 years		
Total	493,123,724.19	13,337.36

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

2. Other receivables (Continued)

(1) Other receivables (Continued)

② Other receivables with provision for bad and doubtful debts

Item	Opening balance	Provision of the year	Recoveries or Reversals of the year	Closing balance
Other receivables	417,120.24	79,523.94		496,644.18
Total	417,120.24	79,523.94		496,644.18

③ Category of other receivables based on the nature of amount

Nature of Amount	Closing balance of carrying value	Opening balance of carrying value
Receivable from subsidiaries	488,267,213.50	391,809,816.88
Loans borrowed by employees	1,064,830.76	794,835.99
Deposit receivable from the third parties	958,452.00	732,235.00
Others	2,819,890.57	1,621,197.99
Total	493,110,386.83	394,958,085.86

④ Other receivables of top 5 balances at the end of the year as gathered based on the parties in arrear

Name of entity	Nature of amount	Closing balance	Ageing	Percentage of total closing balance of other receivables (%)	Closing balance of provision for bad and doubtful debts
Linxia County Ruiyuan Pasture Co., Ltd.	Current accounts	93,006,140.18	Within 1 year	18.84	
Qinghai Shengya Plateau Pasture Co., Ltd.	Current accounts	82,802,757.96	Within 1 year	16.78	
Lanzhou Ruixing Animal Husbandry Co., Ltd.	Current accounts	77,640,986.69	Within 1 year	15.73	
Yuzhou Ruifeng Pasture Co., Ltd.	Current accounts	64,084,961.65	Within 1 year	12.98	
Qinghai Shengyuan Pasture Co., Ltd.	Current accounts	37,335,149.61	Within 1 year	7.56	
Total		354,869,996.09		71.89	

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

3. Long-term equity investment

(1) Category of long-term equity investment

Item	Closing balance			Opening balance		
	Balance of carrying value	Provision for impairment	Carrying value	Balance of carrying value	Provision for impairment	Carrying value
Investment in subsidiaries	524,788,965.98		524,788,965.98	233,013,711.60		233,013,711.60
Total	524,788,965.98		524,788,965.98	233,013,711.60		233,013,711.60

(2) Investment in subsidiaries

Invested Entity	Opening balance	Increase of the year	Decrease of the year	Closing balance	Provision for impairment of the year	Closing balance of impairment provision
Qinghai Qinghai Lake Dairy Co., Ltd.	53,013,711.60			53,013,711.60		
Qinghai Shengya Plateau Pasture Co., Ltd.	30,000,000.00			30,000,000.00		
Qinghai Shengyuan Pasture Co., Ltd.	30,000,000.00			30,000,000.00		
Linxia Ruiyuan Pasture Co., Ltd.	30,000,000.00			30,000,000.00		
Yuzhong Ruiifeng Pasture Co., Ltd.	20,000,000.00			20,000,000.00		
Linxia County Rui'an Pasture Co., Ltd.	20,000,000.00			20,000,000.00		
Wuwei Ruida Pasture Co., Ltd.	20,000,000.00			20,000,000.00		
Ningxia Zhuangyuan Pasture Co., Ltd.	20,000,000.00			20,000,000.00		
Lanzhou Ruixing Pasture Co., Ltd.	10,000,000.00			10,000,000.00		
Gansu Ruijia Animal Husbandry Co., Ltd.		1,000,000.00		1,000,000.00		
Xi'an Dongfang Dairy Co., Ltd.		290,775,254.38		290,775,254.38		
Total	233,013,711.60	291,775,254.38		524,788,965.98		

4. Operating income and operation costs

Category	Incurred in the year		Incurred in previous year	
	Income	Cost	Income	Cost
Principal business	480,311,042.50	328,877,300.27	438,098,110.25	313,876,093.04
Other business	1,713,697.89	1,154,952.89	2,714,218.03	1,286,709.99
Total	482,024,740.39	330,032,253.16	440,812,328.28	315,162,803.03

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XVI. SUPPORTING INFORMATION

1. Statement of non-recurring profit or loss of the year

Item	Amount	Remarks
Profit or loss from disposal of non-current assets	1,568,012.16	
Government grants for return, exemption and discharge of taxes exceeding the approval, or without formal approval or incidentally incurred as included in profit or loss of the period, however, except for those which are closely related to the enterprise's normal business, comply with the policies of the State and are continuously entitled with specific amount or quantity according to certain standards	14,222,730.26	Mainly the government grants received by the Company
Funds occupation fees included in profit or loss over the current period and charged from non-financial enterprises		
Profit or loss when the investment cost of the enterprise for the purpose of acquisition of the subsidiaries, joint operation and joint ventures is lower than the fair value of net identifiable assets of the invested entity as entitled at the time of receipt of the investment		
Profit or loss from exchange of non-monetary assets		
Profit or loss from investment or management of assets by the others		
Accrued asset impairment loss due to force majeure factors, such as natural disasters		
Profit or loss from debts restructuring		
Enterprise restructuring fees, such as the expenses for employees settlement and the integration fees		
Profit or loss exceeding the fair value and generated from the transaction of which the transaction price is obviously unfair		
Net profit or loss over the current period of the subsidiaries generated from business combination under the same control from the beginning of the year to the date of consolidation		
Profit or loss from contingent issues irrelevant to the Group's normal business		

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XVI. SUPPORTING INFORMATION (Continued)

1. Statement of non-recurring profit or loss of the year (Continued)

Item	Amount	Remarks
Except for the efficient hedging related to the Company's normal business, profit or loss from changes in fair value as generated from financial assets held-for-trading and financial liabilities held-for-trading and profit or loss from investment arising from disposal of financial assets held-for-trading, financial liabilities held-for-trading and available-for-sale financial assets		
Reversals of accounts receivable with single provision for impairment under the impairment test		
Profit or loss from entrusted loans		
Profit or loss from changes in fair value of the investment property that is subsequently measured according to the fair value mode		
Impacts on profit or loss over the current period by the one-time adjustments to profit or loss over the current period under the tax, accounting and other laws and regulations		
Trusteeship fees income from entrusted operation		
Other non-operating income and expenses other than the aforesaid	-1,647,612.42	Mainly profit or loss from the Company's disposal of wastes or the donation
Other profit or loss items as defined by the non-recurring profit or loss		
Sub-total	14,143,130.00	
Less: amount of impacts on income tax	1,265,769.07	
Amount of impacts on minority shareholders' equity (after tax)		
Total	12,877,360.93	

Note: As for the figures in the non-recurring profit or loss column, "+" represents the gains and income, "-" represents the loss or expense.

The Group recognizes non-recurring profit or loss items according to the Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public-Non-recurring Gains and Losses (ZJHGG [2008] No. 43).

Notes to the Financial Statements (Continued)

(Expressed in Renminbi Yuan unless otherwise indicated)

XVI. SUPPORTING INFORMATION (Continued)

2. Rate of return on net assets and earnings per share

Profit during the report period	Rate of return on weighted average net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary shareholders	5.46	0.34	0.34
Net profit attributable to the ordinary shareholders after a deduction of non-recurring profit or loss	4.36	0.27	0.27

Financial Summary

Financial summary of audited financial statements of the Group for the respective years are set out below.

	Years ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Operating income	657,732	628,374	665,823	626,153	598,181
Profit for the year	63,533	68,352	75,910	73,246	65,409
Attributable to equity shareholders of the Company	63,533	68,352	75,910	73,246	65,409
Earnings per share (RMB) ⁽¹⁾	0.34	0.46	0.54	0.65	0.62
Proposed dividend per share (RMB)	6.80 cents	7.30 cents	7.42 cents	7.12 cents	—
Total assets	2,048,109	1,803,718	1,341,588	1,340,782	1,201,489
Total liabilities	863,702	676,053	581,353	646,454	706,074
Total equity attributable to equity shareholders of the Company	1,184,407	1,127,665	760,235	694,328	495,415

(1) Please refer to Note VI. 42 on page 153 for calculation of earnings per share.