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CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED
中國中地乳業控股有限公司

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

(Stock code: 1492)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	For the year ended 31 December			
	2017		2016	
	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000
Revenue	1,134,282	1,134,282	961,934	961,934
Gross profit margin	34.7%	3.8%	33.7%	2.5%
Profit attributable to owners of the parent	193,569	13,377	227,982	112,800
Basic and diluted earnings per share (RMB cents)		0.6		5.2

- Revenue increased by 17.9% as compared to 2016.
- Profit before and after biological fair value adjustments decreased by 15.1% and 88.1% as compared to the corresponding period of 2016.

The board (the “**Board**”) of directors (the “**Directors**”) of China ZhongDi Dairy Holdings Company Limited (the “**Company**”, together with its subsidiaries, collectively referred to as the “**Group**”) hereby announces the results of the Group for the year ended 31 December 2017 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2016, the details of which are set out as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December					
		2017			2016		
		Results before biological fair value adjustments	Biological fair value adjustments	Total	Results before biological fair value adjustments	Biological fair value adjustments	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	5	1,134,282	—	1,134,282	961,934	—	961,934
Cost of sales	6	(741,123)	(350,303)	(1,091,426)	(637,770)	(300,144)	(937,914)
Gross profit		393,159	(350,303)	42,856	324,164	(300,144)	24,020
Losses arising from changes in fair value less costs to sell of biological assets		—	(176,016)	(176,016)	—	(106,207)	(106,207)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		—	346,127	346,127	—	291,169	291,169
Other income	5	34,975	—	34,975	32,547	—	32,547
Other gains and losses	5	(12,300)	—	(12,300)	12,488	—	12,488
Distribution costs		(46,916)	—	(46,916)	(25,726)	—	(25,726)
Administrative expenses		(71,473)	—	(71,473)	(79,494)	—	(79,494)
Other expenses		(394)	—	(394)	(1,147)	—	(1,147)
Finance costs	7	(103,482)	—	(103,482)	(34,850)	—	(34,850)
PROFIT BEFORE TAX	6	193,569	(180,192)	13,377	227,982	(115,182)	112,800
Income tax expenses	8	—	—	—	—	—	—
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		193,569	(180,192)	13,377	227,982	(115,182)	112,800
Profit and total comprehensive income attributable to owners of the parent		193,569	(180,192)	13,377	227,982	(115,182)	112,800
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:							
– Basic and diluted (RMB cents)	10			0.6			5.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	<i>Notes</i>	2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,810,887	1,760,031
Prepayments		26,048	6,762
Pledged deposits		14,646	—
Prepaid land lease payments		87,600	91,373
Biological assets	11	1,601,330	1,413,400
Total non-current assets		3,540,511	3,271,566
CURRENT ASSETS			
Inventories		320,299	286,628
Trade and other receivables	12	148,413	111,480
Prepaid land lease payments		3,787	3,984
Biological assets	11	780	45,480
Pledged bank deposits		8,552	20,030
Cash and bank balances		391,508	428,198
Total current assets		873,339	895,800
CURRENT LIABILITIES			
Trade and other payables	13	622,459	722,306
Interest-bearing bank and other borrowings	14	1,087,158	930,025
Total current liabilities		1,709,617	1,652,331
NET CURRENT LIABILITIES		(836,278)	(756,531)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,704,233	2,515,035
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	634,084	460,250
Deferred income		31,376	29,389
Total non-current liabilities		665,460	489,639
Net assets		2,038,773	2,025,396
EQUITY			
Equity attributable to owners of the parent			
Share capital		135	135
Share premium and reserves		2,038,638	2,025,261
Total equity		2,038,773	2,025,396

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

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

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

2.1 BASIS OF PRESENTATION

The Group had net current liabilities of RMB836,278,000 as at 31 December 2017. In view of the net current liabilities position, the board of Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

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

2.2 BASIS OF PREPARATION

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

Basis of consolidation

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

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of disclosure requirements in IFRS 12</i>

Other than as explained below regarding the impact of amendments to IAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

4. SEGMENT INFORMATION

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

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

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

Segment results exclude fair value adjustments of biological assets and agricultural produce held by the Group at the end of each reporting period, finance costs and head office and corporate expenses.

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

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

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

Year ended 31 December 2017

	Dairy farming business RMB'000	Import trading business RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,033,286	100,996	1,134,282
Intersegment sales	—	46,308	46,308
	<hr/>	<hr/>	<hr/>
	1,033,286	147,304	1,180,590
<i>Reconciliation:</i>			
Elimination of intersegment sales			(46,308)
Revenue			<hr/> <u>1,134,282</u>
Segment results	157,134	773	157,907
<i>Reconciliation:</i>			
Fair value adjustments of biological assets			1,110
Elimination of intersegment results			(2,790)
Finance costs			(103,482)
Corporate and other unallocated expenses			(39,368)
			<hr/>
Profit before tax			<hr/> <u>13,377</u>
Segment assets	4,386,382	275,224	4,661,606
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(517,585)	(41,486)	(559,071)
	<hr/>	<hr/>	<hr/>
	3,868,797	233,738	4,102,535
Fair value adjustments of biological assets			220,394
Corporate and other unallocated assets			90,921
			<hr/>
Total assets			<hr/> <u>4,413,850</u>
Segment liabilities	689,615	498,667	1,188,282
<i>Reconciliation:</i>			
Elimination of intersegment payables	(59,470)	(480,713)	(540,183)
	<hr/>	<hr/>	<hr/>
	630,145	17,954	648,099
Borrowings			1,721,242
Corporate and other unallocated liabilities			5,736
			<hr/>
Total liabilities			<hr/> <u>2,375,077</u>

Year ended 31 December 2016

	Dairy farming business <i>RMB'000</i>	Import trading business <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue			
Sales to external customers	856,216	105,718	961,934
Intersegment sales	—	102,013	102,013
	<hr/>	<hr/>	<hr/>
	856,216	207,731	1,063,947
<u>Reconciliation:</u>			
Elimination of intersegment sales			<hr/> (102,013) <hr/>
Revenue			<hr/> <u>961,934</u> <hr/>
Segment results	122,431	27,455	149,886
<u>Reconciliation:</u>			
Fair value adjustments of biological assets			41,850
Elimination of intersegment results			(18,927)
Finance costs			(34,850)
Corporate and other unallocated expenses			<hr/> (25,159) <hr/>
Profit before tax			<hr/> <u>112,800</u> <hr/>
Segment assets	3,996,294	735,138	4,731,432
<u>Reconciliation:</u>			
Elimination of intersegment receivables	<hr/> (554,126) <hr/>	<hr/> (315,066) <hr/>	<hr/> (869,192) <hr/>
	3,442,168	420,072	3,862,240
Fair value adjustments of biological assets			232,284
Corporate and other unallocated assets			<hr/> 72,842 <hr/>
Total assets			<hr/> <u>4,167,366</u> <hr/>
Segment liabilities	935,651	679,319	1,614,970
<u>Reconciliation:</u>			
Elimination of intersegment payables	<hr/> (315,066) <hr/>	<hr/> (554,126) <hr/>	<hr/> (869,192) <hr/>
	620,585	125,193	745,778
Borrowings			1,390,275
Corporate and other unallocated liabilities			<hr/> 5,917 <hr/>
Total liabilities			<hr/> <u>2,141,970</u> <hr/>

5. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

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

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue from sales of		
– Raw milk	1,033,286	856,216
– Cows held for sale	99,755	84,524
– Alfalfa	—	16,771
Revenue from rendering of services		
– Import agency services	1,241	4,423
	<u>1,134,282</u>	<u>961,934</u>
Other income		
Government grants related to		
– Biological assets	—	13,491
– Other assets	2,674	2,303
	<u>2,674</u>	15,794
– Income	24,688	13,262
	<u>27,362</u>	29,056
Interest income	6,371	707
Others	1,242	2,784
	<u>34,975</u>	<u>32,547</u>
Other gains and losses		
– Loss on disposal of items of property, plant and equipment	(48)	(206)
– Exchange (loss)/gain, net	(11,385)	12,777
– Others	(867)	(83)
	<u>(12,300)</u>	<u>12,488</u>

6. PROFIT BEFORE TAX

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cost of sales		
Cost of sales of raw milk	991,503	837,222
Cost of sales of cows held for sale	99,755	84,524
Costs related to the trading of alfalfa and others	168	16,168
	<u>1,091,426</u>	<u>937,914</u>
Staff costs (including the directors' emoluments)		
Salaries, bonuses and allowances	97,653	101,414
Contributions to a retirement benefit scheme	8,874	7,366
	<u>106,527</u>	<u>108,780</u>
Less: Capitalised in biological assets	(40,236)	(32,893)
	<u>66,291</u>	<u>75,887</u>
Depreciation and recognition of lease expenses		
Depreciation charged to profit	47,542	32,949
	<u>19,026</u>	<u>16,145</u>
Prepaid land lease payments charged to profit		
	<u>3,391</u>	<u>3,391</u>
Office rental expenses		
	<u>2,350</u>	<u>2,300</u>
Other items		
Auditors' remuneration	2,350	2,300

7. FINANCE COSTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on borrowings	104,472	57,751
Less: Interest capitalised	<u>(990)</u>	<u>(22,901)</u>
	<u>103,482</u>	<u>34,850</u>

8. INCOME TAX EXPENSES

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

	2017		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	<u>13,377</u>		<u>112,800</u>	
Tax at corporate income tax rate of 25%	3,344	25.0	28,200	25.0
Effect of items that are not deductible in determining taxable profit	45,679	341.5	28,820	25.5
Effect of losses incurred for agricultural business	10,067	75.3	1,655	1.5
Tax losses not recognised	3,129	23.4	1,328	1.2
Effect of tax exemption granted to agricultural operations	<u>(62,219)</u>	<u>(465.2)</u>	<u>(60,003)</u>	<u>(53.2)</u>
Income tax expenses	<u>—</u>	<u>0.0</u>	<u>—</u>	<u>0.0</u>

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

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

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

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

9. DIVIDEND

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

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

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

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>13,377</u>	<u>112,800</u>
Number of shares		
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year	<u>2,174,078,000</u>	<u>2,174,065,000</u>

11. BIOLOGICAL ASSETS

A - Nature of activities

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

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

	2017	2016
	<i>Heads</i>	<i>Heads</i>
Cows held for sale	52	3,445
Milkable cows	33,797	26,316
Heifers and calves	30,403	28,947
	<u>64,252</u>	<u>58,708</u>

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

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

B - Value of biological assets

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

	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Total RMB'000
At 1 January 2017	555,600	857,800	45,480	1,458,880
Purchase cost	484	—	28,925	29,409
Feeding cost	465,809	—	12,477	478,286
Transfer	(451,330)	451,330	—	—
Decrease due to disposal/death	(31,751)	(56,943)	—	(88,694)
Gains/(losses) arising from changes in fair value less costs to sell of biological assets	(11,922)	(177,747)	13,653	(176,016)
Transfer out upon selling	—	—	(99,755)	(99,755)
	<u>526,890</u>	<u>1,074,440</u>	<u>780</u>	<u>1,602,110</u>
At 31 December 2017				
Represented by:				
Current portion	—	—	780	780
Non-current portion	526,890	1,074,440	—	1,601,330
	<u>526,890</u>	<u>1,074,440</u>	<u>780</u>	<u>1,602,110</u>
Total				
	<u>526,890</u>	<u>1,074,440</u>	<u>780</u>	<u>1,602,110</u>
	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Total RMB'000
At 1 January 2016	502,700	682,840	45,586	1,231,126
Purchase cost	56,003	—	59,544	115,547
Feeding cost	361,080	—	11,841	372,921
Transfer	(416,334)	416,334	—	—
Decrease due to disposal/death	(25,920)	(44,063)	—	(69,983)
Gains/(losses) arising from changes in fair value less costs to sell of biological assets	78,071	(197,311)	13,033	(106,207)
Transfer out upon selling	—	—	(84,524)	(84,524)
	<u>555,600</u>	<u>857,800</u>	<u>45,480</u>	<u>1,458,880</u>
At 31 December 2016				
Represented by:				
Current portion	—	—	45,480	45,480
Non-current portion	555,600	857,800	—	1,413,400
	<u>555,600</u>	<u>857,800</u>	<u>45,480</u>	<u>1,458,880</u>
Total				
	<u>555,600</u>	<u>857,800</u>	<u>45,480</u>	<u>1,458,880</u>

The directors have engaged an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, to assist the Group in assessing the fair values of Group's biological assets. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly.

As at 31 December 2017, the Group pledged its dairy cows of approximately RMB73,500,000 (2016: RMB173,500,000) to a bank and approximately RMB586,989,000 (2016: RMB166,983,000) to third parties to secure certain of the Group's borrowings (note 14).

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	<u>346,127</u>	<u>291,169</u>

12. TRADE AND OTHER RECEIVABLES

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables:		
– 0 to 30 days	18,093	75,528
– 31 to 90 days	89,297	2,401
– 91 to 180 days	—	—
– Over 181 days	—	45
	<u>107,390</u>	<u>77,974</u>
Other receivables:		
– Advances to suppliers	20,277	30,108
– Others	20,746	3,398
	<u>41,023</u>	<u>33,506</u>
	<u>148,413</u>	<u>111,480</u>

13. TRADE AND OTHER PAYABLES

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade and bills payables:		
– 0 to 90 days	328,845	230,077
– 91 to 180 days	69,126	25,652
– Over 181 days	21,015	10,871
	<u>418,986</u>	<u>266,600</u>
Payable for acquisition of items of property, plant and equipment and office rental		
– related party suppliers*	—	258,900
– independent third party suppliers*	160,208	25,454
Advances from customers	8,172	110,237
Advances from agency customers	1,057	8,563
Accrued staff costs	15,611	19,153
Land lease payables	3,324	16,855
Interest payables	2,754	3,027
Deposits	7,812	8,676
Others	4,535	4,841
	<u>203,473</u>	<u>455,706</u>
	<u><u>622,459</u></u>	<u><u>722,306</u></u>

* Beijing Urban Construction Engineering Co., Ltd. is no longer a related party of the Group and therefore the outstanding amount due to Beijing Urban Construction Engineering Co., Ltd. as of 31 December 2017 was reclassified to payable for acquisition of items of property, plant and equipment and office rental to independent third party suppliers.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

		2017		2016	
	Notes	Maturity	RMB'000	Maturity	RMB'000
Current					
Unsecured bank borrowings		2018	881,469	2017	837,263
Guaranteed and unsecured bank borrowings	(i) (a)	2018	—	2017	304
Secured bank borrowings	(i) (b)	2018	47,000	2017	42,000
Secured other borrowings	(i) (c)	2018	140,821	2017	458
Guaranteed and secured bank borrowings	(i) (d)	2018	496	2017	50,000
Guaranteed and secured other borrowings	(i) (e)	2018	17,372	2017	—
			<u>1,087,158</u>		<u>930,025</u>
Non-current					
Unsecured bank borrowings		2019-2021	90,000	2018-2021	337,000
Secured bank borrowings	(i) (b)	2019	15,000	2019	27,000
Secured other borrowings	(i) (c)	2019	292,628	2019	96,250
Guaranteed and secured bank borrowings	(i) (d)	2019-2025	199,504		—
Guaranteed and secured other borrowings	(i) (e)	2019-2020	36,952		—
			<u>634,084</u>		<u>460,250</u>
			<u>1,721,242</u>		<u>1,390,275</u>
Analysed into:					
Bank and other borrowings repayable:					
Within one year			1,087,158		930,025
In the second year			295,182		283,063
In the third to fifth years, inclusive			252,924		177,187
Over five years			85,978		—
			<u>1,721,242</u>		<u>1,390,275</u>
Bank and other borrowings comprise:					
Fixed-rate bank and other borrowings			571,470		859,007
Variable-rate bank borrowings			1,149,772		531,268
			<u>1,721,242</u>		<u>1,390,275</u>

Notes:

- (i) (a) As at 31 December 2017, no bank borrowing (2016: RMB304,000) was guaranteed by Beijing Agriculture Guaranty Co., Ltd., an independent third party;
- (b) As at 31 December 2017, bank borrowings of RMB62,000,000 (2016: RMB69,458,000) were secured by prepaid land lease payments of RMB7,622,000 (2016: RMB4,791,000) and dairy cows of RMB73,500,000 (2016: RMB73,500,000);
- (c) As at 31 December 2017, other borrowings of RMB433,449,000 (2016: RMB96,250,000) were secured by dairy cows of RMB586,989,000 (2016: RMB166,983,000), trade receivables of the Group with an aggregate carrying amount of RMB8,387,000 (2016: Nil) and pledge of certain of the Group's deposits amounting to approximately RMB11,000,000, with present value of RMB9,942,000 (2016: Nil);
- (d) As at 31 December 2017, bank borrowings of RMB200,000,000 (2016: RMB50,000,000) were guaranteed by China United SME Guarantee Corporation Company, an independent third party and secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB199,882,000. In January 2017, the Group repaid the bank loan of RMB50,000,000 outstanding as at 31 December 2016 which was guaranteed by ZhongDi Genetics & Seeds Co., Ltd. ("ZhongDi Seeds"), a related party and secured by dairy cows of the Group of RMB100,000,000;
- (e) As at 31 December 2017, other borrowings of RMB54,324,000 (2016: Nil) was secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB147,269,000 (2016: Nil), prepayment for non-current assets of the Group of RMB2,603,000 and pledge of certain of the Group's deposits amounting to approximately RMB5,400,000, with present value of RMB4,704,000 (2016: Nil), and guaranteed by Mr. Zhang Jianshe.
- (ii) As at 31 December 2017, the contracted interest rates of the above bank and other borrowings ranged from 4.05% to 8.50% (2016: 2.09% to 8.50%).
- (iii) The Group's bank and other borrowings were denominated in the following currencies:

	2017	2016
	RMB'000	RMB'000
EUR	11,470	—
USD	—	42,853
RMB	1,709,772	1,347,422
	<u>1,721,242</u>	<u>1,390,275</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Milk prices in the international market began to recover slowly in June 2016. Till now, the upward momentum is maintained. On supply-side, the global raw milk production volume resumed growth since March 2017, mainly due to the mild climate in New Zealand and Australia during the milk production season and the EU's slight production expansion. On demand-side, with the global economic recovery, the global demand for dairy products gradually increased. In 2017, the average import price of whole milk powder in the PRC was US\$3,282/tonne, 27.3% higher than last year.

Domestic raw milk prices in the PRC were primarily stable in 2017. In respect of supply, reduction in excess production capacity in the dairy farming industry continued and some small farms were forced to withdraw from the market because of the increasing operation pressure. Moreover, many small farms situated in surrounding areas of large cities were closed for stricter environmental policies imposed by the PRC government. On the other hand, there is still huge room for further development in the domestic dairy product market of the PRC. Whole milk powder import for the country amounted to 470,000 tonnes in 2017, which was 12.0% higher than previous year, indicating an insufficient supply. In respect of demand, as the PRC's economy continues to grow steadily and the standard of living keeps on improving, consumption on dairy products is still on a fast growth track. In the future, the consumption on dairy products will continue to maintain a steady growth as a result of further urbanization, consumption upgrade, change in consumption habits on dairy products and the gradual realization of benefits derived from the two-child policy. According to Euromonitor's data, the real compound annual growth rate of dairy products sales in the PRC from 2011 to 2016 was 7.3% and it is expected the growth rate will be about 5.3% between 2016 and 2021. In short, a slow and steady growth will be maintained for a long time.

The PRC's government spared no effort to further and promote the structural reform on supply side of the dairy industry and the thriving of the industry as shown below.

- On 8 February 2017, Ministry of Agriculture held a symposium for the promotion of the dairy industry. At the meeting, it was proposed that China would implement the “five major actions” to modernize the dairy industry: planting good grass by protection of high quality pastures; raising good cows by healthy dairy farming operations; production of high quality milk by commencement of quality control initiatives; creating brands by launching brand-building campaigns in the dairy industry; and creating a good image for the dairy industry by promotion of “Milk Action to Build a Well-off Society in China” (中國小康牛奶行動).
- During the fifth session of the 12th National People's Congress convened at the Great Hall of the People in March 2017, Minister of Agriculture Han Changfu (韓長賦) pointed out that the dairy industry was a concern of the whole society and a well-off society must have its own dairy industry. It was elaborated that a nation of over billion people should not live without their own dairy industry and Ministry of Agriculture regarded the dairy industry as a focus of agricultural structure reform on supply-side.
- On 2 July 2017, Ministry of Agriculture and the Dairy Association of China jointly released the “2017 Quality Report of Dairy Industry in China” (2017中國奶業質量報告). Through authoritative data and informative materials, the report demonstrated the recent development of PRC's dairy industry, especially the improvement of the quality and safety level which strengthened consumer confidence in domestic dairy products and promoted dairy product consumption.

With the continuous development and higher living standard of the economy, the PRC has a dairy product consumer market with the greatest potential in the world. The development in the dairy industry in the PRC can make enormous contribution to this well-off society and the nation's health. The standardized, large-scale and modernized big dairy farms originating from the mainland are the natural choices resulting from dynamics of market demand and fierce competition. Those farms shall embrace a new round of development opportunities as the dairy product market becomes more regulated and the market structure gradually improves.

Business Review

The Group mainly operates two major businesses, dairy farming business and import trading business. Dairy farming business includes production and sales of premium raw milk and the feeding, breeding and sales of dairy cows, etc. Import trading business mainly includes imports and sales of high quality dairy cows and breeding of livestock as well as import trading business in alfalfa hay and other animal husbandry related products. In particular, production and sales of raw milk are the main sources of income of the Group.

In 2017, the Group adhered to the operation philosophy of “precise management for better quality and higher efficiency” to reinforce delicacy management with emphasis on quality awareness and effectiveness awareness. With an aim to strengthen our core competitiveness and consolidate our leading position in the industry which has a highly competitive market, the Group have implemented scientific breeding, precise feeding and detailed management with a focus on marketing.

On 4 February 2017, Mr. Zhang Kaizhan (張開展), the executive Director of the Group, was awarded the “First-Class Prize of Science and Technology Award in Shaanxi Province” (陝西省科學技術獎一等獎) in recognition of his outstanding contributions to research integration and demonstration application projects of key technologies in gender control of dairy cows. In September 2017, China Entry-Exit Inspection and Quarantine Association awarded a “Trustworthy Quality Import and Export Enterprise Prize” (中國進出口品質誠信企業獎) to Beijing ZhongDi Stud Livestock Co., Ltd. under the Group. This is the only enterprise in the livestock and poultry import and export industry that has gained this recognition.

Dairy Farming Business

In 2017, the Group focused on quality management and standardization management. Taking performance appraisals of our farms as starting points, the Company strived to comprehensively strengthen farm management and improve the operating efficiency of our farms. Although selling prices of raw milk were under pressure, our farm operation maintained its good performance. In 2017, the average unit selling price of the Group’s raw milk was approximately RMB3,711 per tonne which was higher than the national average level. In 2017, the Group’s sales of raw milk was 278,406 tonnes, revenue generated from the dairy farming business reached RMB1,033.3 million, representing 91.1% of the Group’s total revenue, being the core business of the Group. As the Group has reached long-term purchase and sales strategic partnerships with China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) and its subsidiaries (collectively, “Mengniu”) and Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司) and its subsidiaries (collectively, “Yili”), the premium raw milk produced by the Group was mainly sold to Mengniu and Yili for processing into high-end liquid milk, for example, Mengniu’s Milk Deluxe (特侖蘇) and Yili’s Satine (金典). The Group believes the strong demand for high quality and healthy products from domestic consumers will help the Group maintain its strong competitiveness in the supply of premium raw milk.

1. Scale of dairy farms

Focusing on the development status and market demand of various regions in China, the Group strategically planned the location of its dairy farms to cover seven provinces or regions in Northern China. As at 31 December 2017, the Group operated the following seven modern dairy farms: Beijing ZhongDi Farm, Inner Mongolia Zhong Di Dairy, Helan ZhongDi Farm, Kuandian ZhongDi Farm, Langfang ZhongDi Farm, Tianzhen ZhongDi Farm and Tianjin ZhongDi Farm. Among which, Tianjin ZhongDi Farm commenced commercial production of milk in the second quarter of 2017.

Notes:

1. Inner Mongolia Zhong Di Dairy was previously named “Shangdu ZhongDI Farm”

2. Herd size

	31 December 2017	31 December 2016
	<i>Heads</i>	Heads
Milkable dairy cows	33,797	26,316
Heifers and calves	30,403	28,947
	<u>64,200</u>	<u>55,263</u>

As at 31 December 2017, the Group's herd size was 64,200 heads which increased by 8,937 heads as compared with the previous year.

3. Milk yield and sales

The Group's dairy cows are of Holstein breed, the breed with the highest milk production. The average annual milk yield of each lactation cow of the Group for 2017 was 11.9 tonnes, which was a substantial increase over the corresponding period of last year.

In 2017, the sales of domestic raw milk and related products still did not improve significantly. Facing a challenging and sophisticated raw milk market, the Company increased its marketing efforts, strived to make breakthroughs in sales, and extended its sales channels. Our raw milk sales volume amounted 278,406 tonnes, representing an increase of 24.2% as compared to last year. We achieved a decent sales performance in an orderly manner at the backdrop of dramatic growth of raw milk production.

4. Raw milk quality

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

Standard	Protein content <i>(Unit: %)</i>	Fat content <i>(Unit: %)</i>	Aerobic plate count <i>(Unit:/ml)</i>	Somatic cell count <i>(Unit:/ml)</i>
The Company ¹	3.38	3.95	30,700	159,200
EU Standard ²	N/A	N/A	<100,000	<400,000
US Standard ³	≥3.2	≥3.5	<100,000	<750,000
PRC Standard ⁴	≥2.8	≥3.1	<2,000,000	N/A

Notes:

1. *Calculated according to the statistical data of the Group's raw milk quality in 2017.*
2. *Please refer to the Council Directive 92/46/EEC adopted by the EU.*
3. *Please refer to Grade "A" Pasteurized Milk Ordinance promulgated by the US Public Health Service.*
4. *Please refer to the National Food Safety Standard (GB19301-2010) of the PRC.*

Import Trading Business

The Group's import trading business mainly involves imports of dairy cows, alfalfa hay and other animal husbandry related products. The import trading business is divided into import principal trading business and import agency business. During 2017, revenue generated from the Group's import trading business amounted to RMB101.0 million, accounting for 8.9% of the Group's total revenue and representing a slight decrease of 4.4% as compared to the corresponding period of last year. Due to the slow recovery of the dairy market, stricter quality requirements, and a higher epidemic risk, the import trading business show a downward trend. In particular, revenue from import principal trading business amounted to RMB99.8 million, accounting for 98.8% of the revenue from the import trading business. Revenue from import agency business amounted to RMB1.2 million, accounting for 1.2% of the revenue from the import trading business.

Prospects

Dairy industry in China has experienced profound adjustments over the past few years. With the government stepping up its efforts in environmental protection, a large number of small and medium sized dairy farms have been withdrawn from the market, large-scale dairy farms are scarce. Subsequent to the promulgation of the PRC's "13th Five-year Plan" on dairy industry development, China has introduced numerous concrete measures to support the development of dairy industry with increased supportive efforts towards large-scale dairy farms. The Group will benefit from its position as a leading large-scale dairy farm operating enterprise.

In 2017, the Group worked on its management and achieved remarkable results. In the year to come, we will continue our commitment to our management concept of "Precise management for better quality and higher efficiency" by stepping up our efforts in breeding of dairy cows and breeding management, improving the quality and genetic characteristics of dairy cows, further promoting the standardized, normalized and meticulous management of dairy farms, placing emphasis on quality control and further improving the production efficiency and operational efficiency of dairy farms.

The Group will step up its effort in further promoting the mode of operation with the integration between agriculture and animal husbandry and the integration between plantation and grazing. Insisting on "using local materials", it will reclaim land in the surrounding areas of dairy farms for crop plantations, enhance output and efficiency in the crop plantations; return organic fertilizers back to planting fields and develop recycling in agriculture with an aim to create environmentally friendly and green ecological dairy farms which are safe and comfortable, make waste profitable and maximize resources so as to enhance the sustainability of the industry.

Taking into account of its own business characteristics and the trends of industrial and market changes, the Group will, in response to the national policies, give overall consideration to the existing industry scale and competitions so as to further consolidate its existing strengths through steady expansion in size of dairy farms with a vision of future development. Building on the foundation of its 7 existing dairy farms, the Group will explore on constructing new dairy farms in suitable areas in order to provide nearby sources of milk supply for central, eastern and southern China, optimize the geographical coverage of dairy farms and extend its market reach in the southern China market. It will continue to make unremitting efforts in achieving the sustainable development of the Group and maximizing the interests of shareholders.

Financial Overview

Revenue

The table below sets forth the revenue of each business segment of the Group for the years ended 31 December 2017 and 2016, respectively:

	For the year ended 31 December					
	2017			2016		
	External Sales RMB'000	Internal Sales RMB'000	Total RMB'000	External Sales RMB'000	Internal Sales RMB'000	Total RMB'000
Dairy farming business	1,033,286	—	1,033,286	856,216	—	856,216
Import trading business	100,996	46,308	147,304	105,718	102,013	207,731
Total	<u>1,134,282</u>	<u>46,308</u>	<u>1,180,590</u>	<u>961,934</u>	<u>102,013</u>	<u>1,063,947</u>

The Group's revenue for the year ended 31 December 2017 amounted to RMB1,134.3 million as compared to RMB961.9 million for the year ended 31 December 2016, representing a year-on-year increase of 17.9%. The increase was mainly attributed to an increase in the sales volume of raw milk.

Dairy Farming Business

The revenue from the Group's dairy farming business for the year ended 31 December 2017 amounted to RMB1,033.3 million as compared to RMB856.2 million for the year ended 31 December 2016, representing a year-on-year increase of 20.7%. The increase in revenue from the dairy farming business was attributed to the expansion of the scale of the Group's dairy herds and an increase in milk yield of milkable cows.

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

	For the year ended 31 December					
	2017			2016		
	Revenue RMB'000	Sales Volume tonne	Unit Selling Price RMB/tonne	Revenue RMB'000	Sales Volume tonne	Unit Selling Price RMB/tonne
Raw milk	<u>1,033,286</u>	<u>278,406</u>	<u>3,711</u>	<u>856,216</u>	<u>224,094</u>	<u>3,821</u>

In 2017, the sales volume of raw milk increased by 24.2% as compared to that of 2016. Meanwhile, as affected by the market, the unit selling price of raw milk decreased by 2.9% as compared to that of 2016.

Import Trading Business

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

	For the year ended 31 December			
	2017		2016	
	Revenue	Percentage	Revenue	Percentage
	<i>RMB'000</i>		<i>RMB'000</i>	
Import principal trading business	99,755	98.8%	101,295	95.8%
Import agency business	1,241	1.2%	4,423	4.2%
Total	<u>100,996</u>	<u>100.0%</u>	<u>105,718</u>	<u>100.0%</u>

The revenue from the Group's import trading business for the year ended 31 December 2017 amounted to RMB101.0 million as compared to RMB105.7 million for the year ended 31 December 2016, representing a year-on-year decrease of 4.4%, which was mainly attributed to a decrease in the sales of imported cows.

Gross Profit and Gross Profit Margin

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

	For the year ended 31 December			
	2017		2016	
	Gross Profit	Margin	Gross Profit	Margin
	<i>RMB'000</i>		<i>RMB'000</i>	
Dairy farming business	387,910	37.5%	310,163	36.2%
Import trading business	5,249	5.2%	14,001	13.2%
Total	<u>393,159</u>	<u>34.7%</u>	<u>324,164</u>	<u>33.7%</u>

Gross profit of the dairy farming business for the year ended 31 December 2017 was RMB387.9 million, representing an increase of 25.0% as compared to the year ended 31 December 2016, which was mainly attributed to a sharp increase in sales volume of raw milk. The gross profit of the Group's import trading business for the year ended 31 December 2017 was RMB5.2 million, representing a decrease of 62.9% as compared to that of the year ended 31 December 2016, which was mainly attributed to the impact of a decrease in the sales volume of imported cows.

Gross profit margin of the Group's dairy farming business for the year ended 31 December 2017 was 37.5%, representing an increase of 1.3% as compared to the gross profit margin of 36.2% for the year ended 31 December 2016, which was mainly attributed to a reduction in cost of raw milk in 2017. The gross profit margin of our import trading business for the year ended 31 December 2017 was 5.2%, representing a decrease of 8.0% as compared to the gross profit margin of 13.2% for the year ended 31 December 2016.

Cost of Sales

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

	For the year ended 31 December			
	2017		2016	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
Feed	500,181	77.5%	420,443	77.0%
Labour costs	36,142	5.6%	38,001	7.0%
Others	109,053	16.9%	87,609	16.0%
Total	<u>645,376</u>	<u>100.0%</u>	<u>546,053</u>	<u>100.0%</u>

During the year ended 31 December 2017, feed costs represented approximately 77.5% of the cost of sales of the Group's dairy farming business (before fair value adjustments).

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

Net losses from changes in the fair value of biological assets less costs to sell for the year ended 31 December 2017 was RMB176.0 million, representing a year-on-year increase of RMB69.8 million as compared to net losses of RMB106.2 million for the year ended 31 December 2016, which was mainly attributed to the regular and systematic culling of milking cows whose milk yield were low in economic efficiency as compared to their feeding costs and a decline in the average selling price of raw milk with market fluctuations.

Gains Arising from Initial Recognition of Agricultural Produce at Fair Value Less Costs to Sell upon Harvest

The gains arising from initial recognition of agricultural produce at fair value less costs to sell upon harvest of the Group increased by approximately 18.9% from RMB291.2 million for the year ended 31 December 2016 to RMB346.1 million for the year ended 31 December 2017, primarily reflecting an increase in the sales volume of the Group's raw milk.

Operating Expenses

	For the year ended 31 December		
	2017	2016	Rate of
	<i>RMB'000</i>	<i>RMB'000</i>	Change
Distribution costs	46,916	25,726	82.4%
Administration expenses	71,473	79,494	-10.1%
Other expenses	394	1,147	-63.6%
Total	<u>118,783</u>	<u>106,367</u>	<u>11.7%</u>

Operating expenses increased by 11.7% from RMB106.4 million for the year ended 31 December 2016 to RMB118.8 million for the year ended 31 December 2017, which was mainly attributable to the increase in the sales volume of milk.

Finance Costs

Finance costs increased by 196.6% from RMB34.9 million for the year ended 31 December 2016 to RMB103.5 million for the year ended 31 December 2017, which was mainly attributable to the increase in borrowings as a result of the expansion of the scale of our farms.

Capital Expenditure

Capital expenditure of the Group for the year ended 31 December 2017 amounted to RMB691.8 million as compared to RMB1,177.9 million for the year ended 31 December 2016, representing a year-on-year decrease of 41.3%. During the Reporting Period, the capital expenditure of the Group mainly consisted of additions to properties, plant and equipment, prepaid land lease payments and the purchase of non-current biological assets.

Liquidity and Sources of Funds

The working capital of the Group mainly derived from cash inflow generated from daily operating activities and borrowings from financial institutions. As at 31 December 2017, the gearing ratio of the Group was approximately 53.8% (as at 31 December 2016: 51.4%). The gearing ratio was calculated by dividing total liabilities by total assets. The bank balances and cash balance were RMB391.5 million (as at 31 December 2016: RMB428.2 million).

Indebtedness

Borrowings of the Group were denominated in RMB and EUR. As at 31 December 2017, the balance of short-term borrowings including long-term borrowings due within one year was RMB1,087.2 million. As at 31 December 2017, the balance of long-term borrowings after deducting the portion due within one year was RMB634.1 million, of which borrowings with fixed interest rates amounted to approximately RMB571.5 million.

Contingent Liabilities

As at 31 December 2017, there were no material contingent liabilities (as at 31 December 2016: Nil).

Foreign Exchange Risk

As at 31 December 2017, save for the pledged bank deposits and cash and bank balances of RMB187.0 million which were USD-denominated assets and RMB2.4 million which were HKD-denominated assets, and borrowings of RMB11.5 million which were EUR-denominated borrowings, the other assets and liabilities of the Group were settled in RMB. For the year ended 31 December 2017, the Group did not carry out any financial instruments like foreign currency exchange contracts to hedge such risks.

Significant Investments, Acquisitions and Disposals of Assets

The Group had no significant investments during the Reporting Period. During the Reporting Period, the Group also had no significant acquisitions and disposals regarding subsidiaries, associates and joint ventures.

Pledge of Assets

Save for the amounts disclosed in note 14 to the Consolidated Financial Statements of this announcement and the amounts recorded in the pledged bank deposits item in the Consolidated Statement of Financial Position of this announcement, there was no other pledge of assets of the Group.

Human Resources

The Group had approximately 1,310 formal employees in Mainland China and Hong Kong as at 31 December 2017 (as at 31 December 2016: 1,266). During the Reporting Period, total staff costs (excluding independent non-executive Directors' fees) of the Group were approximately RMB105.7 million (for the corresponding period in 2016: approximately RMB108.3 million).

The Group has made ongoing efforts to adjust and improve our existing remuneration policies with an aim to attract, retain and motivate outstanding employees. With the recruitment of professional management personnel through various channels as well as internal placement and promotion of outstanding staff within the Group, a quality and efficient team has been created for improving the Group's management standard and efficiency, so as to ensure that the Group's business goals can be achieved and shareholders' value can be maximized. The Group will regularly adjust its remuneration policies and employee remuneration and benefits package with reference to industry standards and performance of individual employees.

The Group thinks highly of the occupational health and safety of our employees. It also committed to enhancing safety management across its operations. The Group's safety management system helps to identify and mitigate health and safety risks and maintain control all over the operations.

We will also provide specific and differentiated training to all employees of the Group as planned in order to improve their safety awareness, occupational skills and management standard.

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

The Company adopted the Post-IPO Share Option Scheme (as defined in the prospectus of the Company dated 20 November 2015) on 28 October 2015, details of which are set out in the section headed "Statutory and General Information – D. Other Information – 1. Post-IPO Share Option Scheme" in Appendix IV to the prospectus of the Company.

OTHER INFORMATION

Corporate Governance

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

The Company adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The role of chairman of the Board and chief executive officer of the Company are both performed by Mr. Zhang Jianshe (張建設), who is the founder of the Group. The Board believes that vesting the roles of both chairman of the Board and chief executive officer of the Company in Mr. Zhang Jianshe would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. Furthermore, in view of Mr. Zhang Jianshe's extensive industrial experience and significant role in the historical development of the Group, the Board believes that it is beneficial to the business prospects of the Group that Mr. Zhang Jianshe continues to act as both the chairman of the Board and chief executive officer of the Company, and the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors, non-executive Directors and independent non-executive Directors.

Save as disclosed above, none of the Directors is aware of any information that would reasonably indicate that the Company had not been in compliance with the CG Code during the Reporting Period.

Model Code for Securities Transactions by Directors

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

Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with the Company's Securities Dealings Code throughout the Reporting Period.

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

Review by Audit Committee

The audit committee of the Company (the “**Audit Committee**”) comprises Prof. Li Shengli (李勝利) and Mr. Joseph Chow, who are independent non-executive Directors, and Ms. Yu Tianhua (于天華), who is a non-executive Director. The Audit Committee is chaired by Mr. Joseph Chow. The Audit Committee and the management team of the Company have reviewed the accounting principles and practices adopted by the Group and discussed issues relating to audit, risk management, internal control and financial reporting, including reviewing the annual results of the Group for the year ended 31 December 2017 and they have no objection in relation thereto.

Purchase, Sale or Redemption of Listed Securities of the Company

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

Significant Events after the Reporting Period

As at the date of this announcement, there are no significant events subsequent to the end of the Reporting Period which are required to be disclosed.

Dividend

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

Scope of work of Ernst & Young

The financial information in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2017 have been agreed by the Group’s auditors, Ernst & Young, to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

Annual General Meeting

The 2017 annual general meeting of the Company (the “**AGM**”) will be held on Friday, 25 May 2018. A notice convening the AGM will be published and despatched to the shareholders of the Company in accordance with the requirements of the Listing Rules and the articles of association of the Company in due course.

Closure of Register of Members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 May 2018.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.zhongdidairy.hk). The Company will despatch the annual report for 2017 and the notice of the AGM to its shareholders and will publish the same on the above-mentioned websites in accordance with the requirements of the Listing Rules.

On behalf of the Board

China ZhongDi Dairy Holdings Company Limited

Zhang Jianshe

Chairman

Hong Kong, 27 March 2018

As at the date of this announcement, the Board comprises Mr. Zhang Jianshe and Mr. Zhang Kaizhan as executive Directors; Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua as non-executive Directors; and Prof. Li Shengli, Dr. Zan Linsen and Mr. Joseph Chow as independent non-executive Directors.